CANACOL ENERGY LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS
THREE AND SIX MONTHS ENDED JUNE 30, 2019

FINANCIAL & OPERATING HIGHLIGHTS

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

Financial	Three months ended June 30,			Six months ended June 30,		
	2019	2018	Change	**2019**	2018	Change
Total natural gas and crude oil revenues, net of royalties and transportation expense	**47,689**	52,397	(9%)	**97,093**	100,026	(3%)
Funds from operations(1)	**25,583**	28,252	(9%)	**55,491**	49,833	11%
Per share – basic ($)(1)	**0.14**	0.16	(13%)	**0.31**	0.29	7%
Per share – diluted ($)(1)	**0.14**	0.16	(13%)	**0.31**	0.28	11%
Net income (loss) and comprehensive income (loss)	**1,878**	(25,979)	n/a	**8,152**	(17,701)	n/a
Per share – basic ($)	**0.01**	(0.15)	n/a	**0.05**	(0.10)	n/a
Per share – diluted ($)	**0.01**	(0.15)	n/a	**0.05**	(0.10)	n/a
EBITDAX(1)	**37,008**	33,617	10%	**76,830**	67,228	14%
Weighted average shares outstanding – basic	**177,381**	177,018	—	**177,464**	176,796	—
Weighted average shares outstanding – diluted	**178,979**	178,742	—	**179,282**	178,669	—
Capital expenditures, net, including acquisitions	**13,442**	31,111	(57%)	**48,167**	71,305	(32%)
				Jun 30, 2019	Dec 31, 2018	Change
Cash and cash equivalents				**28,676**	51,632	(44%)
Restricted cash				**4,558**	4,196	9%
Working capital surplus				**47,077**	60,782	(23%)
Total debt				**392,351**	388,222	1%
Total assets				**712,592**	705,003	1%
Common shares, end of period (000's)				**177,402**	177,462	—

Operating	Three months ended June 30,			Six months ended June 30,		
	2019	2018	Change	**2019**	2018	Change
Natural gas and crude oil production, before royalties(1)						
Natural gas (Mcfpd)	**121,496**	111,446	9%	**122,385**	108,368	13%
Colombia oil (bopd)(2)	**342**	1,967	(83%)	**387**	1,946	(80%)
Total (boepd)(3)	**21,657**	21,519	1%	**21,858**	20,958	4%
Realized contractual sales, before royalties(1)						
Natural gas (Mcfpd)	**120,515**	111,931	8%	**121,265**	109,149	11%
Colombia oil (bopd)(2)	**356**	1,903	(81%)	**398**	1,900	(79%)
Total (boepd)(3)	**21,499**	21,540	—	**21,673**	21,049	3%
Operating netbacks(1)						
Natural gas ($/Mcf)	**3.88**	3.81	2%	**3.96**	3.76	5%
Colombia oil ($/bopd)(2)	**29.20**	35.30	(17%)	**26.13**	34.26	(24%)
Corporate ($/boe)(3)	**22.27**	22.90	(3%)	**22.64**	22.59	—

(1) Non-IFRS measures – see "Non-IFRS Measures" section within MD&A.
(2) Decreased in the three and six months ended June 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 August 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 six months ended June 30, 2019 and 2018 ("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, 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 June 30,		Six months ended June 30,	
	2019	2018	**2019**	2018
Cash flow provided by operating activities	**$ 9,027**	$ 19,252	**$ 34,282**	$ 39,120
Changes in non-cash working capital	**16,557**	9,000	**18,468**	10,713
Settlement of decommissioning obligations	**—**	—	**2,741**	—
Funds from operations	**$ 25,584**	$ 28,252	**$ 55,491**	$ 49,833

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

	2018		2019		
	Q3	Q4	Q1	Q2	Rolling
Net income (loss) and comprehensive income (loss)	$ 12,138	$ (16,272)	$ 6,274	$ 1,878	$ 4,018
(+) Interest expense	8,225	8,249	7,737	7,631	31,842
(+/-) Income taxes (recovery)	(2,738)	22,189	4,765	10,282	34,498
(+) Depletion and depreciation	10,636	11,802	12,689	11,737	46,864
(+) Exploration expenses	1,844	745	171	2,211	4,971
(+/-) Other non-cash expenses and non-recurring items	5,901	6,727	8,186	3,269	24,083
EBITDAX	**$ 36,006**	**$ 33,440**	**$ 39,822**	**$ 37,008**	**$ 146,276**

In addition to the above, management uses working capital and operating netback measures. Working capital is calculated as current assets less current liabilities, excluding any non-cash items and 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 June 30, 2019 Financial and Operational Highlights

- Realized contractual natural gas sales increased 8% to 120.5 MMscfpd for the three months ended June 30, 2019, compared to 111.9 MMscfpd for the same period in 2018. Average natural gas production volumes increased 9% to 121.5 MMscfpd for the three months ended June 30, 2019, compared to 111.4 MMscfpd for the same period in 2018. The increases are primarily due to the increase in natural gas sales as a result of the Sabanas pipeline and compressors operating at full capacity.
- Total natural gas revenue, net of royalties and transportation expenses for the three months ended June 30, 2019, increased 8% to $45.7 million, compared to $42.4 million for same period in 2018, mainly attributable to the increase of natural gas production.
- The Corporation realized an EBITDAX of $37 million for the three months ended June 30, 2019, compared to $33.6 million for the same period in 2018.
- The Corporation recorded a net income of $1.9 million for the three months ended June 30, 2019, compared to a net loss of $26 million for the same period in 2018.
- The Corporation's natural gas operating netback increased 2% to $3.88 per Mcf in the three months ended June 30, 2019, compared to $3.81 per Mcf for the same period in 2018. The increase is mainly attributable to a 26% reduction of operating expenses to $0.31 per Mcf for the three months ended June 30, 2019, compared to $0.42 per Mcf for the same period in 2018.
- Funds from operations decreased 9% to $25.6 million for the three months ended June 30, 2019, compared to $28.3 million for the same period in 2018, mainly due to a decrease in net oil revenues, as a result of the sale of the Corporation's petroleum assets in 2018.
- Net capital expenditures for the three months ended June 30, 2019 were $13.4 million. Net capital expenditures included a non-cash net addition relating to decommissioning obligations and right-of-use leased assets of $0.3 million and were net of the $14.5 million disposition of working interest of the Sabanas flowline during the three months ended June 30, 2019.
- As at June 30, 2019, the Corporation had $28.7 million in cash and cash equivalents, $4.6 million in restricted cash and $47.1 million in working capital surplus.

Results of Operations

For the three months ended June 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 and Oboe 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 June 30, 2019, the Corporation drilled the Nelson-7 development well on its Esperanza block and reached a total depth of 9,300 feet measured depth. The well encountered 56 feet true vertical depth ("ft TVD") of net gas pay in the shallow Porquero sandstone reservoir and 165 ft TVD of net gas pay in the Cienega de Oro ("CDO") sandstone reservoir. The interval production test flowed at a final rate of 29 MMscfpd and the average flow rate for the entire period was 15 MMscfpd. The well has been cased and placed on permanent production.

During the three months ended June 30, 2019, the Corporation drilled the Acordeon-1 and Ocarina-1 exploration wells on its VIM-5 block. The Acordeon-1 exploration well is located approximately four kilometers south-east of the Corporation's Clarinete field. The Acordeon-1 exploration well reached a total depth of 8,500 ft TVD in fourteen days. The well encountered 420 feet of gross gas pay between 7,646 and 8,066 ft TVD within the primary CDO sandstone reservoir target. The interval production test between 7,706 and 7,862 ft TVD flowed at a final rate of 33 MMscfpd. The Ocarina-1 exploration well was spud on June 10, 2019 and reached a total depth of 8,751 ft TVD in fifteen days. The well encountered 530 feet of gross gas pay between 6,384 and 6,914 ft TVD within the primary CDO sandstone reservoir target. The interval production test between 6,444 and 6,457 ft TVD flowed at a final rate of 30.4 MMscfpd. The average flow rate for the entire testing period was 16 MMscfpd. The wells were tied into the Jobo production facility via the Pandereta flow line and brought onto permanent production.

In June 2019, the expansion of the Jobo 3 natural gas processing facility was completed, lifting Canacol's natural gas treatment capacity from current levels of 200 MMscfpd to 330 MMscfpd in advance of the completion of the Promigas pipeline expansion on July 25, 2019.

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 June 30,			Six months ended June 30,		
	2019	2018	Change	**2019**	2018	Change
Natural Gas (Mcfpd)						
Natural gas production	**121,496**	111,446	9%	**122,385**	108,368	13%
Field consumption	**(1,710)**	(1,208)	42%	**(1,767)**	(980)	80%
Natural gas sales	**119,786**	110,238	9%	**120,618**	107,388	12%
Take-or-pay volumes	**729**	1,693	(57%)	**647**	1,761	(63%)
Realized Contractual Natural Gas Sales	**120,515**	111,931	8%	**121,265**	109,149	11%
Colombia Oil (bopd)						
Crude oil production	**342**	1,967	(83%)	**387**	1,946	(80%)
Inventory movements and other	**14**	(64)	n/a	**11**	(46)	n/a
Colombia Oil Sales	**356**	1,903	(81%)	**398**	1,900	(79%)
Corporate						
Natural gas production (boepd)	**21,315**	19,552	9%	**21,471**	19,012	13%
Colombia oil production (bopd)	**342**	1,967	(83%)	**387**	1,946	(80%)
Total production (boepd)	**21,657**	21,519	1%	**21,858**	20,958	4%
Field consumption and inventory (boepd)	**(286)**	(276)	4%	**(299)**	(218)	37%
Total Corporate Sales (boepd)	**21,371**	21,243	1%	**21,559**	20,740	4%
Take-or-pay volumes (boepd)	**128**	297	(57%)	**114**	309	(63%)
Total realized contractual sales (boepd)	**21,499**	21,540	—	**21,673**	21,049	3%

The increase in natural gas production volumes during the three and six months ended June 30, 2019, compared to the same periods in 2018, is primarily as a result of the Sabanas pipeline and compressors operating at full capacity in 2019, offset by an increase in off-taker's contractual maintenance downtime taken in the first six months of the year.

The decrease in Colombia oil production volumes during the three and six months ended June 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 six months ended June 30, 2019 averaged approximately 120.5 and 121.3 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 June 30,			Six months ended June 30,		
	2019	2018	Change	**2019**	2018	Change
Natural Gas						
Natural gas revenues	**$ 54,801**	$ 53,237	3%	**$ 110,519**	$ 101,562	9%
Transportation expenses	**(2,134)**	(4,607)	(54%)	**(3,535)**	(8,500)	(58%)
Revenues, net of transportation expense	**52,667**	48,630	8%	**106,984**	93,062	15%
Royalties	**(6,968)**	(6,206)	12%	**(13,919)**	(12,005)	16%
Revenues, net of royalties and transportation expenses	**$ 45,699**	$ 42,424	8%	**$ 93,065**	$ 81,057	15%
Colombia Oil						
Crude oil revenues	**$ 1,845**	$ 10,880	(83%)	**$ 3,873**	$ 20,716	(81%)
Transportation expenses	**(105)**	(197)	n/a	**(226)**	(431)	(48%)
Revenues, net of transportation expense	**1,740**	10,683	(84%)	**3,647**	20,285	(82%)
Royalties	**(140)**	(1,079)	(87%)	**(298)**	(2,054)	(85%)
Revenues, net of royalties and transportation expenses	**$ 1,600**	$ 9,604	(83%)	**$ 3,349**	$ 18,231	(82%)
Corporate						
Natural gas revenues	**$ 54,801**	$ 53,237	3%	**$ 110,519**	$ 101,562	9%
Crude oil revenues	**1,845**	10,880	(83%)	**3,873**	20,716	(81%)
Total revenues	**56,646**	64,117	(12%)	**114,392**	122,278	(6%)
Royalties	**(7,108)**	(7,285)	(2%)	**(14,217)**	(14,059)	1%
Natural gas and crude oil revenues, net of royalties, as reported	**49,538**	56,832	(13%)	**100,175**	108,219	(7%)
Take-or-pay natural gas income (2)	**390**	369	6%	**679**	738	(8%)
Total natural gas and crude oil revenues, after royalties, as reported	**49,928**	57,201	(13%)	**100,854**	108,957	(7%)
Transportation expenses	**(2,239)**	(4,804)	(53%)	**(3,761)**	(8,931)	(58%)
Total revenues, net of royalties and transportation expenses	**$ 47,689**	$ 52,397	(9%)	**$ 97,093**	$ 100,026	(3%)

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 six months ended June 30, 2019, the Corporation has realized $0.4 million and $0.7 million, respectively, of take-or-pay income (as described in (2) above), which is equivalent to 0.7 MMscfpd and 0.6 MMscfpd, respectively, of natural gas sales, without actual delivery of the natural gas.

As at June 30, 2019, the Corporation has received proceeds for crude oil and natural gas to be delivered at a later date (as described in (3) above). As at June 30, 2019, undelivered nominations resulted in a deferred income balance of $5.5 million ($4.9 million related to gas; $0.6 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 June 30,			Six months ended June 30,		
	2019	2018	Change	**2019**	2018	Change
Guajira ($/Mcf)	**$ 4.30**	$ 4.24	1%	**$ 4.30**	$ 4.24	1%
Brent ($/bbl)	**$ 67.41**	$ 74.33	(9%)	**$ 63.19**	$ 70.61	(11%)
West Texas Intermediate ($/bbl)	**$ 65.89**	$ 67.67	(3%)	**$ 61.95**	$ 65.26	(5%)
Natural gas, net of transportation ($/Mcf)	**$ 4.83**	$ 4.85	—	**$ 4.90**	$ 4.79	2%
Colombia oil, net of transportation ($/bbl)	**$ 53.71**	$ 61.69	(13%)	**$ 50.63**	$ 58.99	(14%)
Corporate average, net of transportation	**$ 27.98**	$ 30.68	(9%)	**$ 28.35**	$ 30.19	(6%)

The majority of the Corporation's natural gas sales are subject to fixed priced sales contracts with an insignificant portion of the Corporation's natural gas sales tied to the Guajira benchmark price. The change in average realized natural gas sales prices, net of transportation during the three and six months ended June 30, 2019, compared to the same periods in 2018, is mainly due to price fluctuations of spot sales. The average realized natural gas sales prices, net of transportation of $4.83/Mcf and $4.90/Mcf realized during the three and six months ended June 30, 2019, respectively, are higher compared to the previously announced 2019 guidance of $4.75/Mcf.

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

Operating Expenses

	Three months ended June 30,			Six months ended June 30,		
	2019	2018	Change	**2019**	2018	Change
Natural gas	**$ 3,357**	$ 4,253	(21%)	**$ 6,638**	$ 8,055	(18%)
Colombia oil	**654**	3,492	(81%)	**1,467**	6,453	(77%)
Total operating expenses	**$ 4,011**	$ 7,745	(48%)	**$ 8,105**	$ 14,508	(44%)
Natural gas ($/Mcf)	**$ 0.31**	$ 0.42	(26%)	**$ 0.30**	$ 0.41	(27%)
Colombia oil ($/bbl)	**$ 20.19**	$ 20.16	—	**$ 20.36**	$ 18.76	9%
Corporate ($/boe)	**$ 2.06**	$ 4.01	(49%)	**$ 2.07**	$ 3.86	(46%)

Total natural gas operating expenses per Mcf decreased by 26% and 27% to $0.31/Mcf and $0.30/Mcf for the three and six months ended June 30, 2019, respectively, compared to $0.42/Mcf and $0.41/Mcf for the same periods in 2018, respectively. The decrease is mainly attributable to the purchase and operation of Jobo 2 and other operating efficiencies. The Corporation also capitalized certain operating costs during the three and six months ended June 30, 2019, as a result of the adoption of a new accounting policy as at January 1, 2019.

Over 90% of the Corporation's natural gas operating expenses is fixed and, as such, the Corporation expects its natural gas operating expenses per Mcf to further decrease with the Promigas pipeline completed.

Total Colombia oil operating expenses decreased during the three and six months ended June 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 June 30, 2019	2018	Change	Six months ended June 30, 2019	2018	Change
Natural Gas						
Revenue, net of transportation expense	$ **4.83**	$ 4.85	—	$ **4.90**	$ 4.79	2%
Royalties	**(0.64)**	(0.62)	3%	**(0.64)**	(0.62)	3%
Operating expenses	**(0.31)**	(0.42)	(26%)	**(0.30)**	(0.41)	(27%)
Operating netback	$ **3.88**	$ 3.81	2%	$ **3.96**	$ 3.76	5%

$/bbl	Three months ended June 30, 2019	2018	Change	Six months ended June 30, 2019	2018	Change
Colombia oil						
Revenue, net of transportation expense	$ **53.71**	$ 61.69	(13%)	$ **50.63**	$ 58.99	(14%)
Royalties	**(4.32)**	(6.23)	(31%)	**(4.14)**	(5.97)	(31%)
Operating expenses	**(20.19)**	(20.16)	—	**(20.36)**	(18.76)	9%
Operating netback	$ **29.20**	$ 35.30	(17%)	$ **26.13**	$ 34.26	(24%)

$/boe	Three months ended June 30, 2019	2018	Change	Six months ended June 30, 2019	2018	Change
Corporate						
Revenue, net of transportation expense	$ **27.98**	$ 30.68	(9%)	$ **28.35**	$ 30.20	(6%)
Royalties	**(3.65)**	(3.77)	(3%)	**(3.64)**	(3.75)	(3%)
Operating expenses	**(2.06)**	(4.01)	(49%)	**(2.07)**	(3.86)	(46%)
Operating netback	$ **22.27**	$ 22.90	(3%)	$ **22.64**	$ 22.59	—

General and Administrative Expenses

	Three months ended June 30, 2019	2018	Change	Six months ended June 30, 2019	2018	Change
Gross costs	$ **6,978**	$ 8,344	(16%)	$ **14,366**	$ 15,894	(10%)
Less: capitalized amounts	**(1,291)**	(1,277)	1%	**(2,856)**	(2,714)	5%
General and administrative expenses	$ **5,687**	$ 7,067	(20%)	$ **11,510**	$ 13,180	(13%)
$/boe	$ **2.92**	$ 3.66	(20%)	$ **2.95**	$ 3.51	(16%)

General and administrative expenses ("G&A") per boe decreased 20% and 16% during the three and six months ended June 30, 2019, compared to the same periods in 2018, respectively. The decrease is mainly due to cost efficiencies and the 9% and 13% increase in natural gas production, respectively, as well as certain costs being capitalized during the three and six months ended June 30, 2019, 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 June 30, 2019	2018	Change	Six months ended June 30, 2019	2018	Change
Net financing expense paid	$ **7,341**	$ 7,301	1%	$ **14,729**	$ 14,958	(2%)
Non-cash financing costs	**850**	649	31%	**1,688**	2,042	(17%)
Net finance expense	$ **8,191**	$ 7,950	3%	$ **16,417**	$ 17,000	(3%)

Net financing expense paid increased during the three months ended June 30, 2019, compared to the same period in 2018, mainly due to higher non-cash amortization of financing fees paid in relation to long-term debt re-financing executed in 2018.

Net financing expense paid decreased during the six months ended June 30, 2019, compared to the same period 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 June 30,			Six months ended June 30,		
	2019	2018	Change	**2019**	2018	Change
Stock-based compensation expense	**$ 700**	$ 996	(30%)	**$ 2,249**	$ 3,216	(30%)
Restricted share unit expense	**—**	—	—	**3,256**	2,253	45%
Stock-based compensation and restricted share unit expense	**$ 700**	$ 996	(30%)	**$ 5,505**	$ 5,469	1%

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 June 30,			Six months ended June 30,		
	2019	2018	Change	**2019**	2018	Change
Depletion and depreciation expense	**$ 11,737**	$ 11,677	1%	**$ 24,426**	$ 21,808	12%
$/boe	**$ 6.04**	$ 6.04	—	**$ 6.26**	$ 5.81	8%

Depletion and depreciation expense increased 1% and 12% during the three and six months ended June 30, 2019, compared to the same periods in 2018, respectively, primarily as a result of higher natural gas production 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 June 30,		Six months ended June 30,	
	2019	2018	**2019**	2018
Current income tax expense	**$ 7,930**	$ 6,392	**$ 15,188**	$ 13,586
Deferred income tax expense (recovery)	**2,352**	5,235	**(141)**	(3,854)
Income tax expense (recovery)	**$ 10,282**	$ 11,627	**$ 15,047**	$ 9,732

The Corporation's pre-tax income was subject to the Colombian statutory income tax rate of 33% for the three and six months ended June 30, 2019. The Colombian statutory income tax rate will decrease to 32% on January 1, 2020, 31% on January 1, 2021, then to 30% on January 1, 2022. The Corporation consistently implements tax planning measures to reduce its overall effective tax rate.

Capital Expenditures

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	**2019**	2018
Drilling and completions	**$ 10,968**	$ 10,745	**$ 17,760**	$ 23,853
Facilities, work overs and infrastructure	**5,362**	7,832	**21,164**	11,196
Midstream pipeline costs	**—**	1,677	**—**	3,887
Land, seismic, communities and other	**10,026**	3,947	**13,512**	9,905
Right-of-Use leased assets	**(627)**	—	**5,250**	11,300
Capitalized G&A	**1,291**	1,277	**2,856**	2,714
Disposition	**(14,506)**	—	**(14,506)**	—
Non-cash costs and adjustments[1]	**928**	5,633	**2,131**	8,450
Net capital expenditures	**$ 13,442**	$ 31,111	**$ 48,167**	$ 71,305
Net capital expenditures recorded as:				
Expenditures on exploration and evaluation assets	**$ 14,903**	$ 13,943	**$ 17,393**	$ 29,074
Expenditures on property, plant and equipment	**13,045**	17,168	**45,280**	42,231
Disposition	**(14,506)**	—	**(14,506)**	—
Net capital expenditures	**$ 13,442**	$ 31,111	**$ 48,167**	$ 71,305

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

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

- Seismic costs at the VIM-5 block;
- Drilling of the Nelson-7, Acordeon-1 and Ocarina-1 wells;
- Facility costs at the Esperanza and VIM-5 blocks; and
- Disposition of the Corporation's working interest in the Sabanas flowline;

The Jobo 3 natural gas plant expansion will facilitate up to 330 MMcfpd of production, which will allow for spare capacity above the Corporation's 230 MMcfpd production with the Promigas pipeline expansion now being completed.

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 less 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 June 30, 2019, the Corporation was in compliance with the covenants.

		June 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%)		16,554		16,749
Lease obligation (2019 - 6.875%; 2018 - 5.2%)		25,797		21,473
Total debt		392,351		388,222
Less: working capital surplus		(47,077)		(60,782)
Net debt	**$**	**345,274**	**$**	**327,440**

The Consolidated Leverage Ratio is calculated as follows:

Consolidated Leverage Ratio		June 30, 2019
Total debt	$	392,351
Less: cash and cash equivalents		(28,676)
Net debt for covenant purposes		363,675
EBITDAX		146,276
Consolidated Leverage Ratio		**2.49**

The Consolidated Interest Coverage Ratio is calculated as follows:

Consolidated Interest Coverage Ratio		June 30, 2019
EBITDAX	$	146,276
Interest expense, excluding non-cash expenses		31,842
Consolidated Interest Coverage Ratio		**4.59**

As at August 6, 2019, the Corporation had 177.7 million common shares, 15.8 million stock options and 0.7 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 June 30, 2019:

		Less than 1 year		1-3 years		Thereafter		Total
Long-term debt – principal	$	2,727	$	21,818	$	325,455	$	350,000
Lease obligations – undiscounted		5,675		7,911		17,873		31,459
Trade and other payables		44,248		—		—		44,248
Taxes payable		5,692		—		—		5,692
Deferred income		5,453		—		—		5,453
Settlement liability		1,900		3,800		10,854		16,554
Other long term obligations		—		3,247		—		3,247
Restricted share units		3,946		14		—		3,960
Exploration and production contracts		14,537		42,856		5,586		62,979
Compression station operating contracts		2,532		5,218		15,457		23,207

Letters of Credit

At June 30, 2019, the Corporation had letters of credit outstanding totaling $77.6 million to guarantee work commitments on exploration blocks in Colombia and to guarantee other contractual commitments, of which, $12.2 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 June 30, 2019 of $63 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 and development drilling program, and executing the necessary agreements related to the construction of a new gas pipeline to Medellin, which will transport 100 MMscfpd of new gas sales in late 2022.

The 2019 drilling program has been successful to date, with two discoveries, Acordeon-1 and Ocarina-1, and two successful development wells, Palmer-2 and Nelson-7. 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 includes the Pandereta-5 appraisal well which is currently being drilled, to be followed by the Clarinete-4 appraisal well, and the Porro Norte-1 and Arándala-1 exploration wells through to year end.

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

SUMMARY OF QUARTERLY RESULTS

	2019		2018				2017	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Financial								
Total natural gas and crude oil revenues, net of royalties and transportation expense	**47,689**	49,404	50,727	53,398	52,397	47,629	39,781	35,962
Funds from operations[1]	**25,583**	29,907	28,679	25,810	28,252	21,581	16,573	13,876
Per share – basic ($)[1]	**0.14**	0.17	0.16	0.15	0.16	0.12	0.09	0.08
Per share – diluted ($)[1]	**0.14**	0.17	0.16	0.14	0.16	0.12	0.09	0.08
Net income (loss) and comprehensive income (loss)	**1,878**	6,274	(16,272)	12,138	(25,979)	8,278	(150,343)	(1,514)
Per share – basic ($)	**0.01**	0.03	(0.09)	0.07	(0.15)	0.05	(0.85)	(0.01)
Per share – diluted ($)	**0.01**	0.03	(0.09)	0.07	(0.15)	0.05	(0.85)	(0.01)
EBITDAX[1]	**37,008**	39,822	33,440	36,006	33,617	35,567	29,857	32,912
Weighted average shares outstanding – basic	**177,381**	177,547	177,678	177,453	177,018	176,572	175,988	175,663
Weighted average shares outstanding – diluted	**178,979**	179,637	178,977	178,985	178,742	178,759	177,881	177,705
Capital expenditures, net	**13,442**	34,725	37,701	18,585	31,111	40,194	41,652	24,978
Operations								
Natural gas and crude oil production, before royalties[1]								
Natural gas (Mcfpd)	**121,496**	123,291	116,616	114,923	111,446	105,262	83,043	75,947
Colombia oil (bopd)	**342**	433	488	1,816	1,967	1,924	1,825	1,890
Total (boepd)[2]	**21,657**	22,063	20,947	21,978	21,519	20,391	16,394	15,214
Realized contractual sales, before royalties[1]								
Natural gas (Mcfpd)	**120,515**	122,025	119,284	115,316	111,933	106,334	85,214	76,027
Colombia oil (bopd)	**356**	440	592	1,945	1,903	1,896	1,820	1,895
Total (boepd)[2]	**21,499**	21,848	21,519	22,176	21,540	20,551	16,770	15,233
Operating netbacks ($/boe)[1]								
Natural gas ($/Mcf)	**3.88**	4.03	3.92	3.80	3.79	3.71	3.56	3.84
Colombia oil ($/bbl)	**29.20**	23.64	27.89	26.27	35.30	33.21	23.44	20.28
Corporate ($/boe)[2]	**22.27**	23.00	22.51	22.04	22.90	22.24	19.07	21.62

(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 June 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 six months ended June 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 June 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.