CANACOL ENERGY LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2020

FINANCIAL & OPERATING HIGHLIGHTS

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

Financial	Three months ended December 31,			Year ended December 31,		
	2020	2019	Change	**2020**	2019	Change
Total natural gas, LNG and crude oil revenues, net of royalties and transportation expense	**63,976**	65,795	(3%)	**246,804**	219,522	12%
Adjusted funds from operations[1]	**35,251**	32,999	7%	**145,122**	124,915	16%
Per share – basic ($)[1]	**0.20**	0.18	11%	**0.80**	0.70	14%
Per share – diluted ($)[1]	**0.20**	0.18	11%	**0.80**	0.69	16%
Net income (loss) and comprehensive income (loss)[2]	**921**	25,432	(96%)	**(4,743)**	34,247	n/a
Per share – basic ($)	**0.01**	0.14	(93%)	**(0.03)**	0.19	n/a
Per share – diluted ($)	**0.01**	0.14	(93%)	**(0.03)**	0.19	n/a
Cash flow provided by operating activities	**26,477**	35,388	(25%)	**152,325**	106,470	43%
Per share – basic ($)	**0.15**	0.20	(25%)	**0.84**	0.60	40%
Per share – diluted ($)	**0.15**	0.20	(25%)	**0.84**	0.59	42%
EBITDAX[1]	**45,941**	43,144	6%	**187,528**	167,515	12%
Weighted average shares outstanding – basic	**179,764**	179,238	—	**180,646**	178,266	1%
Weighted average shares outstanding – diluted	**179,764**	181,412	(1%)	**180,646**	180,395	—
Capital expenditures, net of dispositions	**29,366**	21,514	36%	**83,964**	100,487	(16%)
				December 31, 2020	December 31, 2019	Change
Cash and cash equivalents				**68,280**	41,239	66%
Restricted cash				**—**	4,524	(100%)
Working capital surplus				**73,404**	50,676	45%
Total debt				**415,209**	392,946	6%
Total assets				**749,792**	754,062	(1%)
Common shares, end of period (000's)				**179,515**	180,075	—

Operating	Three months ended December 31,			Year ended December 31,		
	2020	2019	Change	**2020**	2019	Change
Natural gas, LNG and crude oil production[1]						
Natural gas and LNG (MMscfpd)	**170,087**	180,986	(6%)	**171,126**	143,524	19%
Colombia oil (bopd)	**287**	309	(7%)	**291**	351	(17%)
Total (boepd)	**30,127**	32,061	(6%)	**30,313**	25,531	19%
Realized contractual sales, before royalties[1]						
Natural gas and LNG (MMscfpd)	**169,763**	180,753	(6%)	**171,600**	142,603	20%
Colombia oil (bopd)	**300**	301	—	**286**	356	(20%)
Total (boepd)	**30,083**	32,012	(6%)	**30,392**	25,374	20%
Operating netbacks[1]						
Natural gas and LNG ($/Mcf)	**3.58**	3.58	—	**3.57**	3.82	(7%)
Colombia oil ($/bopd)	**23.04**	27.08	(15%)	**18.57**	25.92	(28%)
Corporate ($/boe)	**20.44**	20.49	—	**20.34**	21.80	(7%)

(1) Non-IFRS measures – see "Non-IFRS Measures" section within MD&A.
(2) During the year ended December 31, 2020, the Corporation realized a net loss of $4.6 million as a result of a non-cash deferred tax expense of $51.2 million related mainly to the de-recognition of certain deferred tax assets for non-capital losses (refer to the "Income Tax Expense" section of this MD&A for further details).

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 March 17, 2021 and is the Corporation's explanation of its financial performance covered by the audited consolidated financial statements of the Corporation for the years ended December 31, 2020 and 2019 (the "financial statements"), along with an analysis of the Corporation's financial position. Comments should be read in conjunction with the financial statements. The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), and all amounts herein are expressed in United States dollars ("USD"), unless otherwise noted, and all tabular amounts are expressed in thousands of USD, except per share amounts or as otherwise noted. Additional information for the Corporation, including the Annual Information Form, may be found on SEDAR at www.sedar.com.

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

In addition to historical information, this MD&A contains forward-looking statements that are generally identifiable as any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions or future events of performance (often, but not always, through the use of words or phrases such as "will likely result," "expected," "is anticipated," "believes," "estimated," "intends," "plans," "projection" and "outlook"). These statements are not historical facts and may be forward-looking and may involve estimates, assumptions and uncertainties which could cause actual results or outcomes to differ materially from those expressed in such forward-looking statements. Actual results achieved during the forecast period will vary from the information provided herein as a result of numerous known and unknown risks and uncertainties and other factors. Such factors include, but are not limited to: general economic, market and business conditions; fluctuations in natural gas, LNG and oil prices; the results of exploration and development drilling and related activities; fluctuations in foreign currency exchange rates; the uncertainty of reserve estimates; changes in environmental and other regulations; and risks associated with natural gas and oil operations, many of which are beyond the control of the Corporation and are subject to a higher degree of uncertainty due to COVID-19. Accordingly, there is no representation by the Corporation that actual results achieved during the forecast period will be the same in whole or in part as those forecasted. Except to the extent required by law, the Corporation assumes no obligation to publicly update or revise any forward-looking statements made in this MD&A or otherwise, whether as a result of new information, future events or otherwise. All subsequent forward-looking statements, whether written or oral, attributable to the Corporation or persons acting on the Corporation's behalf, are qualified in their entirety by these cautionary statements.

Readers are further cautioned not to place undue reliance on any forward-looking information or statements.

__Non-IFRS Measures –__ Two of the benchmarks the Corporation uses to evaluate its performance are adjusted funds from operations and EBITDAX, which are measures not defined in the IFRS. Adjusted funds from operations represents cash flow provided by operating activities before the settlement of decommissioning obligations and changes in non-cash working capital. EBITDAX is calculated on a rolling 12-month basis and is defined as net income (loss) and comprehensive income (loss) adjusted for interest, income taxes, depreciation, depletion, amortization, pre-license costs and other similar non-recurring or non-cash charges. The Corporation considers these measures as key measures to demonstrate its ability to generate the cash flow necessary to fund future growth through capital investment, pay dividends and repay its debt. These measures should not be considered as an alternative to, or more meaningful than, cash provided by operating activities or net income (loss) and comprehensive income (loss) as determined in accordance with IFRS as an indicator of the Corporation's performance. The Corporation's determination of these measures may not be comparable to that reported by other companies.

The Corporation also presents adjusted funds from operations per share, whereby per share amounts are calculated using the weighted-average shares outstanding consistent with the calculation of net income (loss) and comprehensive income (loss) per share.

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

	Three months ended December 31,		Year ended December 31,	
	2020	2019	**2020**	2019
Cash flow provided by operating activities	**$ 26,477**	$ 35,388	**$ 152,325**	$ 106,470
Changes in non-cash working capital	**8,647**	(2,389)	**(7,924)**	15,704
Settlement of decommissioning obligations	**127**	—	**721**	2,741
Adjusted funds from operations	**$ 35,251**	$ 32,999	**$ 145,122**	$ 124,915

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

	2020				
	Q1	**Q2**	**Q3**	**Q4**	**Rolling**
Net income (loss) and comprehensive income (loss)[(1)]	$ (25,988)	$ 17,715	$ 2,609	$ 921	$ (4,743)
(+) Interest expense	7,631	7,705	7,602	7,850	30,788
(+/-) Income tax expense (recovery)	50,880	(3,754)	14,864	20,149	82,139
(+) Depletion and depreciation	17,954	16,226	14,045	16,314	64,539
(+) Pre-license costs	159	285	395	191	1,030
(+/-) Unrealized foreign exchange loss (gain)	3,030	747	(327)	(524)	2,926
(+/-) Other non-cash expenses and non-recurring items	5,203	1,491	3,115	1,040	10,849
EBITDAX	**$ 58,869**	**$ 40,415**	**$ 42,303**	**$ 45,941**	**$ 187,528**

(1) During the year ended December 31, 2020, the Corporation realized a net loss of $4.6 million as a result of a non-cash deferred tax expense of $51.2 million related mainly to the de-recognition of certain deferred tax assets for non-capital losses (refer to the "Income Tax Expense" section of this MD&A for further details).

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 produced by the Corporation. Operating netback is an important measure in evaluating operational performance as it demonstrates profitability relative to current commodity prices.

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

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

Annual 2020 Reserves Highlights

- As announced on March 3, 2021, the Corporation's conventional natural gas proved developed producing reserves ("PDP") increased 10% since December 31, 2019, totalling 277 billion cubic feet ("Bcf") at December 31, 2020 (140% PDP reserves replacement ratio). The Corporation's conventional natural gas total proved plus probable reserves ("2P") increased 2% since December 31, 2019, totalling 637 Bcf at December 31, 2020 (122% 2P reserves replacement ratio). The Corporation's conventional natural gas proved reserves ("1P") increased 0.2% since December 31, 2019, totalling 395 Bcf at December 31, 2020 (101% 1P reserves replacement ratio).
- 1P and 2P finding and development cost ("F&D cost") were $1.18 per Mcf and $0.84 per Mcf for the three year period ending December 31, 2020, respectively.
- The Corporation achieved a 2.7x and 4.4x 2P recycle ratio for the one and three year period ending December 31, 2020, respectively. The one-year recycle ratio was calculated based on natural gas netback for the year ended December 31, 2020 of $3.57 per Mcf, and the three-year recycle ratio was calculated based on weighted average natural gas netback for the three year ended December 31, 2020 of $3.71 per Mcf.
- The Corporation achieved a 2.1x and 3.2x 1P recycle ratio for the one and three year period ending December 31, 2020, respectively. The one-year recycle ratio was calculated based on natural gas netback for the year ended December 31, 2020 of $3.57 per Mcf, and the three-year recycle ratio was calculated based on weighted average natural gas netback for the three year ended December 31, 2020 of $3.71 per Mcf.
- The Corporation achieved a 1P and 2P Reserves life index ("RLI") of 6.4 years and 10.3 years, respectively, based on annualized fourth quarter 2020 conventional natural gas production of 170.1 MMscfpd or 29,840 Boepd.

Three Months Ended December 31, 2020 Financial and Operational Highlights

- Realized contractual natural gas and liquefied natural gas ("LNG") sales volumes decreased 6% to 169.8 MMscfpd for the three months ended December 31, 2020, compared to 180.8 MMscfpd for the same period in 2019. Average natural gas and LNG production volumes decreased 6% to 170.1 MMscfpd for the three months ended December 31, 2020, compared to 181 MMscfpd for the same period in 2019. The decrease is primarily due a reduction in spot market sales as a result of the COVID-19 pandemic.
- Total natural gas and LNG revenues, net of royalties and transportation expenses for the three months ended December 31, 2020 decreased 5% to $60.9 million, compared to $64.2 million for same period in 2019, mainly attributable to the decrease of natural gas production due to COVID-19.
- Adjusted funds from operations increased 7% to $35.3 million for the three months ended December 31, 2020, compared to $33 million for the same period in 2019. Adjusted funds from operations per basic share increased 11% to $0.20 per basic share from $0.18 per basic share.
- EBITDAX increased 6% to $45.9 million for the three months ended December 31, 2020, compared to $43.1 million for the same period in 2019.
- The Corporation realized a net income of $1 million for the three months ended December 31, 2020, compared to a net income of $25.4 million for the same period in 2019, resulting in a 96% decrease year over year. The lower net income was due to the non-cash deferred tax expense of $51.2 million recognized during the three months ended December 31, 2020, mainly due to the de-recognition of certain deferred tax assets for non-capital losses (refer to the "Income Tax Expense" section of this MD&A for further details).
- The Corporation's natural gas and LNG operating netback was $3.58 per Mcf in the three months ended December 31, 2020 and 2019. The average sales price, net of transportation increased due to higher spot market gas sales prices, however the increase was offset by an increase in royalties and operating expenses

per Mcf. Operating expenses per Mcf increased 10% to $0.32 per Mcf during the three months ended December 31, 2020, compared to $0.29 per Mcf for the same period in 2019, due to delayed maintenance activities in the first half of the year due to COVID-19, which were made up in the last half of the year.

- Net capital expenditures for the three months ended December 31, 2020 were $29.4 million. Net capital expenditures included non-cash adjustments related to decommissioning obligations and leased assets of $3.1 million.
- As at December 31, 2020, the Corporation had $68.3 million in cash and cash equivalents and $73.4 million in working capital surplus.

Results of Operations

For the three months ended December 31, 2020, the Corporation's production primarily consisted of natural gas from the Nelson, Palmer and Nispero fields in the Esperanza block, the Clarinete and Pandereta fields in the VIM-5 block and the Toronja, Arandala and Breva fields 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").

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

Most energy companies worldwide have been heavily impacted by both the drastic drop in world oil price and demand related to the measures taken to limit the COVID-19 pandemic. Canacol has been relatively insulated from the effects of low oil prices given the Corporation's focus on natural gas production, with the majority of natural gas sales being under fixed volume and price take-or-pay contracts priced in USD at the wellhead.

Canacol's take-or-pay natural gas contracts have seen no instances of force majeure, with payments for deliveries being up to date with no events of default. As at December 31, 2020, Canacol has allowed take-or-pay off-takers to defer a portion of their undelivered 2020 contracted volumes to be delivered by November 2021, at the latest. As a result of the country wide shutdown imposed in Colombia on March 26, 2020, industrial, construction, and commercial demand for gas decreased significantly. As a result, the Corporation's natural gas spot sales demand and realized average sales prices have been impacted, which makes up a minority of the Corporation's natural gas portfolio. As of the date of this MD&A, the Colombian shutdown is gradually being lifted and the economy is showing recent signs of recovery, including a higher demand of the Corporation's spot sales as compared to the 2020 demand. Realized contractual natural gas sales in January 2021 and February 2021 were 177 Mcfpd and 187 Mcfpd, respectively, an increase of 4% and 10%, respectively, as compared to Q4 2020 realized contractual natural gas sales of 169.8 Mcfpd.

During the three months ended December 31, 2020, the Corporation spud the Pandereta-8 development well located on its VIM-5 block. The well reached 9,524 feet measured depth ("ft md") and encountered 168 feet true vertical depth ("TVD") of net gas pay within the Cienaga de Oro ("CDO") reservoir. The well tested at a final stable rate of 15.3 MMscfpd of dry gas. The well has been completed and will be tied into the manifold to be placed on production.

During the three months ended December 31, 2020, the Corporation spud the Fresa-1 exploration well located on its VIM-21 block. The well reached 8,495 ft md and encountered 14.5 feet TVD of net pay gas within the CDO sandstone reservoir. The well will be tied onto permanent production once completed.

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

Average Daily Production and Realized Contractual Sales Volumes

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

	Three months ended December 31,			Year ended December 31,		
	2020	2019	Change	**2020**	2019	Change
Natural Gas and LNG (MMscfpd)						
Natural gas and LNG production	**170,087**	180,986	(6%)	**171,126**	143,524	19%
Field consumption	**(443)**	(706)	(37%)	**(42)**	(1,501)	(97%)
Natural gas and LNG sales	**169,644**	180,280	(6%)	**171,084**	142,023	20%
Take-or-pay volumes (2)	**119**	473	(75%)	**516**	580	(11%)
Realized contractual natural gas and LNG sales	**169,763**	180,753	(6%)	**171,600**	142,603	20%
Colombia Oil (bopd)						
Crude oil production	**287**	309	(7%)	**291**	351	(17%)
Inventory movements and other	**13**	(8)	n/a	**(5)**	5	n/a
Colombia oil sales	**300**	301	—	**286**	356	(20%)
Corporate (boepd / bopd)						
Natural gas and LNG production	**29,840**	31,752	(6%)	**30,022**	25,180	19%
Colombia oil production	**287**	309	(7%)	**291**	351	(17%)
Total production	**30,127**	32,061	(6%)	**30,313**	25,531	19%
Field consumption and inventory	**(65)**	(132)	(51%)	**(12)**	(259)	(95%)
Total corporate sales	**30,062**	31,929	(6%)	**30,301**	25,272	20%
Take-or-pay volumes (2)	**21**	83	(75%)	**91**	102	(11%)
Total realized contractual sales	**30,083**	32,012	(6%)	**30,392**	25,374	20%

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 or LNG 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 or by the end of 2020, at the latest, alongside natural gas and LNG sales and take-or-pay income, and as such are included in deferred income for the period. The Corporation recognizes revenues associated with such make-up rights ("settlements") at the earlier of: a) when the make-up volume is delivered, b) the make-up right expires, or c) when it is determined that the likelihood that the off-taker will utilize the make-up right is remote.

The 6% decrease in the natural gas and LNG production volumes during the three months ended December 31, 2020, compared to the same period in 2019, is primarily due to the decrease in spot market sales as a result of the COVID-19 pandemic.

The 19% increase in the natural gas and LNG production volumes during the year ended December 31, 2020, compared to the same period in 2019, is due to the completion of the pipeline connecting the Corporation's natural gas processing facility to Cartagena, Colombia in late Q3 2019, offset by lower than anticipated spot market sales due to the COVID-19 pandemic. In addition, during the year ended December 31, 2020, certain off-takers under take-or-pay contracts delayed their deliveries due to COVID-19, which will be made up during the remainder of 2021.

Realized contractual natural gas and LNG sales for the three months and year ended December 31, 2020 averaged approximately 169.8 MMscfpd and 171.6 MMscfpd, respectively. Realized contractual sales is defined as natural gas and LNG produced and sold plus income received from nominated take-or-pay contracts without the actual delivery of natural gas or LNG and the expiry of the customers' rights to take the deliveries.

The decrease in Colombia oil production volumes during the three months and year ended December 31, 2020, compared to the same periods in 2019, is primarily due to natural production declines.

Revenues, Net of Royalties and Transportation Expenses

	Three months ended December 31,			Year ended December 31,		
	2020	2019	Change	**2020**	2019	Change
Natural Gas and LNG						
Natural gas and LNG revenues	**$ 79,787**	$ 87,763	(9%)	**$ 315,623**	$ 268,848	17%
Transportation expenses	**(7,554)**	(11,775)	(36%)	**(32,015)**	(22,224)	44%
Revenues, net of transportation expenses	**72,233**	75,988	(5%)	**283,608**	246,624	15%
Royalties	**(11,381)**	(11,746)	(3%)	**(43,264)**	(34,219)	26%
Revenues, net of royalties and transportation expenses	**$ 60,852**	$ 64,242	(5%)	**$ 240,344**	$ 212,405	13%
Colombia Oil						
Crude oil revenues	**$ 942**	$ 1,408	(33%)	**$ 3,377**	$ 6,733	(50%)
Transportation expenses	**(1)**	(9)	(89%)	**14**	(333)	n/a
Revenues, net of transportation expenses	**941**	1,399	(33%)	**3,391**	6,400	(47%)
Royalties	**(71)**	(106)	(33%)	**(257)**	(521)	(51%)
Revenues, net of royalties and transportation expenses	**$ 870**	$ 1,293	(33%)	**$ 3,134**	$ 5,879	(47%)
Corporate						
Natural gas and LNG revenues	**$ 79,787**	$ 87,763	(9%)	**$ 315,623**	$ 268,848	17%
Crude oil revenues	**942**	1,408	(33%)	**3,377**	6,733	(50%)
Total revenues	**80,729**	89,171	(9%)	**319,000**	275,581	16%
Royalties	**(11,452)**	(11,852)	(3%)	**(43,521)**	(34,740)	25%
Natural gas, LNG and crude oil revenues, net of royalties, as reported	**69,277**	77,319	(10%)	**275,479**	240,841	14%
Natural gas trading revenues	**2,195**	—	n/a	**2,195**	—	n/a
Take-or-pay natural gas and LNG income (2)	**59**	260	(77%)	**1,131**	1,238	(9%)
Total natural gas, LNG and crude oil revenues, after royalties, as reported	**71,531**	77,579	(8%)	**278,805**	242,079	15%
Transportation expenses	**(7,555)**	(11,784)	(36%)	**(32,001)**	(22,557)	42%
Total revenues, net of royalties and transportation expenses	**$ 63,976**	$ 65,795	(3%)	**$ 246,804**	$ 219,522	12%

Natural Gas and LNG Realized Contractual Sales

During the three months and year ended December 31, 2020, the Corporation realized $0.1 million and $1.1 million of take-or-pay income (as described in (2) on page six of this MD&A), respectively, which is equivalent to 0.1 MMscfpd and 0.5 MMscfpd, of natural gas and LNG sales, respectively, without actual delivery of the natural gas or LNG and the expiry of the customers' rights to take the deliveries.

As at December 31, 2020, the Corporation had deferred income of $12.7 million which related to undelivered natural gas and LNG sales nominations during for which the off-takers have a legal right to take delivery at a later maturity date within the next twelve months.

Natural Gas Transportation Expenses

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

Natural gas transportation expenses decreased 36% and increased 44% during the three months and year ended December 31, 2020, compared to the same periods in 2019, respectively, primarily due to the decrease and increase in natural gas sales volume subject to transportation expenses, as describe above, compared to the same periods in 2019, respectively.

Natural Gas Royalties

The Corporation's natural gas royalties are generally at a rate of 6.4%, until net field production reaches 5,000 boepd, at which point the royalty rates increase on a sliding scale up to a 20% maximum rate at 125,000 boepd field production. The Corporation's natural gas production is subject to an additional overriding royalty of 2% - 4%. The Corporation's VIM-5 and VIM-21 natural gas production is subject to additional x-factor royalty rates of 13% and 3%, respectively. The natural gas royalty rate was somewhat higher than prior periods at 15.8% and 15.3% during the three months and year ended December 31, 2020, respectively, mainly due to increased production at the Corporation's 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,		
	2020	2019	Change	**2020**	2019	Change
Average Benchmark Prices						
Henry Hub ($/Mcf)	**$ 2.77**	$ 2.42	14%	**$ 2.13**	$ 2.53	(16%)
Alberta Energy Company ($/Mcf)	**$ 2.18**	$ 1.88	16%	**$ 1.68**	$ 1.29	30%
Brent ($/bbl)	**$ 45.21**	$ 62.62	(28%)	**$ 43.28**	$ 64.24	(33%)
Average Sales Prices, Net of Transportation						
Natural gas and LNG ($/Mcf)	**$ 4.63**	$ 4.58	1%	**$ 4.53**	$ 4.76	(5%)
Colombia oil ($/bbl)	**$ 34.09**	$ 50.52	(33%)	**$ 32.40**	$ 49.25	(34%)
Corporate average ($/boe)	**$ 26.46**	$ 26.34	—	**$ 25.88**	$ 27.43	(6%)

The sales prices of the Corporation's natural gas sales contracts are largely fixed, with a portion of its portfolio sold on the spot market. The 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 increase in average natural gas and LNG sales prices, net of transportation during the three months ended December 31, 2020 is due to a higher demand of spot sales, compared to the same period in 2019.

The decrease in average natural gas and LNG sales prices, net of transportation during the year ended December 31, 2020, compared to the same period in 2019, is mainly due to lower demand of spot sales as a result of the COVID-19 pandemic.

The decrease in average crude oil sales prices during the three months and year ended December 31, 2020, compared to the same periods in 2019, is mainly due to decreased benchmark crude oil prices.

Operating Expenses

	Three months ended December 31,					Year ended December 31,				
		2020		2019	Change		**2020**		2019	Change
Natural gas and LNG	**$**	**4,961**	$	4,798	3%	**$**	**16,815**	$	14,628	15%
Colombia oil		**234**		543	(57%)		**1,190**		2,510	(53%)
Total operating expenses	**$**	**5,195**	$	5,341	(3%)	**$**	**18,005**	$	17,138	5%
Natural gas and LNG ($/Mcf)	**$**	**0.32**	$	0.29	10%	**$**	**0.27**	$	0.28	(4%)
Colombia oil ($/bbl)	**$**	**8.48**	$	19.61	(57%)	**$**	**11.37**	$	19.32	(41%)
Corporate ($/boe)	**$**	**1.88**	$	1.82	3%	**$**	**1.62**	$	1.86	(13%)

Natural gas and LNG operating expenses per Mcf increased 10% to $0.32 per Mcf for the three months ended December 31, 2020, compared to $0.29 per Mcf for the same period in 2019. The increase is mainly due to delayed maintenance activities during the first half of the year as a result of COVID-19 which were made up in the last half of the year. In addition, lower natural gas sales volumes during the three months ended December 31, 2020, compared to the same period in 2019, resulted in higher operating expenses per Mcf due to the majority of the Corporation's operating expenses being fixed.

Natural gas and LNG operating expenses per Mcf decreased 4% to $0.27 per Mcf for the year ended December 31, 2020, compared to $0.28 per Mcf for the same period in 2019. The decrease is mainly attributable to the increase in natural gas sales volumes as a result of the pipeline expansion in late Q3 2019 since the majority of the Corporation's operating expenses are fixed.

Operating Netbacks

	Three months ended December 31,					Year ended December 31,				
$/Mcf		**2020**		2019	Change		**2020**		2019	Change
Natural Gas and LNG										
Revenue, net of transportation expense	**$**	**4.63**	$	4.58	1%	**$**	**4.53**	$	4.76	(5%)
Royalties		**(0.73)**		(0.71)	3%		**(0.69)**		(0.66)	5%
Operating expenses		**(0.32)**		(0.29)	10%		**(0.27)**		(0.28)	(4%)
Operating netback	**$**	**3.58**	$	3.58	—	**$**	**3.57**	$	3.82	(7%)

	Three months ended December 31,					Year ended December 31,				
$/bbl		**2020**		2019	Change		**2020**		2019	Change
Colombia oil										
Revenue, net of transportation expense	**$**	**34.09**	$	50.52	(33%)	**$**	**32.40**	$	49.25	(34%)
Royalties		**(2.57)**		(3.83)	(33%)		**(2.46)**		(4.01)	(39%)
Operating expenses		**(8.48)**		(19.61)	(57%)		**(11.37)**		(19.32)	(41%)
Operating netback	**$**	**23.04**	$	27.08	(15%)	**$**	**18.57**	$	25.92	(28%)

	Three months ended December 31,					Year ended December 31,				
$/boe		**2020**		2019	Change		**2020**		2019	Change
Corporate										
Revenue, net of transportation expense	**$**	**26.46**	$	26.34	—	**$**	**25.88**	$	27.43	(6%)
Royalties		**(4.14)**		(4.03)	3%		**(3.92)**		(3.77)	4%
Operating expenses		**(1.88)**		(1.82)	3%		**(1.62)**		(1.86)	(13%)
Operating netback	**$**	**20.44**	$	20.49	—	**$**	**20.34**	$	21.80	(7%)

General and Administrative Expenses

	Three months ended December 31,			Year ended December 31,		
	2020	2019	Change	**2020**	2019	Change
Gross costs	**$ 9,783**	$ 14,449	(32%)	**$ 32,513**	$ 35,337	(8%)
Less: capitalized amounts	**(1,885)**	(2,282)	(17%)	**(5,684)**	(6,364)	(11%)
General and administrative expenses	**$ 7,898**	$ 12,167	(35%)	**$ 26,829**	$ 28,973	(7%)
$/boe	**$ 2.86**	$ 4.14	(31%)	**$ 2.42**	$ 3.14	(23%)

General and administrative ("G&A") gross costs decreased 32% during the three months ended December 31, 2020, compared to the same period in 2019, mainly due to certain year-end annual costs typically paid at year-end now being accrued on a quarterly basis throughout the year, in addition to severance costs paid in Q4 2019.

G&A gross costs decreased 8% during the year ended December 31, 2020, compared to the same period in 2019, due to lower personnel costs, including severance costs paid in 2019 and the devaluation of the COP and Canadian dollar ("CAD") relative to the USD during the year ended December 31, 2020.

G&A per boe decreased 31% and 23% during the three months and year ended December 31, 2020, compared to the same periods in 2019, respectively. The decrease is mainly due to lower G&A costs and the increase of natural gas production during the year ended December 31, 2020. Gross costs are expected to remain flat as the Corporation's production base grows, which will result in the G&A per boe to further decrease going forward.

Net Finance Expense

	Three months ended December 31,			Year ended December 31,		
	2020	2019	Change	**2020**	2019	Change
Net financing expense paid	**$ 7,533**	$ 7,486	1%	**$ 28,662**	$ 29,505	(3%)
Non-cash net financing expenses	**891**	835	7%	**2,350**	3,397	(31%)
Net finance expense	**$ 8,424**	$ 8,321	1%	**$ 31,012**	$ 32,902	(6%)

Net finance expense decreased during the year ended December 31, 2020, compared to the same period in 2019, mainly as a result of: i) interest income of $1 million earned on proceeds owed to the Corporation related to a litigation settlement ruled in favor of the Corporation and ii) a gain on debt modification of $1.2 million related to the Bank Debt modification.

Stock-Based Compensation Expense and Restricted Share Units

	Three months ended December 31,			Year ended December 31,		
	2020	2019	Change	**2020**	2019	Change
Stock-based compensation expense	**$ (109)**	$ 581	n/a	**$ 1,509**	$ 3,398	(56%)
Restricted share unit expense	**639**	746	(14%)	**4,400**	4,523	(3%)
Stock-based compensation and restricted share unit expense	**$ 530**	$ 1,327	(60%)	**$ 5,909**	$ 7,921	(25%)

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

Stock-based compensation expense decreased during the year ended December 31, 2020, compared to the same period in 2019, due to the reduction of the fair value of the stock options granted as a result of the impact of the Corporation's 2020 dividend distribution.

Depletion and Depreciation Expense

	Three months ended December 31,			Year ended December 31,		
	2020	2019	Change	**2020**	2019	Change
Depletion and depreciation expense	**$ 16,314**	$ 16,842	(3%)	**$ 64,539**	$ 54,283	19%
$/boe	**$ 5.90**	$ 5.73	3%	**$ 5.82**	$ 5.88	(1%)

Depletion and depreciation expense decreased 3% during the three months ended December 31, 2020, compared to the same period in 2019, mainly due to lower natural gas production.

Depletion and depreciation expense increased 19% during the year ended December 31, 2020, compared to the same period in 2019, primarily as a result of higher natural gas production, depletion of the Jobo 3 natural gas processing facility, depletion of the LNG plant costs and depletion of the Rancho Hermoso block, previously not being depleted as it was classified as an asset held for sale since Q3 2019.

Income Tax Expense

	Three months ended December 31,		Year ended December 31,	
	2020	2019	**2020**	2019
Current income tax expense	**$ 8,082**	$ 9,302	**$ 30,769**	$ 32,058
Deferred income tax expense (recovery)	**12,067**	(15,632)	**51,370**	(1,571)
Income tax expense (recovery)	**$ 20,149**	$ (6,330)	**$ 82,139**	$ 30,487

The Corporation's pre-tax income was subject to the Colombian statutory income tax rate of 32% for the three months and year ended December 31, 2020. The Colombian statutory income tax rate will decrease to 31% on January 1, 2021 and then to 30% on January 1, 2022.

During the year ended December 31, 2020, the Corporation recognized a deferred tax expense of $51.4 million (2019 - deferred tax recovery of $1.6 million) mainly related to a valuation allowance of $37.9 million and the foreign exchange impact on the Corporation's unused tax losses and capital pools of $8.8 million.

During the year ended December 31, 2020, in an effort to simplify Canacol's organizational structure, the Corporation merged certain entities (the "Merger") by way of an absorptive merger process as permitted under Colombian law. The absorbing entity had non-capital losses which were previously recognized as a deferred tax asset. Subsequent to the completion of the Merger, Colombia's Council of State issued a unification ruling concerning the treatment of tax losses in the context of mergers. This ruling significantly limits the ability of the absorbing entity to utilize its existing losses post merger. For more than fifteen years it has been accepted by the Colombian Taxation Authorities and in decisions of the Council of State, that, in the case of mergers, the absorbing company can utilize 100% of its tax losses accumulated up to the merger to offset future profits realized after the merger. The Corporation is in the process of presenting a Constitutional challenge against the interpretation of the relevant article in Colombia's Tax Statute in the Constitutional Court on the basis that such new interpretation violates the constitutional principles of Tax Justice, Equity and Neutrality and that based on the new interpretation of the Council of State, the relevant part of the article must be declared unconstitutional. As the outcome of the challenge is currently unknown, the Corporation has recognized a valuation allowance of $29.8 million in association with such non-capital losses. In the event that the Constitutional Court challenge is successful, at that time, the Corporation will recognize a deferred tax asset and realize a deferred tax recovery as it will have the ability to utilize the losses against future taxable income. This process is expected to be resolved within the next year.

Assets and Liabilities Held for Sale

During the year ended December 31, 2019, the Corporation classified costs and corresponding liabilities related to its Rancho Hermoso block as assets and liabilities held for sale due to its intention to sell its working interest within one year of December 31, 2019. As at December 31, 2019, the held for sale assets and liabilities were recognized at their carrying amounts of $8 million and $10.6 million, respectively, which were the lower of their carrying amounts and estimated fair value less cost to sell.

During the year ended December 31, 2020, the Corporation reclassified certain costs and decommissioning obligations related to its Rancho Hermoso block from assets and liabilities previously held for sale since the disposal of such block within the next twelve months was no longer highly probable.

Capital Expenditures

	Three months ended December 31,		Year ended December 31,	
	2020	2019	**2020**	2019
Drilling and completions	**$ 14,797**	$ 3,828	**$ 44,434**	$ 33,609
Facilities, workovers and infrastructure	**7,995**	4,895	**24,516**	35,829
Land, seismic, communities and other	**1,637**	6,162	**10,874**	27,258
Capitalized G&A	**1,885**	2,282	**5,684**	6,364
Net proceeds on disposition of property, plant and equipment	**(56)**	(407)	**(114)**	(12,379)
Net cash capital expenditures	**26,258**	16,760	**85,394**	90,681
Non-cash costs and adjustments:				
Right-of-Use leased assets	**239**	4,285	**1,664**	8,797
Disposition	**(142)**	(263)	**(295)**	(2,797)
Other non-cash costs and adjustments[1]	**3,011**	732	**(2,799)**	3,806
Net capital expenditures	**$ 29,366**	$ 21,514	**$ 83,964**	$ 100,487
Net capital expenditures recorded as:				
Expenditures on exploration and evaluation assets	**$ 8,747**	$ 9,437	**$ 25,511**	$ 36,778
Expenditures on property, plant and equipment	**20,817**	12,747	**58,862**	78,885
Disposition	**(198)**	(670)	**(409)**	(15,176)
Net capital expenditures	**$ 29,366**	$ 21,514	**$ 83,964**	$ 100,487

[1] Other non-cash costs and adjustments relate to change in estimates related to decommissioning obligations.

Net capital expenditures during the three months ended December 31, 2020 are primarily related to:

- Drilling and completion of the Pandereta-4 development well;
- Drilling and completion of the Fresa-1 exploration well;
- Workovers and facility costs at the Esperanza block; and
- Pre-drilling costs of the Oboe-2 development well and the Flauta-1 exploration well.

Liquidity and Capital Resources

Foreign Currency Risk

As at December 31, 2020, the COP to the USD exchange rate was 3,433:1 (December 31, 2019 – 3,277:1) and the CAD to USD exchange rate was 1.27:1 (December 31, 2019 – 1.30:1). The 5% devaluation of the COP and 2% valuation of CAD resulted in the reduction of certain expenditures and liabilities as at and during the year ended December 31, 2020. In addition, $8.8 million of the total deferred income tax expense of $51.4 million recognized during the year ended December 31, 2020 was as a result of the devaluation of COP to USD.

During the year ended December 31, 2020, the Corporation held a foreign exchange contract under the following terms:

Term	Principal	Type	Exchange Rate Range
August 2019 - July 2020	$2.5 million	COP to USD foreign exchange collar	3,383:1 - 3,535:1

The foreign exchange contract has expired as at December 31, 2020 and the Corporation has not entered into a new contract.

As a result of recent world events, the Corporation benefited from the depreciation of the COP and the CAD. The decline of the COP against the USD effectively reduces COP denominated expenditures including capital expenditures, operating costs and G&A for 2020, as compared to the Corporation's original budget estimates.

The Corporation's foreign exchange contract, which was historically 'in the money', partially reduced the savings until its expiry in July 2020.

Capital Management

The Corporation's policy is to maintain a strong capital base in order to provide flexibility in the future development of the business and maintain investor, creditor and market confidence. The Corporation manages its capital structure and makes adjustments in response to changes in economic conditions and the risk characteristics of the underlying assets. The Corporation considers its capital structure to include share capital, long-term debt, litigation settlement liability, lease obligations and working capital, defined as current assets less current liabilities excluding current portion of long-term obligations. In order to maintain or adjust the capital structure, from time to time the Corporation may issue or repurchase common shares or other securities, sell assets or adjust its capital spending to manage current and projected debt levels. During the three months and year ended December 31, 2020, the Corporation repurchased 1,187,400 and 2,011,123 common shares of the Corporation, at a cost of $3.2 million and $5.5 million, including transaction fees, respectively.

On April 21, 2020, the Corporation entered into a credit agreement with Banco de Occidente ("Operating Loan") and withdrew a $5 million principal amount denominated in COP, for additional COP liquidity purposes, if required, subject to an annual interest rate of Reference Bank Indicator ("IBR") + 2% (IBR was 2.9% at the agreement date). The IBR is a Colombian central bank short-term reference interest rate for lendings denominated in COP, which reflects the price at which banks are willing to offer or raise resources on the money market. The principal payment term consists of two equal installments, one of which was paid on October 18, 2020 with the balance due on April 16, 2021.

On June 11, 2020, the Corporation paid the first $2.7 million principal payment of Bank Debt. On June 30, 2020, the Corporation entered into an agreement to amend the terms of the Bank Debt. The agreement included revision of the following terms: i) the original fixed interest rate of 6.875% was revised to a floating interest rate of LIBOR + 4.25% (LIBOR rate was 0.3% at the amendment date) and ii) the original eleven equal quarterly principal payments, which commenced on June 11, 2020, were revised to seven equal quarterly principal payments to commence on December 11, 2021.

On July 31, 2020, the Corporation entered into a $46 million senior unsecured revolving credit facility (the "RCF") and a $75 million senior unsecured bridge term loan (the "Bridge Loan") with a syndicate of banks. The Bridge Loan is intended to be used to construct and own a pipeline from the Corporation's operations to Medellin, Colombia (the "Project"). The Bridge Loan bears an interest rate of LIBOR + 4.25%, a two-year term, and the Corporation's ability to repay the Bridge Loan at any time within the term without penalty. The RCF bears an interest rate of LIBOR + 4.75%, a three-year term, and the Corporation's ability to repay/redraw the RCF at any time within the term without penalty. Canacol will pay a commitment fee on the Bridge Loan and RCF of 30% of the respective interest margins of 4.25% and 4.75% on any undrawn amounts throughout the term.

On August 28, 2020, the Corporation withdrew the initial $25 million of the Bridge Loan, net of transaction costs of $3.1 million, which will be used for initial engineering costs and environmental licensing related to the Project. The remaining $50 million is available to be drawn at any time up to twelve months from the closing date and is currently budgeted for Project construction materials. The RCF remains undrawn as at December 31, 2020.

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

The Corporation's Senior Notes, Bank Debt and Bridge Loan include various non-financial covenants relating to indebtedness, operations, investments, assets sales, capital expenditures and other standard operating business covenants. The bank debt is also subject to various financial covenants, including a maximum consolidated total debt, less cash and cash equivalents, to twelve months trailing EBITDAX ratio ("Consolidated Leverage Ratio") of 3.50:1.00 and a minimum twelve months trailing EBITDAX to interest expense, excluding non-cash expenses, ratio ("Consolidated Interest Coverage Ratio") of 2.50:1.00. As at December 31, 2020, the Corporation was in compliance with the covenants.

		December 31, 2020		December 31, 2019
Senior Notes - principal (7.25%)	$	320,000	$	320,000
Bank Debt - principal (LIBOR + 4.25%)		30,000		30,000
Bridge Loan - principal (LIBOR + 4.25%)		25,000		—
Operating loan - principal (IBR + 2%)		2,913		—
Litigation settlement liability (8.74%)		14,353		15,848
Lease obligation (5.1%)		22,943		27,098
Total debt		415,209		392,946
Less: working capital surplus		(73,404)		(50,676)
Net debt	**$**	**341,805**	**$**	**342,270**

The Consolidated Leverage Ratio is calculated as follows:

		December 31, 2020		December 31, 2019
Total debt	$	415,209	$	392,946
Less: cash and cash equivalents		(68,280)		(41,239)
Net debt for covenant purposes	$	346,929	$	351,707
EBITDAX	$	187,528	$	167,515
Consolidated Leverage Ratio		**1.85**		**2.10**

The Consolidated Interest Coverage Ratio is calculated as follows:

		December 31, 2020		December 31, 2019
EBITDAX	$	187,528	$	167,515
Interest expense, excluding non-cash expenses	$	30,788	$	30,788
Consolidated Interest Coverage Ratio		**6.09**		**5.44**

As at March 17, 2021, the Corporation had 179.5 million common shares, 12.7 million stock options and no 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 December 31, 2020:

		Less than 1 year		1-3 years		Thereafter		Total
Long-term debt – principal	$	7,199	$	50,714	$	320,000	$	377,913
Lease obligations – undiscounted		5,254		8,220		12,669		26,143
Trade and other payables		45,176		—		—		45,176
Dividend payable		7,332		—		—		7,332
Taxes payable		12,916		—		—		12,916
Litigation settlement liability		574		1,354		12,425		14,353
Other long term obligations		—		3,131		—		3,131
Restricted share units		1,966		—		—		1,966
Exploration and production contracts		22,767		14,446		4,653		41,866
Compression station operating contracts		2,608		5,374		11,413		19,395
	$	**105,792**	**$**	**83,239**	**$**	**361,160**	**$**	**550,191**

Letters of Credit

At December 31, 2020, the Corporation had letters of credit outstanding totaling $79.5 million to guarantee work commitments on exploration blocks and to guarantee other contractual commitments, of which $11.3 million relates to certain assets previously sold, which are scheduled to be transferred to Arrow no later than the end of 2021. Subsequent to December 31, 2020, $7.2 million of the $11.3 million of the Arrow letters credit were cancelled.

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, 2020 of $41.9 million and has issued $30.3 million in financial guarantees related thereto.

Related Party Transactions

The Corporation holds five million shares of Arrow Exploration Ltd. ("Arrow") valued at $0.5 million as at December 31, 2020 (2019 - $0.8 million). Two members of key management of Canacol are also members of the board of directors of Arrow.

OUTLOOK

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

CANACOL ENERGY LTD.

SUMMARY OF QUARTERLY RESULTS

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

	2020				2019			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Financial								
Total natural gas, LNG and crude oil revenues, net of royalties and transportation expense	**63,976**	57,429	54,405	70,994	65,795	56,634	47,689	49,404
Adjusted funds from operations[1]	**35,251**	33,409	31,181	45,281	33,004	36,420	25,583	29,907
Per share – basic ($)[1]	**0.20**	0.18	0.17	0.25	0.18	0.20	0.14	0.17
Per share – diluted ($)[1]	**0.20**	0.18	0.17	0.25	0.18	0.20	0.14	0.17
Net income (loss) and comprehensive income (loss)[2]	**921**	2,609	17,715	(25,988)	25,432	663	1,878	6,274
Per share – basic ($)	**0.01**	0.01	0.10	(0.14)	0.14	—	0.01	0.03
Per share – diluted ($)	**0.01**	0.01	0.10	(0.14)	0.14	—	0.01	0.03
EBITDAX[1]	**45,941**	42,303	40,415	58,870	43,144	46,037	37,008	39,822
Weighted average shares outstanding – basic	**179,764**	180,980	180,916	180,931	179,238	178,273	177,381	177,547
Weighted average shares outstanding – diluted	**179,764**	181,495	181,484	181,811	181,412	180,873	178,979	179,637
Capital expenditures, net	**29,366**	26,437	8,269	19,892	21,514	30,806	13,442	34,725
Operations								
Natural gas, LNG and crude oil production, before royalties[1]								
Natural gas and LNG (MMscfpd)	**170,087**	162,012	151,127	201,398	180,986	147,630	121,496	123,291
Colombia oil (bopd)	**287**	317	245	315	309	322	342	433
Total (boepd)	**30,127**	28,740	26,758	35,648	32,061	26,222	21,657	22,063
Realized contractual sales, before royalties[1]								
Natural gas and LNG (MMscfpd)	**169,763**	162,984	152,248	201,524	180,753	146,439	120,515	122,025
Colombia oil (bopd)	**300**	347	197	298	301	329	356	440
Total (boepd)	**30,083**	28,941	26,907	35,653	32,012	26,020	21,499	21,848
Operating netbacks ($/boe)[1]								
Natural gas and LNG ($/Mcf)	**3.58**	3.47	3.63	3.60	3.58	3.86	3.88	4.03
Colombia oil ($/bbl)	**23.04**	17.04	12.16	20.13	27.08	24.34	29.20	23.64
Corporate ($/boe)	**20.44**	19.76	20.61	20.49	20.49	22.06	22.27	23.00

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

(2) During the year ended December 31, 2020, the Corporation realized a net loss of $4.6 million solely as a result of a non-cash deferred tax expense of $51.2 million related mainly to the de-recognition of certain deferred tax assets related to non-capital losses (refer to the “Income Tax Expense” section of this MD&A for further details).

SUMMARY OF ANNUAL INFORMATION

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

Year ended December 31,	2020	2019	2018
Financial			
Total natural gas and crude oil revenues, net of royalties and transportation expense	**246,804**	219,522	204,151
Net income (loss) and comprehensive income (loss)[3]	**(4,743)**	34,247	(21,835)
Per share – basic ($)	**(0.03)**	0.19	(0.12)
Per share – diluted ($)	**(0.03)**	0.19	(0.12)
Adjusted funds from operations[1]	**145,122**	124,915	104,914
Per share – basic ($)[1]	**0.80**	0.70	0.59
Per share – diluted ($)[1]	**0.80**	0.69	0.59
EBITDAX[1]	**187,528**	167,515	136,876
Cash	**68,280**	41,239	51,632
Total assets	**749,792**	754,062	705,003
Total debt	**415,209**	392,946	388,222
Capital expenditures, net	**83,964**	100,487	127,591
Operating			
Natural gas and crude oil production, before royalties[1]			
Natural gas (Mcfpd)	**171,126**	143,524	112,102
Colombia oil (bopd)	**291**	351	1,546
Total (boepd)[2]	**30,313**	25,531	21,213
Realized contractual sales, before royalties[1]			
Natural gas (Mcfpd)	**171,600**	142,603	113,261
Colombia oil (bopd)	**286**	356	1,581
Total (boepd)[2]	**30,392**	25,374	21,451
Operating netbacks ($/boe)[1]			
Natural gas ($/Mcf)	**3.57**	3.82	3.80
Colombia oil ($/bbl)	**18.57**	25.92	31.18
Corporate ($/boe)[2]	**20.34**	21.80	22.42

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

(2) The Corporation has excluded results relating to the Ecuador IPC in the year ended December 31, 2018 for comparative purposes.

(3) During the year ended December 31, 2020, the Corporation realized a net loss of $4.6 million as a result of a non-cash deferred tax expense of $51.2 million related mainly to the de-recognition of certain deferred tax assets for non-capital losses (refer to the "Income Tax Expense" section of this MD&A for further details).

RISKS AND UNCERTAINTIES

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

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

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

The Corporation is exposed to foreign exchange and currency risk as a result of fluctuations in exchange rates through its cash deposits and investments denominated in the COP and the CAD. Most of the Corporation's revenues and funds from financing activities are expected to be received in reference to USD denominated prices while a portion of its operating, capital, and general and administrative costs are denominated in COP and CAD. During the year ended December 31, 2019, the Corporation entered into a COP to USD foreign exchange collar to mitigate its foreign exchange risk. The foreign exchange collar expired in July 2020. During the year ended December 31, 2020, the Corporation has not entered into any foreign currency hedges.

The majority of the Corporation's interest bearing debt, including the Senior Notes and the Litigation Settlement Liability, are subject to fixed interest rates, which limits the Corporation's exposure to interest rate risk. The Corporation's Bank Debt, Bridge Loan and the Operating Loan are subject to variable interest rates. The remainder of the Corporation's financial assets and liabilities are not exposed to interest rate risk.

Fluctuations in natural gas spot prices will not only impact revenues of the Corporation but may also impact the Corporation's ability to raise capital, if required, which is not currently anticipated. 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 sales being under fixed priced contracts.

The Corporation's policy is to enter into agreements with customers that are well established and well-financed entities 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 trade accounts receivable.

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

A more comprehensive discussion of risks and uncertainties is contained in the Corporation's Annual Information Form for the year ended December 31, 2020 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 year ended December 31, 2020. 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, 2020. Based on this assessment, it was concluded that the design and operation of the Corporation's DC&P are effective as at December 31, 2020.

Internal Controls over Financial Reporting

The CEO and CFO, along with participation from other members of management, are responsible for establishing and maintaining adequate Internal Control over Financial Reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial statements prepared in accordance with IFRS. The Corporation's CEO and CFO, with support of management have assessed the design and operating effectiveness of the Corporation's ICFR as at December 31, 2020 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, 2020.

During the three months ended December 31, 2020, 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.