CANACOL ENERGY LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2023

FINANCIAL & OPERATING HIGHLIGHTS

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

Financial	Three months ended December 31, 2023	2022	Change	Year ended December 31, 2023	2022	Change
Total revenues, net of royalties and transportation expense(1)	**79,718**	67,956	17%	**304,854**	274,228	11%
Adjusted funds from operations(1)	**30,958**	(16,977)	n/a	**146,287**	94,640	55%
Per share – basic ($)(1)	**0.91**	(0.50)	n/a	**4.29**	2.77	55%
Per share – diluted ($)(1)	**0.91**	(0.50)	n/a	**4.29**	2.77	55%
Net income and comprehensive income	**29,897**	133,722	(78%)	**86,237**	147,270	(41%)
Per share – basic ($)	**0.88**	3.92	(78%)	**2.53**	4.31	(41%)
Per share – diluted ($)	**0.88**	3.92	(78%)	**2.53**	4.31	(41%)
Cash flows provided by operating activities	**22,571**	50,034	(55%)	**95,339**	185,429	(49%)
Per share – basic ($)(1)	**0.66**	1.47	(55%)	**2.79**	5.43	(49%)
Per share – diluted ($)(1)	**0.66**	1.47	(55%)	**2.79**	5.43	(49%)
Adjusted EBITDAX(1)	**53,144**	52,003	2%	**236,829**	212,850	11%
Weighted average shares outstanding – basic	**34,111**	34,113	—%	**34,111**	34,144	—%
Weighted average shares outstanding – diluted	**34,111**	34,113	—%	**34,111**	34,144	—%
Net cash capital expenditures(1)	**72,246**	50,382	43%	**215,184**	166,288	29%

	December 31, 2023	December 31, 2022	Change
Cash and cash equivalents	**39,425**	58,518	(33%)
Working capital deficit	**(10,028)**	(22,603)	(56%)
Total debt	**713,435**	550,752	30%
Total assets	**1,233,428**	1,014,848	22%
Common shares, end of period (000's)	**34,111**	34,111	—%

Operating	Three months ended December 31, 2023	2022	Change	Year ended December 31, 2023	2022	Change
Production						
Natural gas and LNG (Mcfpd)	**168,127**	177,985	(6%)	**181,277**	184,584	(2%)
Colombia oil (bopd)	**627**	546	15%	**563**	522	8%
Total (boepd)	**30,123**	31,771	(5%)	**32,366**	32,905	(2%)
Realized contractual sales						
Natural gas and LNG (Mcfpd)	**164,840**	175,580	(6%)	**178,293**	182,367	(2%)
Colombia oil (bopd)	**590**	541	9%	**553**	519	7%
Total (boepd)	**29,509**	31,345	(6%)	**31,833**	32,513	(2%)
Operating netbacks(1)						
Natural gas and LNG ($/Mcf)	**4.39**	3.73	18%	**4.11**	3.68	12%
Colombia oil ($/bbl)	**13.29**	22.81	(42%)	**20.77**	23.69	(12%)
Corporate ($/boe)	**24.82**	21.27	17%	**23.39**	20.99	11%

(1) Non-IFRS measures – see "Non-IFRS Measures" 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 21, 2024 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, 2023 and 2022 ("the financial statements"), along with an analysis of the Corporation's financial position. Comments relate to and should be read in conjunction with the financial statements. The financial statements were prepared by management in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board ("IFRS Accounting Standards"), 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.sedarplus.ca.

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 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, or that an El Niño phenomenon will create a higher than normal demand for natural gas sales, or that there will be no penalties on the termination of the Medellin gas sales contract. 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 high degree of uncertainty. 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 Accounting Standards. 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 Accounting Standards 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,	
	2023	2022	**2023**	2022
Cash flows provided (used) by operating activities	**$ 22,571**	$ 50,034	**$ 95,339**	$ 185,429
Changes in non-cash working capital	**8,387**	(67,011)	**50,731**	(90,789)
Settlement of decommissioning obligations	**—**	—	**217**	—
Adjusted funds from operations	**$ 30,958**	$ (16,977)	**$ 146,287**	$ 94,640

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

	2023				
	Q1	**Q2**	**Q3**	**Q4**	**Rolling**
Net income (loss) and comprehensive income (loss)	$ 16,874	$ 39,990	$ (524)	$ 29,897	$ 86,237
(+) Interest expense	9,671	12,182	12,001	12,998	46,852
(+) Income tax expense	8,869	(14,500)	(5,596)	(14,076)	(25,303)
(+) Depletion and depreciation	18,971	19,249	17,619	20,086	75,925
(+) Exploration expense	—	—	—	—	—
(+) Impairment of long lived assets	—	—	32,604	2,750	35,354
(+) Pre-license costs	408	198	270	327	1,203
(+) Unrealized foreign exchange loss (gain)	1,745	245	1,354	(2,316)	1,028
(+/-) Other non-cash or non-recurring items	4,390	3,290	4,375	3,478	15,533
Adjusted EBITDAX	**$ 60,928**	**$ 60,654**	**$ 62,103**	**$ 53,144**	**$ 236,829**

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 Accounting Standards 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 2023 Reserves Highlights

- Conventional natural gas and crude oil proved plus probable reserves and deemed volumes ("2P") before tax NPV-10 increased 10% to $2.1 billion at December 31, 2023, compared to $1.9 billion at December 31, 2022.
- 2P after tax NPV-10 increased 34% to $1.8 billion at December 31, 2023, compared to $1.3 billion at December 31, 2022. The significant increase in 2P after tax NPV-10 value is primarily impacted by the Corporation's restructuring in the fourth quarter of 2022, the results of which are first incorporated into this year's reserves report.
- The Corporation's 2P reserves decreased 7% since December 31, 2022, totaling 607 billion cubic feet equivalent ("Bcfe") at December 31, 2023.
- The Corporation achieved a 1P and 2P reserves life index ("RLI") of 4.8 years and 9.9 years, respectively, based on annualized fourth quarter 2023 natural gas production of 168 MMcfpd.

Three Months Ended December 31, 2023 Financial and Operating Highlights

- Adjusted EBITDAX increased 2% to $53.1 million for the three months ended December 31, 2023, compared to $52.0 million for the same period in 2022. The increase is mainly due to an increase of natural gas operating netback.
- The Corporation's natural gas and liquefied natural gas ("LNG") operating netback increased 18% to $4.39 per Mcf for the three months ended December 31, 2023, compared to $3.73 per Mcf for the same period in 2022. The increase is mainly due to an increase in average sales prices, net of transportation expenses, offset by an increase in operating expenses and royalties.
- Total revenues, net of royalties and transportation expenses for the three months ended December 31, 2023 increased 17% to $79.7 million, compared to $68 million for same period in 2022, mainly due to higher average natural gas sales price, net of transportation expenses of $6.04 per Mcf for the three months ended December 31, 2023 as compared to $4.81 per Mcf for the same period in 2022.
- Adjusted funds from operations increased to $31 million for the three months ended December 31, 2023, compared to an outflow of $17 million for the same period in 2022, mainly due to an increase in EBITDAX combined with a decrease in current income tax expense.
- Realized contractual natural gas and LNG sales volume decreased 6% to 164.8 MMcfpd for the three months ended December 31, 2023, compared to 175.6 MMcfpd for the same period in 2022. The decrease is due to the unusual and unexpected decrease in the Corporation's production capacity (see "Results of Operations" section).
- The Corporation realized a net income of $29.9 million for the three months ended December 31, 2023, compared to a net income of $133.7 million for the same period in 2022. The decrease in net income for the three months ended December 31, 2023 is driven by a lower non-cash deferred income tax recovery as compared to 2022.
- Net cash capital expenditures for the three months ended December 31, 2023 was $72.2 million compared to $50.4 million for the same period in 2022. The increase is mainly due to an increase in drilling activities.
- As at December 31, 2023, the Corporation had $39.4 million in cash and cash equivalents and $10 million in working capital deficit.

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.

Results of Operations

For the three months ended December 31, 2023, the Corporation's production primarily consisted of natural gas from the Esperanza, VIM-5 and VIM-21 blocks located in the Lower Magdalena Valley 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 blocks, the Corporation has interests in several natural gas exploration contracts in Colombia.

During the three months ended December 31, 2023, the Corporation completed the drilling of the Clarinete-9, Pandereta-9, Pandereta-10, Aguas Vivas-4, Nelson-15, and Nelson-16 development wells. The wells were tied in and are on permanent production.

The Corporation is currently drilling the Nelson-17 and Clarinete-10 development wells and plans to have these wells tied in and be on production once completed.

On October 19, 2023, the Corporation announced that the long term take-or-pay gas sales contract with Empresas Publicas de Medellin E.S.P. ("EPM"), previously scheduled to commence deliveries on December 1, 2024 (the "Medellin Project") has been terminated by Canacol. As of the time of termination, the Medellin Project was still in the process of obtaining the environmental license required for the building of the pipeline to deliver contracted gas from the Corporation's Jobo gas processing plant to the city of Medellin, Colombia. This process was initially expected to have been completed by July of 2023. Although this delay was not by itself sufficient to jeopardize the timely execution of the Medellin Project or the EPM gas sales contract, it has been part of a pattern of ever increasing legal, social, and security obstacles that have arisen in the past months that have led the Corporation to re-evaluate the likely future and priority placed on this project. As a result of careful review of a) the legal, social and security circumstances, b) dynamics within the Colombian gas market, and c) the Corporation's decision to invest its natural gas exploration programs in the Middle Magdalena Basin and in Bolivia, the Corporation considers it prudent to cancel the Medellin Project. As a result of the termination of the Medellin Project, the cumulative costs associated with the Medellin Project totaling $35.4 million was expensed as impairment in the financial statements as at December 31, 2023.

On October 19, 2023, the Corporation also announced that it has made a strategic entrance into Bolivia with the execution of three exploration and production ("E&P") contracts with Yacimientos Petroliferos Fiscales Bolivianos ("YPFB"), the Bolivian state oil and gas company. The Corporation is also in the process of seeking government approval for the award of a fourth E&P contract. These four E&P contracts expose Canacol to both low-risk mature gas field re-developments as well as significant natural gas exploration potential in the largest gas producing basin of Bolivia with a modest capital commitment over five years of approximately $27 million of investment. Gas from these contracts can be rapidly commercialized given success, as they are strategically located along the main gas pipeline routes with export to Brazil.

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,		
	2023	2022	Change	**2023**	2022	Change
Natural Gas and LNG (Mcfpd)						
Natural gas and LNG production	**168,127**	177,985	(6%)	**181,277**	184,584	(2%)
Field consumption	**(3,856)**	(2,495)	55%	**(3,176)**	(2,481)	28%
Natural gas and LNG sales	**164,271**	175,490	(6%)	**178,101**	182,103	(2%)
Take-or-pay volumes (2)	**569**	90	532%	**192**	264	(27%)
Realized contractual natural gas and LNG sales	**164,840**	175,580	(6%)	**178,293**	182,367	(2%)
Colombia Oil (bopd)						
Crude oil production	**627**	546	15%	**563**	522	8%
Inventory movements and other	**(37)**	(5)	640%	**(10)**	(3)	233%
Colombia oil sales	**590**	541	9%	**553**	519	7%
Corporate (boepd)						
Natural gas and LNG production	**29,496**	31,225	(6%)	**31,803**	32,383	(2%)
Colombia oil production	**627**	546	15%	**563**	522	8%
Total production	**30,123**	31,771	(5%)	**32,366**	32,905	(2%)
Field consumption and inventory	**(714)**	(442)	62%	**(567)**	(438)	29%
Total corporate sales	**29,409**	31,329	(6%)	**31,799**	32,467	(2%)
Take-or-pay volumes (2)	**100**	16	525%	**34**	46	(26%)
Total realized contractual sales	**29,509**	31,345	(6%)	**31,833**	32,513	(2%)

The Corporation has three types of natural gas and LNG sales:

1) *Natural Gas and LNG sales* - represents natural gas and LNG production less a typically small amount of gas volume that is consumed at the field level;

2) *Take-or-pay income* - represents the portion of natural gas and LNG sales nominations by the Corporation's off-takers that do not get delivered, due to the off-taker's inability to accept such natural gas and for which the off-takers have no recourse or legal right to delivery at a later date. As such, they are recorded as revenue in the period; and

3) *Undelivered natural gas and LNG nomination*s - represents the portion of undelivered natural gas and LNG sales nominations for which the off-takers have a legal right to take delivery at a later date, for a fixed period of time ("make-up rights"). These nominations are paid for at the time, alongside natural gas and LNG sales and take-or-pay income, and as such are included in deferred income for the period. The Corporation recognizes revenues associated with such make-up rights ("settlements") at the earlier of: a) when the make-up volume is delivered, b) the make-up right expires, or c) when it is determined that the likelihood that the off-taker will utilize the make-up right is remote.

Realized contractual natural gas and LNG sales for the three months and year ended December 31, 2023 averaged 164.8 and 178.3 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% and 2% decrease in realized contractual natural gas and LNG sales for the three months and year ended December 31, 2023, respectively, compared to the same periods in 2022, is due to a) the unusual and unexpected production capacity restrictions which commenced in August 2023 as a result of issues at the Jobo gas treatment facility as well as certain of its producing wells and b) plant turnaround performed at Jobo during the month of December 2023.

Revenues, Net of Royalties and Transportation Expenses

	Three months ended December 31,			Year ended December 31,		
	2023	2022	Change	**2023**	2022	Change
Natural Gas and LNG						
Natural gas and LNG revenues	**$ 94,282**	$ 83,884	12%	**$362,318**	$347,615	4%
Transportation expenses	**(3,012)**	(6,178)	(51%)	**(10,779)**	(32,510)	(67%)
Revenues, net of transportation expenses	**91,270**	77,706	17%	**351,539**	315,105	12%
Royalties	**(15,665)**	(12,636)	24%	**(59,225)**	(50,167)	18%
Revenues, net of royalties and transportation	**$ 75,605**	$ 65,070	16%	**$292,314**	$264,938	10%
Colombia Oil						
Crude oil revenues	**$ 2,704**	$ 2,084	30%	**$ 9,360**	$ 8,590	9%
Transportation expenses	**(76)**	(35)	(117%)	**(170)**	(177)	(4%)
Revenues, net of transportation expenses	**2,628**	2,049	28%	**9,190**	8,413	9%
Royalties	**(185)**	(127)	46%	**(587)**	(527)	11%
Revenues, net of royalties and transportation	**$ 2,443**	$ 1,922	27%	**$ 8,603**	$ 7,886	9%
Corporate						
Natural gas and LNG revenues	**$ 94,282**	$ 83,884	12%	**$362,318**	$347,615	4%
Crude oil revenues	**2,704**	2,084	30%	**9,360**	8,590	9%
Total revenues	**96,986**	85,968	13%	**371,678**	356,205	4%
Royalties	**(15,850)**	(12,763)	24%	**(59,812)**	(50,694)	18%
Natural gas, LNG and crude oil production revenues, net of royalties	**81,136**	73,205	11%	**311,866**	305,511	2%
Power generation standby revenue	**882**	916	(4%)	**3,050**	916	233%
Take-or-pay natural gas income	**788**	48	1,542%	**887**	488	82%
Total revenues, net of royalties, as reported	**82,806**	74,169	12%	**315,803**	306,915	3%
Transportation expenses	**(3,088)**	(6,213)	(50%)	**(10,949)**	(32,687)	(67%)
Total revenues, net of royalties and transportation expenses	**$ 79,718**	$ 67,956	17%	**$304,854**	$274,228	11%

Natural Gas and LNG Sales and Power Generation Standby Revenue

Natural gas and LNG revenues, net of transportation expenses for the three months and year ended December 31, 2023 increased 17% and 12% to $91.3 million and $351.5 million, respectively, compared to $77.7 million and $315.1 million for the same periods in 2022, due to an increase in average sales price, net of transportation expenses.

For the three months and year ended December 31, 2023, the Corporation realized power generation standby revenue of $0.9 million and $3.1 million, respectively, for its commitment to supply natural gas to a Colombian power generation plant owned by Termoelectrica el Tesorito S.A.S. ESP ("Tesorito"). The power generation standby revenue is earned on a daily basis, regardless of whether natural gas is actually delivered.

As at December 31, 2023, the Corporation had deferred income of $6.6 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 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 from 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 51% and 67% for the three months and year ended December 31, 2023, respectively, compared to the same periods in 2022, due to the decrease in natural gas sales subject to transportation expenses, as described above.

Natural Gas Royalties

	Three months ended December 31,			Year ended December 31,		
	2023	2022	Change	**2023**	2022	Change
Natural Gas						
Esperanza royalties	**$ 691**	$ 1,093	(37%)	**$ 3,711**	$ 4,501	(18%)
VIM-5 royalties	**12,658**	9,801	29%	**46,543**	36,782	27%
VIM-21 royalties	**2,316**	1,742	33%	**8,971**	8,884	1%
Royalty expense	**$ 15,665**	$ 12,636	24%	**$ 59,225**	$ 50,167	18%
Natural Gas Royalty Rates						
Esperanza	**9.0%**	8.5%	6%	**8.9%**	8.5%	5%
VIM-5	**21.9%**	21.9%	—%	**21.8%**	22.1%	(1%)
VIM-21	**9.4%**	9.1%	3%	**9.7%**	9.6%	1%
Natural gas royalty rate	**17.2%**	16.3%	6%	**16.8%**	15.9%	6%

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% to 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 17.2% and 16.8% for the three months and year ended December 31, 2023, respectively, compared to 16.3% and 15.9% for the same periods in 2022, mainly due to higher production at the VIM-5 block, which is subject to a higher royalty rate.

Average Benchmark and Realized Sales Prices, Net of Transportation

	Three months ended December 31,			Year ended December 31,		
	2023	2022	Change	**2023**	2022	Change
Average Benchmark Prices						
Henry Hub ($/MMBtu)	**$ 2.54**	$ 6.09	(58%)	**$ 2.53**	$ 6.51	(61%)
Alberta Energy Company ("AECO") ($/MMBtu)	**$ 1.55**	$ 4.42	(65%)	**$ 1.72**	$ 4.34	(60%)
Brent ($/bbl)	**$ 77.32**	$ 88.59	(13%)	**$ 81.03**	$ 98.89	(18%)
Average Sales Prices, Net of Transportation						
Natural gas and LNG ($/Mcf)	**$ 6.04**	$ 4.81	26%	**$ 5.41**	$ 4.74	14%
Colombia oil ($/bbl)	**$ 48.42**	$ 41.17	18%	**$ 45.53**	$ 44.41	3%
Corporate average ($/boe)	**$ 34.70**	$ 27.67	25%	**$ 31.08**	$ 27.30	14%

The sales prices of the Corporation's natural gas sales contracts are largely fixed, with a portion of its portfolio sold on the spot (interruptible) 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 firm fixed-priced contracts.

Average natural gas and LNG sales prices, net of transportation increased 26% and 14% to $6.04 per Mcf and $5.41 per Mcf for the three months and year ended December 31, 2023, respectively, compared to $4.81 per Mcf and $4.74 per Mcf for the same periods in 2022. The increase in average natural gas and LNG sales prices, net of transportation for the three months ended December 31, 2023 was mainly due to the increase in interruptible prices as a result of the El Nino phenomenon. The increase in average natural gas and LNG sales prices, net of transportation for the year ended December 31, 2023 was driven by the increase in long-term take-or-pay contracts which averaged $5.09 per Mcf during 2023 as compared to $4.74 per Mcf in 2022. Looking ahead, the average price of the long-term take-or-pay contracts in 2024 is $6.04 per Mcf, an increase of 19% as compared to 2023.

Operating Expenses

	Three months ended December 31,			Year ended December 31,		
	2023	2022	Change	**2023**	2022	Change
Natural gas and LNG	**$ 9,158**	$ 4,877	88%	**$ 25,093**	$ 20,715	21%
Colombia oil	**1,722**	787	119%	**4,410**	3,399	30%
Total operating expenses	**$ 10,880**	$ 5,664	92%	**$ 29,503**	$ 24,114	22%
Natural gas and LNG ($/Mcf)	**$ 0.61**	$ 0.30	103%	**$ 0.39**	$ 0.31	26%
Colombia oil ($/bbl)	**$ 31.72**	$ 15.81	101%	**$ 21.85**	$ 17.94	22%
Corporate ($/boe)	**$ 4.02**	$ 1.97	104%	**$ 2.54**	$ 2.03	25%

Natural gas and LNG operating expenses per Mcf increased 103% and 26% to $0.61 per Mcf and $0.39 per Mcf for the three months and year ended December 31, 2023, respectively, compared to $0.30 per Mcf and $0.31 per Mcf for the same periods in 2022. The increase in natural gas and LNG operating expenses is due to the combination of a) previously delayed maintenance activities performed during Q4 2023, b) increase in water treatment costs during Q4 2023, but is expected to decrease in 2024 by injecting water in an injection well, c) increase in road maintenance cost during Q4 2023, d) a one-time service cost relating to a compressor unit at the Jobo gas processing facility, and e) inflation.

Colombia oil operating expenses increased 119% and 30% for the three months and year ended December 31, 2023, respectively, compared to the same periods in 2022, mainly due to a) the use of short-term rental facilities during Q4 2023 to test the Corporation's Chimela oil discovery, b) higher level of maintenance activities performed, and c) inflation.

Operating Netbacks

	Three months ended December 31,			Year ended December 31,		
$/Mcf	**2023**	2022	Change	**2023**	2022	Change
Natural Gas and LNG						
Revenue, net of transportation expense(1)	**$ 6.04**	$ 4.81	26%	**$ 5.41**	$ 4.74	14%
Royalties	**(1.04)**	(0.78)	33%	**(0.91)**	(0.75)	21%
Operating expenses(2)	**(0.61)**	(0.30)	103%	**(0.39)**	(0.31)	26%
Operating netback	**$ 4.39**	$ 3.73	18%	**$ 4.11**	$ 3.68	12%

	Three months ended December 31,			Year ended December 31,		
$/bbl	**2023**	2022	Change	**2023**	2022	Change
Colombia oil						
Revenue, net of transportation expense(1)	**$ 48.42**	$ 41.17	18%	**$ 45.53**	$ 44.41	3%
Royalties	**(3.41)**	(2.55)	34%	**(2.91)**	(2.78)	5%
Operating expenses(2)	**(31.72)**	(15.81)	101%	**(21.85)**	(17.94)	22%
Operating netback	**$ 13.29**	$ 22.81	(42%)	**$ 20.77**	$ 23.69	(12%)

(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.

$/boe	Three months ended December 31, 2023	2022	Change	Year ended December 31, 2023	2022	Change
Corporate						
Revenue, net of transportation expense	**$ 34.70**	$ 27.67	25%	**$ 31.08**	$ 27.30	14%
Royalties	**(5.86)**	(4.43)	32%	**(5.15)**	(4.28)	20%
Operating expenses	**(4.02)**	(1.97)	104%	**(2.54)**	(2.03)	25%
Operating netback	**$ 24.82**	$ 21.27	17%	**$ 23.39**	$ 20.99	11%

General and Administrative Expenses

	Three months ended December 31, 2023	2022	Change	Year ended December 31, 2023	2022	Change
Gross costs	**$ 11,723**	$ 10,913	7%	**$ 42,671**	$ 37,274	14%
Less: capitalized amounts	**(2,139)**	(2,152)	(1%)	**(9,331)**	(8,085)	15%
General and administrative expenses	**$ 9,584**	$ 8,761	9%	**$ 33,340**	$ 29,189	14%
$/boe	**$ 3.54**	$ 3.04	16%	**$ 2.87**	$ 2.46	17%

General and administrative ("G&A") gross costs increased 7% and 14% for the three months and year ended December 31, 2023, respectively, compared to the same periods in 2022, mainly due to costs related to Canacol's corporate restructuring, severance pay, and inflation.

Net Finance Expense

	Three months ended December 31, 2023	2022	Change	Year ended December 31, 2023	2022	Change
Net financing expense paid	**$ 12,281**	$ 7,924	55%	**$ 43,922**	$ 32,459	35%
Non-cash net financing expenses (income)	**2,688**	2,602	3%	**12,135**	9,022	35%
Net finance expense	**$ 14,969**	$ 10,526	42%	**$ 56,057**	$ 41,481	35%

Net finance expense increased 42% and 35% for the three months and year ended December 31, 2023, respectively, compared to the same periods in 2022, mainly as a result of an increase in total debt and an increase in benchmark interest rates.

Stock-Based Compensation Expense

	Three months ended December 31, 2023	2022	Change	Year ended December 31, 2023	2022	Change
Equity-settled unit expense	**$ —**	$ 22	n/a	**$ 14**	$ 192	(93%)
Cash-settled unit expense	**(516)**	781	n/a	**4,037**	3,747	8%
Stock-based compensation	**$ (516)**	$ 803	n/a	**$ 4,051**	$ 3,939	3%

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 was a recovery for the three months ended December 31, 2023 compared to an expense for the same period in 2022, due to the decrease in Canacol's share price. Cash-settled unit expense increased 8% for the year ended December 31, 2023, compared to the same period in 2022, due to new grants, offset by the decrease in share price.

Depletion and Depreciation Expense

	Three months ended December 31,			Year ended December 31,		
	2023	2022	Change	**2023**	2022	Change
Depletion and depreciation expense	**$ 20,086**	$ 16,226	24%	**$ 75,925**	$ 68,566	11%
$/boe	**$ 7.42**	$ 5.63	32%	**$ 6.54**	$ 5.79	13%

Depletion and depreciation expense increased 24% and 11% for the three months and year ended December 31, 2023, respectively, compared to the same periods in 2022, mainly due to higher development capital expenditures.

Income Tax Expense

	Three months ended December 31,		Year ended December 31,	
	2023	2022	**2023**	2022
Current income tax expense	**$ 17,599**	$ 67,812	**$ 78,330**	$ 111,203
Deferred income tax expense (recovery)	**(31,675)**	(203,335)	**(103,633)**	(192,397)
Income tax expense (recovery)	**$ (14,076)**	$ (135,523)	**$ (25,303)**	$ (81,194)

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, 2023. In addition, taxable income generated from business relating to crude oil was subject to an additional 10% surtax.

The 74% and 30% decrease in current income tax expense for the three months and year ended December 31, 2023, respectively, as compared to the same periods in 2022, despite a 2% and 11% increase in EBITDA during those periods, is primarily due to the progression in the Corporation's corporate restructuring process, which started in Q4 of 2022, whereby the Corporation has transferred its Esperanza and VIM-21 assets from one wholly-owned subsidiary to another in an effort to better align the operational needs of the business and to create a more efficient and cost-effective organizational structure ("Corporate Restructuring").

The Corporation realized a deferred income tax recovery of $31.7 million and $103.6 million for the three months and year ended December 31, 2023, respectively, mainly as a result of the strengthening of the COP against the USD which increased the value of the Corporation's tax pools at December 31, 2023. The Corporation realized a deferred income tax recovery of $203.3 million and $192.4 million for the three months and year ended December 31, 2022, respectively, mainly attributed to the $202.2 million deferred tax asset recognized as a result of the Corporate Restructuring, 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 tax pools are denominated in COP, which are re-valued at each reporting date using the period end COP to USD foreign exchange rate. As at December 31, 2023, the COP to USD exchange rate was 3,822:1 (December 31, 2022 – 4,810:1).

Income Tax Cash Payments

	Three months ended December 31,		Year ended December 31,	
	2023	2022	**2023**	2022
Income taxes paid	**$ 12,531**	$ 7,526	**$ 122,355**	$ 35,490

During the year ended December 31, 2023, the Corporation paid income tax of $72.5 million (2022 - $4.8 million) for the 2022 tax year, which included the one-time current tax expense of $64.7 million related to the Corporation's Corporate Restructuring that was accrued at December 31, 2022. In addition, the Corporation also paid installments relating to its 2023 income tax expense of $12.5 million and $49.8 million (2022 - $7.5 million and $30.6 million) during the three months and year ended December 31, 2023, respectively, which was net of $2.7 million and $7.0 million (2022 - $2.4 million and $4.5 million) of VAT paid on certain eligible capital expenditures that were applied against the Corporation's taxes payable.

Capital Expenditures

	Three months ended December 31,		Year ended December 31,	
	2023	2022	**2023**	2022
Land, seismic, EIAs and communities	**$ 9,807**	$ 5,862	**$ 17,232**	$ 27,422
Drilling, completion, testing and workovers (1)	**40,689**	23,348	**108,064**	76,998
Facilities, equipment and infrastructures	**7,968**	4,483	**33,915**	20,326
Medellin pipeline	**2,750**	4,483	**8,991**	10,099
Warehouse inventory, corporate assets and other	**8,893**	10,084	**38,130**	23,398
Capitalized G&A	**2,139**	2,152	**9,331**	8,085
Proceeds on disposition	**—**	(30)	**(479)**	(40)
Net cash capital expenditures	**72,246**	50,382	**215,184**	166,288
Non-cash costs and adjustments:				
Right-of-Use leased assets	**650**	276	**768**	2,205
Disposition	**(6)**	(41)	**431**	(3,514)
Change in decommissioning obligations and other	**6,618**	(12,657)	**7,841**	(3,773)
Net capital expenditures	**$ 79,508**	$ 37,960	**$ 224,224**	$ 161,206
Net capital expenditures recorded as:				
Expenditures on exploration and evaluation assets (1)	**$ 12,623**	$ 26,334	**$ 53,192**	$ 74,667
Expenditures on property, plant and equipment	**66,891**	11,697	**171,082**	90,093
Disposition	**(6)**	(71)	**(50)**	(3,554)
Net capital expenditures	**$ 79,508**	$ 37,960	**$ 224,224**	$ 161,206

(1) Net of $5.1 million of insurance proceeds

Net capital expenditures for the three months ended December 31, 2023 are primarily related to:

- Clarinete-9 development well drilling and completion costs;
- Nelson-15 development well drilling and completion costs;
- Pandereta-9 development well drilling and completion costs;
- Pandereta-10 development well drilling and completion costs;
- Aguas Vivas-4 development well drilling and completion costs;
- Nelson-16 development well drilling and completion costs;
- Clarinete-8 development well completion costs;
- Fresa-2 development well drilling costs;
- Purchase of warehouse inventory for the Esperanza block;
- Compression facilities and workover related costs at the VIM-5, VIM-21 and Esperanza blocks;
- Jobo processing facility plant turnaround; and
- Land, communities 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.

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.

Revolving Credit Facility

On February 17, 2023, the Corporation entered into a $200 million senior unsecured revolving credit facility ("RCF") with a syndicate of banks. The RCF bears an annual interest rate of SOFR + 4.5%, has a four-year term, and the Corporation is able to repay/redraw the 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 RCF is not subject to typical periodic redeterminations. The amount drawn and outstanding as at December 31, 2023 was $200 million.

Bridge Loan

On February 17, 2023, the Corporation repaid the $25 million outstanding on the Bridge Loan with proceeds from the RCF (see "Revolving Credit Facility" above) and subsequently terminated the loan agreement. The unamortized transaction costs of $1.7 million was amortized and capitalized to PP&E upon termination of the loan agreement.

Colombia Bank Debt

On February 17, 2023, the Corporation repaid the $9.9 million outstanding on the Colombia Bank Debt with proceeds from the RCF (see "Revolving Credit Facility" above) and subsequently terminated the loan agreement.

Financial Covenants

The Corporation's Senior Notes and its 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 (incurrence) or 3.50:1:00 (maintenance) 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, 2023, the Corporation was in compliance with the covenants.

	December 31, 2023	December 31, 2022
Senior Notes - principal (5.75%)	**$ 500,000**	$ 500,000
Bridge Loan - principal (LIBOR + 4.25%)	**—**	25,000
RCF (SOFR + 4.5%)(1)	**200,000**	—
Colombia Bank Debt - principal (IBR + 2.5%)	**—**	10,020
Lease obligations	**13,435**	15,732
Total debt	**713,435**	550,752
Working capital deficit	**10,028**	22,603
Net debt	**$ 723,463**	$ 573,355

(1) The SOFR rate for the year ended December 31, 2023 was 5.08%.

The Consolidated Leverage Ratio is calculated as follows:

	December 31, 2023	December 31, 2022
Total debt	$ **713,435**	$ 550,752
Less: cash and cash equivalents	**(39,425)**	(58,518)
Net debt for covenant purposes	$ **674,010**	$ 492,234
Adjusted EBITDAX	$ **236,829**	$ 212,850
Consolidated Leverage Ratio	**2.85**	2.31

The Consolidated Interest Coverage Ratio is calculated as follows:

	December 31, 2023	December 31, 2022
Adjusted EBITDAX	$ **236,829**	$ 212,850
Interest expense, excluding non-cash expenses	$ **46,852**	$ 34,058
Consolidated Interest Coverage Ratio	**5.05**	6.25

As at March 21, 2024, the Corporation had 34.1 million common shares, 0.8 million stock options, and 0.9 million RSU's, DSU's and PSU's 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, 2023:

	Less than 1 year	1-3 years	Thereafter	Total
Long-term debt – principal	$ —	$ —	$ 700,000	$ 700,000
Lease obligations – undiscounted	3,598	7,382	3,571	14,551
Trade and other payables	107,911	—	—	107,911
Dividend payable	6,706	—	—	6,706
Taxes payable	38,861	—	—	38,861
Other long term obligations	—	6,387	—	6,387
Long-term incentive compensation liability	1,545	1,273	—	2,818
Exploration and production contracts	15,679	58,090	1,762	75,531
Compression station operating contracts	2,768	5,704	2,940	11,412
	$ 177,068	**$ 78,836**	**$ 708,273**	**$ 964,177**

Letters of Credit

As at December 31, 2023, the Corporation had letters of credit outstanding totaling $87.5 million (December 31, 2022 - $87.9 million) to guarantee work commitments on exploration blocks in Colombia and to guarantee other contractual commitments.

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, 2023 of $75.5 million and has issued $49.4 million of the total $87.5 million in financial guarantees related thereto.

Related Party Transactions

On October 13, 2023, the Corporation exercised all of the 18,357,602 million Arrow warrants to purchase 18,357,602 million common shares of Arrow at an exercise price of C$0.15 per Arrow common share. The Corporation held an aggregate of 60,072,807 common shares of Arrow subsequent to the warrants exercise and as at December 31, 2023, which represented an approximately 21.0% equity interest in Arrow.

Two members of key management of Canacol are also members of the Board of Directors of Arrow.

Sustainability

As indicated in the Corporation's 2022 ESG Integrated Report, Canacol currently is a leading sustainable natural gas producer in the Americas, with Scope 1 and 2 GHG emissions that are on average 80% lower than our oil-producing peers and 50% lower than our gas-producing peers. 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 the global objectives to meet the Paris Agreement targets and remains committed to supporting Colombia's objective of achieving a 51% reduction in emissions by 2030. In line with this commitment, Canacol has set its decarbonization goals, whereby we aim to achieve zero methane emissions by 2026, reduce Scope 1 and 2 emissions by 50% by 2035, and achieve carbon neutrality by 2050. 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 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.

The Corporation is committed to continuing to develop and maintain a robust ESG strategy and, as such, has implemented a plan with the following three pillars:

1. A cleaner energy future – deliver natural gas under the highest environmental and operational efficiency standards.
2. Empowering our people – make a positive impact on people and demonstrate Canacol's commitment to enhancing the well-being, prosperity, and health and safety of our employees, contractors and the communities we serve.
3. A transparent and ethical business – adopt best practices, incorporate governance, encourage respect for human rights and ensure ethics and integrity in everything Canacol does.

Dividend

The Corporation has discontinued the quarterly dividend in order to strengthen its balance sheet.

OUTLOOK

The Corporation's long-term plan is focused on i) maintaining and growing our reserve base and production from our core assets in the Lower Magdalena Valley Basin ("LMV"), targeting the full use of existing transportation infrastructure; ii) exploring high impact exploration opportunities in the Middle Magdalena Valley Basin ("MMV"); iii) strategic entrance into the gas market in Bolivia, and iv) continue to develop and improve in the area of ESG.

For 2024, the Corporation is focused on the following objectives:

1) In line with maintaining and growing Canacol's reserves and production in its core gas assets in the LMV, the Corporation has planned comprehensive development and exploration programs. The Corporation aims to optimize its production and increase reserves by drilling up to five development wells, install new compression and processing facilities as required, and workover operations of producing wells in the Corporation's key gas fields. The Corporation is expected to also drill four exploration wells, complete the acquisition of 85 square kilometers of 3D seismic to add new reserves and production and to identify new drilling prospects. These development and exploration activities are planned to support Canacol's robust EBITDA generation and allow the Corporation to capitalize on strong market dynamics in 2024. Towards this end, the Corporation successfully drilled the Clarinete-10 development well, which entered production in February 2024, and has made a gas discovery at the Pomelo-1 exploration well, which encountered 96 feet of gas pay and is currently being tied into production.

2) Maintaining a low cost of capital, cash liquidity and balance sheet flexibility to invest for the long term. In a year of expected, highly supportive gas market dynamics, the Corporation is tactically prioritizing investments in the LMV and have therefore decided to postpone drilling of the Pola-1 exploration well located in the MMV to 2025.

3) Bolivia: achieve the government's approval of a fourth E&P contract that covers an existing gas field reactivation, to begin development operations with a view to adding reserves and production and commencing gas sales in 2025.

4) Continue with the Corporation's commitment to its environmental, social and governance strategy.

SUMMARY OF QUARTERLY RESULTS

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

	2023				2022			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Financial								
Total revenues, net of royalties and transportation expense(1)	**79,718**	76,618	74,605	73,913	67,956	70,133	70,256	65,883
Adjusted funds from operations(1)	**30,958**	48,950	33,686	32,693	(16,977)	38,715	39,086	33,816
Per share – basic ($)(1)	**0.91**	1.44	0.99	0.96	(0.50)	1.15	1.15	1.00
Per share – diluted ($)(1)	**0.91**	1.44	0.99	0.96	(0.50)	1.15	1.15	1.00
Cash flows provided (used) by operating activities	**22,571**	66,212	(24,413)	30,969	50,034	61,994	35,338	38,063
Net (loss) income and comprehensive (loss) income	**29,897**	(524)	39,990	16,874	133,722	(4,463)	(6,404)	24,415
Per share – basic ($)	**0.88**	(0.02)	1.17	0.49	3.92	(0.15)	(0.20)	0.70
Per share – diluted ($)	**0.88**	(0.02)	1.17	0.49	3.92	(0.15)	(0.20)	0.70
Adjusted EBITDAX(1)	**53,144**	62,103	60,654	60,928	52,003	56,015	55,208	49,624
Weighted average shares outstanding – basic	**34,111**	34,111	34,111	34,111	34,113	34,157	34,118	34,490
Weighted average shares outstanding – diluted	**34,111**	34,111	34,111	34,111	34,113	34,157	34,118	34,490
Net cash capital expenditures(1)	**72,246**	43,830	51,985	47,123	50,382	45,742	42,686	27,478
Operations								
Production								
Natural gas and LNG (Mcfpd)	**168,127**	181,028	187,687	188,384	177,985	186,695	190,559	183,130
Colombia oil (bopd)	**627**	531	527	565	546	544	571	428
Total (boepd)	**30,123**	32,290	33,455	33,615	31,771	33,298	34,002	32,556
Realized contractual sales								
Natural gas and LNG (Mcfpd)	**164,840**	178,188	184,752	185,624	175,580	184,163	187,963	181,813
Colombia oil (bopd)	**590**	511	523	587	541	558	565	412
Total (boepd)	**29,509**	31,772	32,936	33,153	31,345	32,867	33,541	32,309
Operating netbacks(1)								
Natural gas and LNG ($/Mcf)	**4.39**	4.14	3.94	4.01	3.73	3.73	3.66	3.58
Colombia oil ($/bbl)	**13.29**	25.99	18.57	25.86	22.81	27.48	27.49	14.23
Corporate ($/boe)	**24.82**	23.62	22.36	22.88	21.27	21.31	21.02	20.33

(1) Non-IFRS measure – see “Non-IFRS Measures” 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,	2023	2022	2021
Financial			
Total natural gas and crude oil revenues, net of royalties and transportation expense[1]	**304,854**	274,228	249,187
Net income and comprehensive income	**86,237**	147,270	15,177
Per share – basic ($)	**2.53**	4.31	0.43
Per share – diluted ($)	**2.53**	4.31	0.43
Adjusted funds from operations[1]	**146,287**	94,640	153,847
Per share – basic ($)[1]	**4.29**	2.77	4.32
Per share – diluted ($)[1]	**4.29**	2.77	4.32
Cash flow from operations	**95,339**	185,429	123,814
Adjusted EBITDAX[1]	**236,829**	212,850	194,390
Cash and cash equivalents	**39,425**	58,518	138,523
Total assets	**1,233,428**	1,014,848	843,760
Total debt	**713,435**	550,752	557,709
Net cash capital expenditures[1]	**215,184**	166,288	99,940
Operating			
Natural gas and crude oil production, before royalties			
Natural gas (Mcfpd)	**181,277**	184,584	182,829
Colombia oil (bopd)	**563**	522	289
Total (boepd)	**32,366**	32,905	32,364
Realized contractual sales, before royalties			
Natural gas (Mcfpd)	**178,293**	182,367	181,434
Colombia oil (bopd)	**553**	519	294
Total (boepd)	**31,833**	32,513	32,124
Operating netbacks ($/boe)[1]			
Natural gas ($/Mcf)	**4.11**	3.68	3.40
Colombia oil ($/bbl)	**20.77**	23.69	28.39
Corporate ($/boe)	**23.39**	20.99	19.48

(1) Non-IFRS measures – see “Non-IFRS Measures” 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.

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 and capital 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, 2023, the Corporation has not entered into any foreign currency hedges.

The majority of the Corporation's interest bearing debt, being the Senior Notes, are subject to fixed interest rates, which limits the Corporation's exposure to interest rate risk. The Corporation's Revolving Credit Facility is 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's trade receivables primarily relate to sales of natural gas, LNG and crude oil, which are normally collected within 45 days of the month of production. The Corporation has historically not experienced any collection issues with its customers, however, as at December 31, 2023 and currently still ongoing, the Corporation has a dispute with a certain customer and, therefore, the receivable from that customer totaling $21 million has become past due. The dispute is currently in the process of arbitration and the Corporation expects to be able to collect the total outstanding balance in full.

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, 2023 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, 2023. 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, 2023. Based on this assessment, it was concluded that the design and operation of the Corporation's DC&P are effective as at December 31, 2023.

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 Accounting Standards. 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, 2023 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, 2023.

During the three months ended December 31, 2023, 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.