CANACOL ENERGY LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS
THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2019

FINANCIAL & OPERATING HIGHLIGHTS

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

Financial	Three months ended September 30,			Nine months ended September 30,		
	2019	2018	Change	**2019**	2018	Change
Total natural gas and crude oil revenues, net of royalties and transportation expense	**$ 56,634**	$ 53,398	6%	**$ 153,727**	$ 153,424	—
Funds from operations[1]	**$ 36,420**	$ 25,810	41%	**$ 91,911**	$ 75,643	22%
Per share – basic ($)[1]	**0.20**	0.15	33%	**0.52**	0.43	21%
Per share – diluted ($)[1]	**0.20**	0.15	33%	**0.51**	0.43	19%
Net income (loss) and comprehensive income (loss)	**$ 663**	$ 12,138	(95%)	**$ 8,815**	$ (5,563)	n/a
Per share – basic ($)	**—**	0.07	n/a	**0.05**	(0.03)	n/a
Per share – diluted ($)	**—**	0.07	n/a	**0.05**	(0.03)	n/a
EBITDAX[1]	**$ 46,037**	$ 36,006	28%	**$ 122,867**	$ 105,190	17%
Weighted average shares outstanding – basic	**178,273**	177,453	—	**177,736**	177,018	—
Weighted average shares outstanding – diluted	**180,873**	178,985	1%	**179,681**	178,695	1%
Capital expenditures, net of dispositions	**$ 30,806**	$ 18,585	66%	**$ 78,973**	$ 89,890	(12%)
				Sep 30, 2019	Dec 31, 2018	Change
Cash and cash equivalents				**$ 33,414**	$ 51,632	(35%)
Restricted cash				**$ 4,618**	$ 4,196	10%
Working capital surplus				**$ 49,112**	$ 60,782	(19%)
Total debt				**$ 389,484**	$ 388,222	—
Total assets				**$ 733,472**	$ 705,003	4%
Common shares, end of period (000's)				**178,870**	177,462	1%

Operating	Three months ended September 30,			Nine months ended September 30,		
	2019	2018	Change	**2019**	2018	Change
Natural gas and crude oil production, before royalties[1]						
Natural gas (Mcfpd)	**147,630**	114,923	28%	**130,901**	110,580	18%
Colombia oil (bopd)[2]	**322**	1,816	(82%)	**365**	1,902	(81%)
Total (boepd)[3]	**26,222**	21,978	19%	**23,330**	21,302	10%
Realized contractual sales, before royalties[1]						
Natural gas (Mcfpd)	**146,439**	115,317	27%	**129,747**	111,230	17%
Colombia oil (bopd)[2]	**329**	1,945	(83%)	**375**	1,915	(80%)
Total (boepd)[3]	**26,020**	22,176	17%	**23,138**	21,429	8%
Operating netbacks[1]						
Natural gas ($/Mcf)	**3.86**	3.80	2%	**3.92**	3.77	4%
Colombia oil ($/bopd)[2]	**24.34**	26.27	(7%)	**25.59**	31.52	(19%)
Corporate ($/boe)[3]	**22.06**	22.04	—	**22.41**	22.39	—

(1) Non-IFRS measures – see "Non-IFRS Measures" section within MD&A.
(2) Decreased in the three and nine months ended September 30, 2019, due to the sale of the Corporation's petroleum assets in 2018.
(3) The Corporation has excluded results relating to the Ecuador IPC in the prior period for comparative purposes.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Advisories

The following management's discussion and analysis ("MD&A") is dated November 6, 2019 and is the Corporation's explanation of its financial performance for the period covered by the financial statements along with an analysis of the Corporation's financial position. Comments relate to and should be read in conjunction with the unaudited interim condensed consolidated financial statements of the Corporation for the three and nine months ended September 30, 2019 ("the financial statements") and the audited consolidated financial statements and MD&A for the year ended December 31, 2018. The financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting, and all amounts herein are expressed in United States dollars, unless otherwise noted, and all tabular amounts are expressed in thousands of United States dollars, except per share amounts or as otherwise noted. Additional information for the Corporation, including the Annual Information Form, may be found on SEDAR at www.sedar.com.

Forward-Looking Statements – *Certain information set forth in this document contains forward-looking statements. All statements other than historical fact contained herein are forward-looking statements, including, without limitation, statements regarding the future financial position, business strategy, production rates, and plans and objectives of or involving the Corporation. By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond the Corporation's control, including the impact of general economic conditions, industry conditions, governmental regulation, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other industry participants, the lack of availability of qualified personnel or management, stock market volatility and the ability to access sufficient capital from internal and external sources. In particular with respect to forward-looking comments in this MD&A, readers are cautioned that there can be no assurance that the Corporation will complete its planned capital projects on schedule or that natural gas and petroleum production will result from such capital projects, that additional natural gas sales contracts will be secured, or that hydrocarbon-based royalties assessed will remain consistent, or that royalties will continue to be applied on a sliding-scale basis as production increases on any one block. The Corporation's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits the Corporation will derive therefrom.*

In addition to historical information, this MD&A contains forward-looking statements that are generally identifiable as any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions or future events of performance (often, but not always, through the use of words or phrases such as "will likely result," "expected," "is anticipated," "believes," "estimated," "intends," "plans," "projection" and "outlook"). These statements are not historical facts and may be forward-looking and may involve estimates, assumptions and uncertainties which could cause actual results or outcomes to differ materially from those expressed in such forward-looking statements. Actual results achieved during the forecast period will vary from the information provided herein as a result of numerous known and unknown risks and uncertainties and other factors. Such factors include, but are not limited to: general economic, market and business conditions; fluctuations in natural gas 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. 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 funds from operations and EBITDAX, which are measures not defined in IFRS. Funds from operations represents cash flow provided by operating activities before settlement of decommissioning obligations and changes in non-cash working capital. EBITDAX is calculated on a rolling 12-month basis and is defined as net income (loss) and comprehensive income (loss) adjusted for interest, income taxes, depreciation, depletion, amortization, exploration expenses and other similar non-recurring or non-cash charges. The Corporation considers these measures as key measures to demonstrate its ability to generate the cash flow necessary to fund future growth through capital investment, pay dividend and to 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 funds from operations per share, whereby per share amounts are calculated using weighted-average shares outstanding consistent with the calculation of net income (loss) and comprehensive income (loss) per share.

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

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	**2019**	2018
Cash flow provided by operating activities	**$ 36,887**	$ 36,138	**$ 71,169**	$ 75,258
Changes in non-cash working capital	**(467)**	(10,328)	**18,001**	385
Settlement of decommissioning obligations	**—**	—	**2,741**	—
Funds from operations	**$ 36,420**	$ 25,810	**$ 91,911**	$ 75,643

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

	2018	2019			
	Q4	**Q1**	**Q2**	**Q3**	**Rolling**
Net income (loss) and comprehensive	$ (16,272)	$ 6,274	$ 1,878	$ 663	$ (7,457)
(+) Interest expense	8,249	7,737	7,631	7,620	31,237
(+) Income taxes	22,189	4,765	10,282	20,266	57,502
(+) Depletion and depreciation	11,802	12,689	11,737	13,015	49,243
(+) Exploration expenses	745	171	2,211	223	3,350
(+/-) Other non-cash expenses and non-recurring items	6,727	8,186	3,269	4,250	22,432
EBITDAX	**$ 33,440**	**$ 39,822**	**$ 37,008**	**$ 46,037**	**$ 156,307**

In addition to the above, management uses working capital and operating netback measures. Working capital is calculated as current assets less current liabilities, excluding current portion of long-term obligations, and is used to evaluate the Corporation's financial leverage. Operating netback is a benchmark common in the oil and gas industry and is calculated as revenue, net of transportation expense, less royalties, less operating expenses, calculated on a per unit basis of sales volumes. Operating netback is an important measure in evaluating operational performance as it demonstrates profitability relative to current commodity prices.

Working capital and operating netback as presented do not have any standardized meaning prescribed by IFRS and therefore may not be comparable with the calculation of similar measures for other entities.

The term "boe" is used in this MD&A. Boe may be misleading, particularly if used in isolation. A boe conversion ratio of cubic feet of natural gas to barrels of oil equivalent is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. In this MD&A, we have expressed boe using the Colombian conversion standard of 5.7 Mcf: 1 bbl required by the Ministry of Mines and Energy of Colombia.

Three Months Ended September 30, 2019 Financial and Operational Highlights

- Realized contractual natural gas sales increased 27% to 146.4 MMscfpd for the three months ended September 30, 2019, compared to 115.3 MMscfpd for the same period in 2018. Average natural gas production volumes increased 28% to 147.6 MMscfpd for the three months ended September 30, 2019, compared to 114.9 MMscfpd for the same period in 2018. The increases are primarily due to the completion of the Promigas 100 MMscfpd pipeline expansion in late August 2019.
- Total natural gas revenue, net of royalties and transportation expenses for the three months ended September 30, 2019 increased 25% to $55.1 million, compared to $43.9 million for same period in 2018, mainly attributable to the increase of natural gas production.
- Funds from operations increased 41% to $36.4 million for the three months ended September 30, 2019, compared to $25.8 million for the same period in 2018. Funds from operations per share increased 33% from $0.15 per share to $0.20 per share.
- EBITDAX increased 28% to $46 million for the three months ended September 30, 2019, compared to $36 million for the same period in 2018.
- The Corporation realized a net income of $0.7 million for the three months ended September 30, 2019, compared to a net income of $12.1 million for the same period in 2018. The net income realized during three months ended September 30, 2019 is net of certain non-cash expenses, including a deferred income tax expense of $14.2 million (almost entirely due to the effect of a reduction in the Colombian Peso exchange rate on the value of unused tax losses and cost pools, as further explained in the "Income Tax" section of this MD&A) and a depletion and depreciation expense of $13 million.
- The Corporation's natural gas operating netback increased 2% to $3.86 per Mcf in the three months ended September 30, 2019, compared to $3.80 per Mcf for the same period in 2018. The increase is mainly attributable to a 40% reduction of operating expenses per Mcf to $0.24 per Mcf for the three months ended September 30, 2019, compared to $0.40 per Mcf for the same period in 2018.
- Net capital expenditures for the three months ended September 30, 2019 were $30.8 million. Net capital expenditures included a non-cash addition relating to decommissioning obligations of $0.9 million and a non-cash derecognition of right-of-use leased assets of $0.7 million.
- As at September 30, 2019, the Corporation had $33.4 million in cash and cash equivalents, $4.6 million in restricted cash and $49.1 million in working capital surplus.

Results of Operations

For the three months ended September 30, 2019, the Corporation's production primarily consisted of natural gas from the Nelson, Palmer, Trombon, Nispero and Cañahuate fields in the Esperanza block, the Clarinete, Chirimia, Pandereta, Oboe, Acordeon and Ocarina fields in the VIM-5 block and the Toronja field in the VIM-21 block, located in the Lower Magdalena Basin in Colombia. The Corporation's production also includes crude oil from its Rancho Hermoso property in Colombia ("Colombia oil").

During the three months ended September 30, 2019, the Corporation drilled the Clarinete-4 development well which reached a total depth of 8,450 feet measured depth (" ft md"). The well encountered 297 feet true vertical depth ("ft TVD") of net gas pay in the Cienaga de Oro ("CDO") sandstone reservoir. The CDO reservoir was perforated from 7,120 to 7,252 ft TVD and tested at a final rate of 41.1 MMscfpd with no water over the test period. The well has been tied into the new Clarinete to Jobo flowline.

During the three months ended September 30, 2019, the Corporation drilled the Pandereta-5 appraisal well which reached a total depth of 10,520 ft md. No commercial quantities of gas were encountered within the primary CDO reservoir target and the well was plugged and abandoned. The result has no negative impact on the gas reserves currently assigned to the Pandereta field.

During the three months ended September 30, 2019, the Promigas 100 MMscfpd pipeline expansion was completed and the Jobo 3 natural gas processing facility ("Jobo 3") commenced operation, lifting Canacol's natural gas treatment capacity from previous levels of 200 MMscfpd to 330 MMscfpd.

In addition to its producing fields, the Corporation has interests in a number of exploration blocks in Colombia.

Average Daily Natural Gas and Crude Oil Production and Sales Volumes

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

	Three months ended September 30,			Nine months ended September 30,		
	2019	2018	Change	**2019**	2018	Change
Natural Gas (Mcfpd)						
Natural gas production	**147,630**	114,923	28%	**130,901**	110,580	18%
Field consumption	**(1,744)**	(1,083)	61%	**(1,767)**	(1,015)	74%
Natural gas sales	**145,886**	113,840	28%	**129,134**	109,565	18%
Take-or-pay volumes	**553**	1,477	(63%)	**613**	1,665	(63%)
Realized contractual natural gas sales	**146,439**	115,317	27%	**129,747**	111,230	17%
Colombia Oil (bopd)						
Crude oil production	**322**	1,816	(82%)	**365**	1,902	(81%)
Inventory movements and other	**7**	129	(95%)	**10**	13	(23%)
Colombia oil sales	**329**	1,945	(83%)	**375**	1,915	(80%)
Corporate						
Natural gas production (boepd)	**25,900**	20,162	28%	**22,965**	19,400	18%
Colombia oil production (bopd)	**322**	1,816	(82%)	**365**	1,902	(81%)
Total production (boepd)	**26,222**	21,978	19%	**23,330**	21,302	10%
Field consumption and inventory (boepd)	**(299)**	(61)	390%	**(300)**	(165)	82%
Total corporate sales (boepd)	**25,923**	21,917	18%	**23,030**	21,137	9%
Take-or-pay volumes (boepd)	**97**	259	(63%)	**108**	292	(63%)
Total realized contractual sales (boepd)	**26,020**	22,176	17%	**23,138**	21,429	8%

The 28% and 18% increase in natural gas production volumes during the three and nine months ended September 30, 2019, compared to the same periods in 2018, respectively, is primarily due to the completion of the Promigas 100 MMscfpd pipeline expansion and Jobo 3 commencing operation in August 2019. Going forward, the Promigas pipeline expansion, when operating at its full capacity of 100 MMscfpd, is expected to lift the Corporation's production to 215 MMscfpd, an approximate 80% increase in production.

The decrease in Colombia oil production volumes during the three and nine months ended September 30, 2019, compared to the same periods in 2018, is primarily due to the Corporation selling its interest in the majority of its petroleum assets during the year ended December 31, 2018.

Realized contractual natural gas sales for the three and nine months ended September 30, 2019 averaged approximately 146.4 and 129.7 MMscfpd, respectively. Realized contractual sales is defined as gas produced and sold plus gas revenues received from nominated take-or-pay contracts without the actual delivery of natural gas.

Natural Gas and Crude Oil Revenues

	Three months ended September 30,			Nine months ended September 30,		
	2019	2018	Change	**2019**	2018	Change
Natural Gas						
Natural gas revenues	**$ 70,566**	$ 55,681	27%	**$ 181,085**	$ 157,243	15%
Transportation expenses	**(6,914)**	(5,445)	27%	**(10,449)**	(13,945)	(25%)
Revenues, net of transportation expense	**63,652**	50,236	27%	**170,636**	143,298	19%
Royalties	**(8,554)**	(6,303)	36%	**(22,473)**	(18,308)	23%
Revenues, net of royalties and transportation expenses	**$ 55,098**	$ 43,933	25%	**$ 148,163**	$ 124,990	19%
Colombia Oil						
Crude oil revenues	**$ 1,452**	$ 10,338	(86%)	**$ 5,325**	$ 31,054	(83%)
Transportation expenses	**(98)**	(290)	(66%)	**(324)**	(721)	(55%)
Revenues, net of transportation expense	**1,354**	10,048	(87%)	**5,001**	30,333	(84%)
Royalties	**(117)**	(965)	(88%)	**(415)**	(3,019)	(86%)
Revenues, net of royalties and transportation expenses	**$ 1,237**	$ 9,083	(86%)	**$ 4,586**	$ 27,314	(83%)
Corporate						
Natural gas revenues	**$ 70,566**	$ 55,681	27%	**$ 181,085**	$ 157,243	15%
Crude oil revenues	**1,452**	10,338	(86%)	**5,325**	31,054	(83%)
Total revenues	**72,018**	66,019	9%	**186,410**	188,297	(1%)
Royalties	**(8,671)**	(7,268)	19%	**(22,888)**	(21,327)	7%
Natural gas and crude oil revenues, net of royalties, as reported	**63,347**	58,751	8%	**163,522**	166,970	(2%)
Take-or-pay natural gas income (2)	**299**	382	(22%)	**978**	1,120	(13%)
Total natural gas and crude oil revenues, after royalties, as reported	**63,646**	59,133	8%	**164,500**	168,090	(2%)
Transportation expenses	**(7,012)**	(5,735)	22%	**(10,773)**	(14,666)	(27%)
Total revenues, net of royalties and transportation expenses	**$ 56,634**	$ 53,398	6%	**$ 153,727**	$ 153,424	—

The Corporation has three types of natural gas sales:

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

3) *Undelivered gas nominations* - represents the portion of undelivered natural gas 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 gas sales and take-or-pay income, and as such are included in deferred income for the period. The Corporation recognizes revenues associated with such make-up rights ("settlements") at the earlier of: a) when the make-up volume is delivered, b) the make-up right expires, or c) when it is determined that the likelihood that the off-taker will utilize the make-up right is remote.

For the three and nine months ended September 30, 2019, the Corporation realized $0.3 million and $1 million, respectively, of take-or-pay income (as described in (2) above), which is equivalent to 0.6 MMscfpd and 0.6 MMscfpd, respectively, of natural gas sales, without actual delivery of the natural gas.

As at September 30, 2019, the Corporation has received proceeds for natural gas and crude oil to be delivered at a later date (as described in (3) above). As at September 30, 2019, undelivered nominations resulted in a deferred income balance of $5.6 million ($5.1 million related to gas; $0.5 million related to crude oil) and has been classified as a current liability as it is expected to be settled within the next twelve months.

Average Benchmark and Realized Sales Prices

	Three months ended September 30,			Nine months ended September 30,		
	2019	2018	Change	**2019**	2018	Change
Guajira ($/Mcf)	**$ 4.30**	$ 4.24	1%	**$ 4.30**	$ 4.24	1%
Brent ($/bbl)	**$ 61.74**	$ 75.27	(18%)	**$ 63.19**	$ 72.16	(12%)
West Texas Intermediate ($/bbl)	**$ 54.07**	$ 68.40	(21%)	**$ 61.95**	$ 66.30	(7%)
Natural gas, net of transportation ($/Mcf)	**$ 4.74**	$ 4.80	(1%)	**$ 4.84**	$ 4.79	1%
Colombia oil, net of transportation ($/bbl)	**$ 44.73**	$ 56.15	(20%)	**$ 48.85**	$ 58.02	(16%)
Corporate average, net of transportation	**$ 27.25**	$ 29.90	(9%)	**$ 27.93**	$ 30.09	(7%)

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. Transportation expenses associated with the fixed-priced contracts are generally passed through to Canacol's customers, with the exception of the Corporation's spot sales. The Corporation's transportation expenses associated with the spot sales are compensated by higher gross sales prices, resulting in realized sales prices, net of transportation that are consistent with the Corporation's fixed-priced contracts.

The total transportation expense has increased as a result of increased spots sales, however the average natural gas sales price, net of transportation for the quarter was $4.74/Mcf, in line with the Corporation's guidance of $4.75/Mcf for the 2019 year. The change in average realized natural gas sales prices, net of transportation during the three and nine months ended September 30, 2019, compared to the same periods in 2018, is mainly due to price fluctuations related to spot sales.

The decrease in average realized crude oil sales prices during the three and nine months ended September 30, 2019, compared to the same periods in 2018, is mainly due to decreased benchmark crude oil prices.

Operating Expenses

	Three months ended September 30,			Nine months ended September 30,		
	2019	2018	Change	**2019**	2018	Change
Natural gas	**$ 3,192**	$ 4,202	(24%)	**$ 9,830**	$ 12,257	(20%)
Colombia oil	**500**	4,383	(89%)	**1,967**	10,836	(82%)
Total operating expenses	**$ 3,692**	$ 8,585	(57%)	**$ 11,797**	$ 23,093	(49%)
Natural gas ($/Mcf)	**$ 0.24**	$ 0.40	(40%)	**$ 0.28**	$ 0.41	(32%)
Colombia oil ($/bbl)	**$ 16.52**	$ 24.49	(33%)	**$ 19.21**	$ 20.73	(7%)
Corporate ($/boe)	**$ 1.55**	$ 4.26	(64%)	**$ 1.88**	$ 4.00	(53%)

Total natural gas operating expenses per Mcf decreased by 40% and 32% to $0.24/Mcf and $0.28/Mcf for the three and nine months ended September 30, 2019, compared to $0.40/Mcf and $0.41/Mcf for the same periods in 2018, respectively. The decrease is mainly attributable to the increased natural gas sales volumes as a result of the completion of Jobo 3 and the Promigas pipeline expansion as over 90% of the Corporation's operating expenses are fixed. The Corporation's purchase and operation of the Jobo 2 natural gas facility also resulted in lower operating expenses due to operating efficiencies. The Corporation also capitalized certain operating costs during the three and nine months ended September 30, 2019 as a result of the adoption of a new accounting policy as at January 1, 2019.

Total Colombia oil operating expenses decreased during the three and nine months ended September 30, 2019, compared to the same periods in 2018, due to the Corporation selling its interest in the majority of its petroleum assets in late 2018.

Operating Netbacks

$/Mcf	Three months ended September 30, 2019	2018	Change	Nine months ended September 30, 2019	2018	Change
Natural Gas						
Revenue, net of transportation expense	$ **4.74**	$ 4.80	(1%)	$ **4.84**	$ 4.79	1%
Royalties	**(0.64)**	(0.60)	7%	**(0.64)**	(0.61)	5%
Operating expenses	**(0.24)**	(0.40)	(41%)	**(0.28)**	(0.41)	(32%)
Operating netback	$ **3.86**	$ 3.80	2%	$ **3.92**	$ 3.77	4%

$/bbl	Three months ended September 30, 2019	2018	Change	Nine months ended September 30, 2019	2018	Change
Colombia oil						
Revenue, net of transportation expense	$ **44.73**	$ 56.15	(20%)	$ **48.85**	$ 58.02	(16%)
Royalties	**(3.87)**	(5.39)	(28%)	**(4.05)**	(5.77)	(30%)
Operating expenses	**(16.52)**	(24.49)	(33%)	**(19.21)**	(20.73)	(7%)
Operating netback	$ **24.34**	$ 26.27	(7%)	$ **25.59**	$ 31.52	(19%)

$/boe	Three months ended September 30, 2019	2018	Change	Nine months ended September 30, 2019	2018	Change
Corporate						
Revenue, net of transportation expense	$ **27.25**	$ 29.90	(9%)	$ **27.93**	$ 30.09	(7%)
Royalties	**(3.64)**	(3.60)	1%	**(3.64)**	(3.70)	(2%)
Operating expenses	**(1.55)**	(4.26)	(64%)	**(1.88)**	(4.00)	(53%)
Operating netback	$ **22.06**	$ 22.04	—	$ **22.41**	$ 22.39	—

General and Administrative Expenses

	Three months ended September 30, 2019	2018	Change	Nine months ended September 30, 2019	2018	Change
Gross costs	$ **6,522**	$ 7,711	(15%)	$ **20,888**	$ 23,605	(12%)
Less: capitalized amounts	**(1,226)**	(1,381)	(11%)	**(4,082)**	(4,095)	—
General and administrative expenses	$ **5,296**	$ 6,330	(16%)	$ **16,806**	$ 19,510	(14%)
$/boe	$ **2.22**	$ 3.14	(29%)	$ **2.67**	$ 3.35	(20%)

General and administrative expenses ("G&A") per boe decreased 29% and 20% during the three and nine months ended September 30, 2019, compared to the same periods in 2018, respectively. The decrease is mainly due to cost efficiencies and the increase of 28% and 18% in natural gas production during three and nine months ended September 30, 2019, respectively. The Corporation has also capitalized certain costs as a result of the adoption of a new accounting policy as at January 1, 2019. G&A per boe is expected to continue to decrease as the Corporation's production base grows for the remainder of 2019 and into 2020 with the 100 MMscfpd Promigas pipeline now completed.

Net Finance Expense

	Three months ended September 30, 2019	2018	Change	Nine months ended September 30, 2019	2018	Change
Net financing expense paid	$ **7,290**	$ 8,112	(10%)	$ **22,019**	$ 23,070	(5%)
Non-cash financing costs	**874**	722	21%	**2,562**	2,764	(7%)
Net finance expense	$ **8,164**	$ 8,834	(8%)	$ **24,581**	$ 25,834	(5%)

Net financing expense paid decreased during the three and nine months ended September 30, 2019, compared to the same periods in 2018, mainly as a result of: a) lower interest rates on the Corporation's long-term debt and b) the purchase of the Corporation's Jobo 2 natural gas processing facility, previously held under a finance lease arrangement.

Stock-Based Compensation Expense and Restricted Share Units

	Three months ended September 30,			Nine months ended September 30,		
	2019	2018	Change	**2019**	2018	Change
Stock-based compensation expense	**$ 568**	$ 1,119	(49%)	**$ 2,817**	$ 4,335	(35%)
Restricted share unit expense	**521**	1,240	(58%)	**3,777**	3,493	8%
Stock-based compensation and restricted share unit expense	**$ 1,089**	$ 2,359	(54%)	**$ 6,594**	$ 7,828	(16%)

Stock-based compensation and restricted share units expense is a non-cash expense recognized based on the fair value of units granted. The fair value of the stock options granted were estimated using the Black-Scholes option pricing model.

Depletion and Depreciation Expense

	Three months ended September 30,			Nine months ended September 30,		
	2019	2018	Change	**2019**	2018	Change
Depletion and depreciation expense	**$ 13,015**	$ 10,636	22%	**$ 37,441**	$ 32,444	15%
$/boe	**$ 5.46**	$ 5.27	4%	**$ 5.96**	$ 5.62	6%

Depletion and depreciation expense increased 22% and 15% during the three and nine months ended September 30, 2019, compared to the same periods in 2018, respectively, primarily as a result of higher natural gas production, depletion of Jobo 3 and the depreciation of the right-of-use leased assets recognized in the period as a result of a change in accounting policy.

Income Tax Expense

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	**2019**	2018
Current income tax expense	**$ 6,064**	$ 6,007	**$ 21,252**	$ 19,593
Deferred income tax expense (recovery)	**14,202**	(8,745)	**14,061**	(12,599)
Income tax expense (recovery)	**$ 20,266**	$ (2,738)	**$ 35,313**	$ 6,994

The Corporation's pre-tax income was subject to the Colombian statutory income tax rate of 33% for the three and nine months ended September 30, 2019.

The Corporation's unused tax losses and cost pools are denominated in Colombian Pesos, which are re-valued at each reporting date using the period end Colombia Peso to United States Dollar foreign exchange rate. The majority of the deferred income tax expense recognized during the three months ended September 30, 2019 ($12.5 million of the total $14.2 million deferred income tax expense) was a result of the 8% de-valuation of the Colombian Peso to United States Dollar as at September 30, 2019, compared to the prior period end rate.

Capital Expenditures

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	**2019**	2018
Drilling and completions	**$ 12,021**	$ 6,258	**$ 29,781**	$ 30,111
Facilities, work overs and infrastructure	**9,770**	6,378	**30,934**	17,574
Midstream pipeline costs	**—**	—	**—**	3,887
Land, seismic, communities and other	**7,588**	3,068	**21,100**	12,973
Right-of-Use leased assets	**(738)**	2,600	**4,512**	13,900
Capitalized G&A	**1,226**	1,381	**4,082**	4,095
Disposition	**—**	(3,000)	**(14,506)**	(3,000)
Non-cash costs and adjustments[1]	**939**	1,900	**3,070**	10,350
Net capital expenditures	**$ 30,806**	$ 18,585	**$ 78,973**	$ 89,890
Net capital expenditures recorded as:				
Expenditures on exploration and evaluation assets	**$ 9,948**	$ 8,332	**$ 27,341**	$ 37,406
Expenditures on property, plant and equipment	**20,858**	13,253	**66,138**	55,484
Disposition	**—**	(3,000)	**(14,506)**	(3,000)
Net capital expenditures	**$ 30,806**	$ 18,585	**$ 78,973**	$ 89,890

[1] Non-cash costs and adjustments include change in estimates related to decommissioning obligations

Net capital expenditures during the three months ended September 30, 2019 are primarily related to:

- Facility costs at VIM-5 and Esperanza blocks;
- Seismic costs at the VIM-5 block;
- Drilling of the Clarinete-4 and Pandereta-5 wells;
- Post-drilling costs of Nelson-7, Ocarina-1 and Acordeon-1; and
- Jobo 3 completion costs.

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, settlement liability, lease obligations and working capital, defined as current assets less current liabilities excluding current portion of long-term obligations. In order to maintain or adjust the capital structure, from time to time the Corporation may issue or repurchase common shares or other securities, sell assets or adjust its capital spending to manage current and projected debt levels.

The Corporation monitors leverage and adjusts its capital structure based on its net debt level. Net debt is defined as the principal amount of its outstanding long-term obligations less working capital, as defined above. In order to facilitate the management of its net debt, the Corporation prepares annual budgets, which are updated as necessary depending on varying factors including current and forecast commodity prices, changes in capital structure, execution of the Corporation's business plan and general industry conditions. The annual budget is approved by the Board of Directors and updates are prepared and reviewed as required.

The Corporation's bank debt includes various non-financial covenants relating to indebtedness, operations, investments, assets sales, capital expenditures and other standard operating business covenants. The bank debt is also subject to various financial covenants, including a maximum consolidated total debt, less cash and cash equivalents, to EBITDAX ratio ("Consolidated Leverage Ratio") of 3.50:1.00 and a minimum EBITDAX to interest expense, excluding non-cash expenses, ratio ("Consolidated Interest Coverage Ratio") of 2.50:1.00. As at September 30, 2019, the Corporation was in compliance with the covenants.

	September 30, 2019	December 31, 2018
Senior Notes - Principal (7.25%)	$ 320,000	$ 320,000
Bank debt - Principal (6.875%)	30,000	30,000
Settlement liability (8.74%)	15,148	16,749
Lease obligation (2019 - 6.875%; 2018 - 5.2%)	24,336	21,473
Total debt	389,484	388,222
Less: working capital surplus	(49,112)	(60,782)
Net debt	**$ 340,372**	**$ 327,440**

The Consolidated Leverage Ratio is calculated as follows:

	September 30, 2019
Total debt	$ 389,484
Less: cash and cash equivalents	(33,414)
Net debt for covenant purposes	356,070
EBITDAX	156,307
Consolidated Leverage Ratio	**2.28**

The Consolidated Interest Coverage Ratio is calculated as follows:

	September 30, 2019
EBITDAX	$ 156,307
Interest expense, excluding non-cash expenses	31,237
Consolidated Interest Coverage Ratio	**5.00**

As at November 6, 2019, the Corporation had 178.9 million common shares, 15.6 million stock options and 1 million restricted share units outstanding.

Contractual Obligations

The following table provides a summary of the Corporation's cash requirements to meet its financial liabilities and contractual obligations existing at September 30, 2019:

	Less than 1 year	1-3 years	Thereafter	Total
Long-term debt – principal	$ 5,455	$ 21,818	$ 322,727	$ 350,000
Lease obligations – undiscounted	5,029	7,604	16,984	29,617
Trade and other payables	54,088	—	—	54,088
Taxes payable	4,847	—	—	4,847
Hedging contract	318	—	—	318
Deferred income	5,646	—	—	5,646
Settlement liability	1,900	3,800	9,448	15,148
Other long term obligations	—	3,272	—	3,272
Restricted share units	1,816	4	—	1,820
Exploration and production contracts	8,959	42,266	5,183	56,408
Compression station operating contracts	2,544	5,244	14,792	22,580

Letters of Credit

At September 30, 2019, the Corporation had letters of credit outstanding totaling $76.9 million to guarantee work commitments on exploration blocks in Colombia and to guarantee other contractual commitments, of which, $11.3 million financial guarantees relate to certain petroleum assets previously sold. The letters of credit related to such petroleum assets will be cancelled upon completion of the transition period ending no later than the end of 2020.

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 September 30, 2019 of $56.4 million and has issued $21.7 million in financial guarantees related thereto.

OUTLOOK

For the remainder of 2019, the Corporation is focused on executing its exploration drilling program and executing the necessary agreements related to the construction of a new gas pipeline to Medellin, which will transport 100 MMcfpd of new gas sales in 2023.

The 2019 drilling program has been successful to date, with two discoveries, Acordeon-1 and Ocarina-1, and three successful development wells, Palmer-2, Nelson-7, and Clarinete-4. The success at Acordeon-1 and Ocarina-1 lifts Canacol's commercial chance of exploration success to 85%, an industry leading metric for a conventional onshore gas play. The remainder of the drilling program for 2019 includes the Arandala-1 exploration well, which the Corporation has recently cased and completed.

With respect to the Medellin pipeline project, the Corporation anticipates executing a take-or-pay sales contract with a major Colombian utility during the current month of November 2019, whereby half of the capacity of the new pipeline will be contracted for a period of twelve years. The next step, to be completed by the end of 2019, will be to form the consortium which will build and operate the pipeline.

Commencing in the fourth quarter of 2019, the Corporation is pleased to announce a regular recurring quarterly dividend. The Board of Directors has approved a US$7 million quarterly dividend to be paid on December 31, 2019, with a record date anticipated to be December 16, 2019, subject to regulatory approvals. This amount represents approximately C$0.052 per share or a yield of approximately 4.4% annually at current share prices.

SUMMARY OF QUARTERLY RESULTS

	2019			2018				2017
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Financial								
Total natural gas and crude oil revenues, net of royalties and transportation expense	**56,634**	47,689	49,404	50,727	53,398	52,397	47,629	39,781
Funds from operations(1)	**36,420**	25,583	29,907	28,679	25,810	28,252	21,581	16,573
Per share – basic ($)(1)	**0.20**	0.14	0.17	0.16	0.15	0.16	0.12	0.09
Per share – diluted ($)(1)	**0.20**	0.14	0.17	0.16	0.14	0.16	0.12	0.09
Net income (loss) and comprehensive income (loss)	**663**	1,878	6,274	(16,272)	12,138	(25,979)	8,278	(150,343)
Per share – basic ($)	**—**	0.01	0.03	(0.09)	0.07	(0.15)	0.05	(0.85)
Per share – diluted ($)	**—**	0.01	0.03	(0.09)	0.07	(0.15)	0.05	(0.85)
EBITDAX(1)	**46,037**	37,008	39,822	33,440	36,006	33,617	35,567	29,857
Weighted average shares outstanding – basic	**178,273**	177,381	177,547	177,678	177,453	177,018	176,572	175,988
Weighted average shares outstanding – diluted	**180,873**	178,979	179,637	178,977	178,985	178,742	178,759	177,881
Capital expenditures, net	**30,806**	13,442	34,725	37,701	18,585	31,111	40,194	41,652
Operations								
Natural gas and crude oil production, before royalties(1)								
Natural gas (Mcfpd)	**147,630**	121,496	123,291	116,616	114,923	111,446	105,262	83,043
Colombia oil (bopd)	**322**	342	433	488	1,816	1,967	1,924	1,825
Total (boepd)(2)	**26,222**	21,657	22,063	20,947	21,978	21,519	20,391	16,394
Realized contractual sales, before royalties(1)								
Natural gas (Mcfpd)	**146,439**	120,515	122,025	119,284	115,316	111,933	106,334	85,214
Colombia oil (bopd)	**329**	356	440	592	1,945	1,903	1,896	1,820
Total (boepd)(2)	**26,020**	21,499	21,848	21,519	22,176	21,540	20,551	16,770
Operating netbacks ($/boe)(1)								
Natural gas ($/Mcf)	**3.86**	3.88	4.03	3.92	3.80	3.79	3.71	3.56
Colombia oil ($/bbl)	**24.34**	29.20	23.64	27.89	26.27	35.30	33.21	23.44
Corporate ($/boe)(2)	**22.06**	22.27	23.00	22.51	22.04	22.90	22.24	19.07

(1) Non-IFRS measure – see "Non-IFRS Measures" section above.
(2) The Corporation has excluded results relating to the Ecuador IPC in the prior periods for comparative purposes.

RISKS AND UNCERTAINTIES

There have been no significant changes in the three months ended September 30, 2019 to the risks and uncertainties as identified in the MD&A for the year ended December 31, 2018.

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 implemented new accounting policies during the nine months ended September 30, 2019. 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 established processes to ensure that they are provided with sufficient knowledge to support the representations made in the interim certificates required to be filed under National Instrument 52-109.

Internal Controls over Financial Reporting

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

During the three months ended September 30, 2019, 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.