# CANACOL ENERGY LTD.

## MANAGEMENT'S DISCUSSION AND ANALYSIS
## THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021

## FINANCIAL & OPERATING HIGHLIGHTS

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

| Financial | Three months ended September 30, | | | Nine months ended September 30, | | |
|---|---|---|---|---|---|---|
| | **2021** | 2020 | Change | **2021** | 2020 | Change |
| Total natural gas, LNG and crude oil revenues, net of royalties and transportation expense | **72,802** | 57,429 | 27% | **198,589** | 182,828 | 9% |
| Adjusted funds from operations(1)(2) | **38,227** | 33,409 | 14% | **110,156** | 109,871 | — |
| Per share – basic ($)(1) | **0.22** | 0.18 | 22% | **0.62** | 0.61 | 2% |
| Per share – diluted ($)(1) | **0.22** | 0.18 | 22% | **0.62** | 0.61 | 2% |
| Net income (loss) and other comprehensive income (loss) | **8,790** | 2,609 | 237% | **8,153** | (5,664) | n/a |
| Per share – basic ($) | **0.05** | 0.01 | 400% | **0.05** | (0.03) | n/a |
| Per share – diluted ($) | **0.05** | 0.01 | 400% | **0.05** | (0.03) | n/a |
| Cash flow provided by operating activities(2) | **57,046** | 50,016 | 14% | **94,933** | 125,848 | (25%) |
| Per share – basic ($) | **0.32** | 0.28 | 14% | **0.53** | 0.70 | (24%) |
| Per share – diluted ($) | **0.32** | 0.28 | 14% | **0.53** | 0.69 | (23%) |
| EBITDAX(1) | **53,836** | 42,303 | 27% | **145,190** | 141,588 | 3% |
| Weighted average shares outstanding – basic | **177,245** | 180,980 | (2%) | **178,675** | 180,942 | (1%) |
| Weighted average shares outstanding – diluted | **177,245** | 181,495 | (2%) | **178,675** | 181,543 | (2%) |
| Capital expenditures, net of dispositions | **24,177** | 26,437 | (9%) | **78,384** | 54,598 | 44% |
| | | | | **September 30, 2021** | December 31, 2020 | Change |
| Cash and cash equivalents(3) | | | | **43,114** | 68,280 | (37%) |
| Working capital surplus | | | | **37,996** | 73,404 | (48%) |
| Total debt | | | | **409,192** | 415,209 | (1%) |
| Total assets | | | | **740,604** | 749,792 | (1%) |
| Common shares, end of period (000's) | | | | **176,741** | 179,515 | (2%) |

| Operating | Three months ended September 30, | | | Nine months ended September 30, | | |
|---|---|---|---|---|---|---|
| | **2021** | 2020 | Change | **2021** | 2020 | Change |
| Natural gas, LNG and crude oil production(1) | | | | | | |
| Natural gas and LNG (MMscfpd) | **192,402** | 162,012 | 19% | **181,712** | 171,475 | 6% |
| Colombia oil (bopd) | **394** | 317 | 24% | **305** | 292 | 4% |
| Total (boepd) | **34,149** | 28,740 | 19% | **32,184** | 30,375 | 6% |
| Realized contractual sales(1) | | | | | | |
| Natural gas and LNG (MMscfpd) | **190,553** | 162,984 | 17% | **179,931** | 172,216 | 4% |
| Colombia oil (bopd) | **168** | 347 | (52%) | **227** | 281 | (19%) |
| Total (boepd) | **33,598** | 28,941 | 16% | **31,794** | 30,494 | 4% |
| Operating netbacks(1) | | | | | | |
| Natural gas and LNG ($/Mcf) | **3.49** | 3.47 | 1% | **3.34** | 3.57 | (6%) |
| Colombia oil ($/bbl) | **30.93** | 17.04 | 82% | **33.21** | 16.98 | 96% |
| Corporate ($/boe) | **19.96** | 19.76 | 1% | **19.13** | 20.30 | (6%) |

(1) Non-IFRS measures – see "Non-IFRS Measures" section within MD&A.
(2) Adjusted funds from operations represents cash flow provided by operating activities before certain adjustments related to: i) changes in non-cash working capital of $2.1 million and ii) the payment of the remaining outstanding balance of the Corporation's litigation settlement liability of $13.1 million.
(3) The Corporation made certain significant cash payments during the nine months ended September 30, 2021 related to: i) certain income tax expense cash payments (see the "Income Tax Expense" section in this MD&A) of $31.9 million and ii) the semi-annual Senior Notes interest payment of $11.6 million, offset by the majority of the 2020 prepaid tax installments totaling $9 million being received from the Colombian tax authority.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

### Advisories

The following management's discussion and analysis ("MD&A") is dated November 3, 2021 and is the Corporation's explanation of its financial performance for the period covered by the financial statements along with an analysis of the Corporation's financial position. Comments relate to and should be read in conjunction with the unaudited interim condensed consolidated financial statements of the Corporation for the three and nine months ended September 30, 2021 ("the financial statements"), and the audited consolidated financial statements and MD&A for the year ended December 31, 2020. 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 ("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, payment of a litigation settlement liability 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 September 30,** | | **Nine months ended September 30,** | |
|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 |
| Cash flow provided by operating activities | **$ 57,046** | $ 50,016 | **$ 94,933** | $ 125,848 |
| Changes in non-cash working capital | **(18,819)** | (17,201) | **2,096** | (16,571) |
| Payment of litigation settlement liability(1)(2) | **—** | — | **13,073** | — |
| Settlement of decommissioning obligations | **—** | 594 | **54** | 594 |
| **Adjusted funds from operations** | **$ 38,227** | $ 33,409 | **$ 110,156** | $ 109,871 |

(1) The payment of the litigation settlement liability was included in the cash flow provided by operating activities due to the nature of the settlement being related to a previous transportation expense dispute and, as such, the costs are included in operating activities during the nine months ended September 30, 2021.

(2) The settlement of litigation settlement liability includes regular monthly payments of $0.2 million during the nine months ended September 30, 2021.

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

| | **2020** | **2021** | | | |
|---|---|---|---|---|---|
| | **Q4** | **Q1** | **Q2** | **Q3** | **Rolling** |
| Net income (loss) and comprehensive income (loss) | $ 921 | $ (3,062) | $ 2,424 | $ 8,790 | $ 9,073 |
| (+) Interest expense | 7,850 | 7,754 | 8,078 | 7,587 | 31,269 |
| (+) Income tax expense | 20,149 | 17,137 | 4,769 | 16,034 | 58,089 |
| (+) Depletion and depreciation | 16,314 | 16,903 | 15,930 | 17,626 | 66,773 |
| (+) Exploration expense | — | 5,904 | 5,671 | 202 | 11,777 |
| (+) Pre-license costs | 191 | 163 | 819 | 537 | 1,710 |
| (+/-) Unrealized foreign exchange (gain) loss | (524) | 584 | 4,050 | 854 | 4,964 |
| (+/-) Other non-cash expenses and non-recurring items | 1,040 | 1,333 | 2,897 | 2,206 | 7,476 |
| **EBITDAX** | **$ 45,941** | **$ 46,716** | **$ 44,638** | **$ 53,836** | **$ 191,131** |

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

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

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

## Three Months Ended September 30, 2021 Financial and Operational Highlights

- Realized contractual natural gas and liquefied natural gas ("LNG") sales volumes increased 17% to 190.6 MMscfpd for the three months ended September 30, 2021, compared to 163 MMscfpd for the same period in 2020. Average natural gas and LNG production volumes increased 19% to 192.4 MMscfpd for the three months ended September 30, 2021, compared to 162 MMscfpd for the same period in 2020. The increase is mainly due to increased firm contract and spot market sales as a result of the COVID-19 pandemic restrictions being gradually lifted during the three months ended September 30, 2021.
- Total natural gas and LNG revenues, net of royalties and transportation expenses for the three months ended September 30, 2021 increased 16% to $65.5 million, compared to $56.3 million for same period in 2020, mainly attributable to an increase in natural gas production and a slightly higher natural gas average sales price, net of transportation expense.
- Adjusted funds from operations increased 14% to $38.2 million for the three months ended September 30, 2021, compared to $33.4 million for the same period in 2020. Adjusted funds from operations per basic share increased 22% to $0.22 per basic share from $0.18 per basic share.
- EBITDAX increased 27% to $53.8 million for the three months ended September 30, 2021, compared to $42.3 million for the same period in 2020.
- The Corporation realized a net income of $8.8 million for the three months ended September 30, 2021, compared to a net income of $2.6 million for the same period in 2020, resulting in a 237% increase year over year.
- The Corporation's natural gas and LNG operating netback increased 1% to $3.49 per Mcf in the three months ended September 30, 2021, compared to $3.47 per Mcf for the same period in 2020. The increase is mainly due to the lower average operating expenses, however, offset by higher average royalty expenses. Operating expenses per Mcf decreased 14% to $0.25 per Mcf during the three months ended September 30, 2021, compared to $0.29 per Mcf for the same period in 2020, mainly due to an increase in natural gas production since the majority of the Corporation's operating expenses are fixed. Royalties per Mcf increased by 5% to $0.69 per Mcf in the three months ended September 30, 2021, compared to $0.66 per Mcf for the same period in 2020. The increase is due to higher production at the Corporation's VIM-5 block, which is subject to a higher royalty rate.
- Net capital expenditures for the three months ended September 30, 2021 were $24.2 million. Net capital expenditures included non-cash adjustments mainly related to decommissioning obligations and right-of-use leased assets of $0.1 million.
- As at September 30, 2021, the Corporation had $43.1 million in cash and cash equivalents and $38 million in working capital surplus. The Corporation made certain significant cash payments during the nine months ended September 30, 2021 related to: i) certain income tax expense cash payments of $31.9 million (see the "Income Tax Expense" section in this MD&A) and ii) the semi-annual Senior Notes interest payment of $11.6 million, offset by the majority of the 2020 prepaid tax installments totaling $9 million being received from the Colombian tax authority.

## Results of Operations

For the three months ended September 30, 2021, the Corporation's production primarily consisted of natural gas from the Nelson, Palmer, Nispero and Cañahuate fields in the Esperanza block, the Clarinete, Pandereta and Oboe fields in the VIM-5 block and the Toronja, Arandala, Breva and Aguas Vivas fields in the VIM-21 block, located in the Lower Magdalena Basin in Colombia. The Corporation's production also included crude oil from its Rancho Hermoso property in Colombia ("Colombia oil"). The Corporation's LNG production was less than one percent of total natural gas and LNG production and therefore the results have been combined as "Natural gas and LNG".

In March 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. Governments worldwide, including those in Colombia and Canada, 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, caused material disruption to businesses globally resulting in an economic downturn.

Most energy companies worldwide were 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.

On March 26, 2020, the Colombia government imposed a country wide shutdown and as a result, industrial, construction, and commercial demand for gas decreased significantly. The Corporation's natural gas spot sales demand and realized average sales prices were consequently impacted, which makes up a minority of the Corporation's natural gas portfolio. Canacol's take-or-pay natural gas contracts did not see instances of force majeure and no events of defaults in payments for deliveries. However, throughout 2020, Canacol allowed take-or-pay off-takers to defer a portion of their undelivered contracted volumes to be delivered by November 2021, at the latest.

As of the date of this MD&A, the Colombian shutdown is gradually being lifted and the economy is showing signs of recovery, including a higher demand for the Corporation's natural gas in the spot market as compared to 2020. The realized contractual natural gas sales during the three and nine months ended September 30, 2021 were 190.6 MMscfpd and 179.9 MMscfpd, respectively, which have increased as compared to 162.8 MMscfpd realized during the last nine months ended December 31, 2020, during the height of the pandemic. The month of September 2021 had realized contractual natural gas sales of 197.1 MMscfpd, which has nearly fully recovered, as compared to the pre-pandemic levels of 201.5 MMscfpd realized during three months ended March 31, 2020.

During the three months ended September 30, 2021, the Corporation completed drilling the Aguas Vivas-2 appraisal well located on its VIM-21 block targeting gas and reached a total depth of 8,728 feet measured depth ("ft md") within the Cienaga de Oro ("CDO") sandstone reservoir. The well encountered 229 feet true vertical depth ("TVD") of net gas pay within the CDO sandstone reservoir. The well has been completed, tied-in and put on permanent production.

During the three months ended September 30, 2021, the Corporation spud the Aguas Vivas-3 appraisal well located on its VIM-21 block targeting gas and reached a total depth of 8,000 ft md within the CDO sandstone reservoir. The well was drilled in order to prove up the extent of the new discovery of the Aguas Vivas-1 exploration well. The well encountered 378 TVD of net gas pay within the CDO sandstone reservoir target. The Aguas Vivas 2 and 3 appraisal wells' results confirm a significant gas accumulation at Aguas Vivas. The Corporation will integrate these drilling results with the existing 3D seismic to better define the extent of the accumulation at Aguas Vivas and define additional development locations for future drilling.

During the three months ended September 30, 2021, the Corporation spud the San Marcos-1 exploration well located on its Esperanza block targeting gas and reached a total depth of 7,317 ft md within the CDO sandstone reservoir. The well encountered 105 TVD of net gas pay within the CDO sandstone reservoir target. The well is currently being placed on permanent production.

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 September 30, | | | Nine months ended September 30, | | |
|---|---|---|---|---|---|---|
| | **2021** | 2020 | Change | **2021** | 2020 | Change |
| **Natural Gas and LNG (MMscfpd)** | | | | | | |
| Natural gas and LNG production | **192,402** | 162,012 | 19% | **181,712** | 171,475 | 6% |
| Field consumption | **(1,849)** | 744 | n/a | **(1,807)** | 92 | n/a |
| Natural gas and LNG sales (1) | **190,553** | 162,756 | 17% | **179,905** | 171,567 | 5% |
| Take-or-pay volumes (2) | **—** | 228 | (100%) | **26** | 649 | (96%) |
| **Realized contractual natural gas and LNG sales** | **190,553** | 162,984 | 17% | **179,931** | 172,216 | 4% |
| **Colombia Oil (bopd)** | | | | | | |
| Crude oil production | **394** | 317 | 24% | **305** | 292 | 4% |
| Inventory movements and other | **(226)** | 30 | n/a | **(78)** | (11) | 609% |
| **Colombia oil sales** | **168** | 347 | (52%) | **227** | 281 | (19%) |
| **Corporate (boepd / bopd)** | | | | | | |
| Natural gas and LNG production(1) | **33,755** | 28,423 | 19% | **31,879** | 30,083 | 6% |
| Colombia oil production | **394** | 317 | 24% | **305** | 292 | 4% |
| Total production | **34,149** | 28,740 | 19% | **32,184** | 30,375 | 6% |
| Field consumption and inventory | **(551)** | 161 | n/a | **(395)** | 5 | n/a |
| Total corporate sales | **33,598** | 28,901 | 16% | **31,789** | 30,380 | 5% |
| Take-or-pay volumes (2) | **—** | 40 | (100%) | **5** | 114 | (96%) |
| **Total realized contractual sales** | **33,598** | 28,941 | 16% | **31,794** | 30,494 | 4% |

(1) Natural gas and LNG sales volumes excluded the natural gas sales related to a certain off-taker's long-term contract as described under "Natural Gas Trading" in the "Revenues, Net of Royalties and Transportation Expenses" section of this MD&A.

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

1) *Natural Gas and LNG sales* - represents natural gas and LNG production less a typically small amount of gas volume that is consumed at the field level;
2) *Take-or-pay income* - represents the portion of natural gas and LNG sales nominations by the Corporation's off-takers that do not get delivered, due to the off-taker's inability to accept such natural gas and for which the off-takers have no recourse or legal right to delivery at a later date. As such, they are recorded as revenue in the period; and
3) *Undelivered natural gas and LNG nomination*s - represents the portion of undelivered natural gas and LNG sales nominations for which the off-takers have a legal right to take delivery at a later date, for a fixed period of time ("make-up rights"). These nominations are paid for at the time, alongside natural gas and LNG sales and take-or-pay income, and as such are included in deferred income for the period. The Corporation recognizes revenues associated with such make-up rights ("settlements") at the earlier of: a) when the make-up volume is delivered, b) the make-up right expires, or c) when it is determined that the likelihood that the off-taker will utilize the make-up right is remote.

The 19% increase in the natural gas and LNG production volumes during the three months ended September 30, 2021, compared to the same period in 2020, is mainly due to: i) an increase in spot market sales as a result of the COVID-19 pandemic restrictions gradually being lifted during the three months ended September 30, 2021 and ii) an increase in firm contracts sales due to certain off-takers taking less contractual downtime and less undelivered nominations, as described in 3 above, during the three months ended September 30, 2021.

Realized contractual natural gas and LNG sales for the three and nine months ended September 30, 2021 averaged approximately 190.6 and 179.9 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 plus natural gas purchases.

## Revenues, Net of Royalties and Transportation Expenses

| | Three months ended September 30, | | | Nine months ended September 30, | | |
|---|---|---|---|---|---|---|
| | **2021** | 2020 | Change | **2021** | 2020 | Change |
| **Natural Gas and LNG** | | | | | | |
| Natural gas and LNG revenues | **$ 86,718** | $ 73,213 | 18% | **$ 238,577** | $ 235,836 | 1% |
| Transportation expenses | **(9,101)** | (7,045) | 29% | **(27,676)** | (24,461) | 13% |
| Revenues, net of transportation expenses | **77,617** | 66,168 | 17% | **210,901** | 211,375 | — |
| Royalties | **(12,095)** | (9,869) | 23% | **(34,511)** | (31,883) | 8% |
| **Revenues, net of royalties and transportation expenses** | **$ 65,522** | $ 56,299 | 16% | **$ 176,390** | $ 179,492 | (2%) |
| **Colombia Oil** | | | | | | |
| Crude oil revenues | **$ 852** | $ 1,057 | (19%) | **$ 3,144** | $ 2,435 | 29% |
| Transportation expenses | **(22)** | — | n/a | **(35)** | 15 | n/a |
| Revenues, net of transportation expenses | **830** | 1,057 | (21%) | **3,109** | 2,450 | 27% |
| Royalties | **(64)** | (82) | (22%) | **(239)** | (186) | 28% |
| **Revenues, net of royalties and transportation expenses** | **$ 766** | $ 975 | (21%) | **$ 2,870** | $ 2,264 | 27% |
| **Corporate** | | | | | | |
| Natural gas and LNG revenues | **$ 86,718** | $ 73,213 | 18% | **$ 238,577** | $ 235,836 | 1% |
| Crude oil revenues | **852** | 1,057 | (19%) | **3,144** | 2,435 | 29% |
| Total revenues | **87,570** | 74,270 | 18% | **241,721** | 238,271 | 1% |
| Royalties | **(12,159)** | (9,951) | 22% | **(34,750)** | (32,069) | 8% |
| Natural gas, LNG and crude oil production revenues, net of royalties | **75,411** | 64,319 | 17% | **206,971** | 206,202 | — |
| Take-or-pay natural gas and LNG income (2) | **—** | 155 | (100%) | **24** | 1,072 | (98%) |
| **Natural gas, LNG and crude oil revenues, net of royalties, as reported** | **75,411** | 64,474 | 17% | **206,995** | 207,274 | — |
| Natural gas trading revenues | **6,514** | — | n/a | **19,305** | — | n/a |
| Total natural gas, LNG and crude oil revenues, after royalties | **81,925** | 64,474 | 27% | **226,300** | 207,274 | 9% |
| Transportation expenses | **(9,123)** | (7,045) | 29% | **(27,711)** | (24,446) | 13% |
| **Total revenues, net of royalties and transportation expenses** | **$ 72,802** | $ 57,429 | 27% | **$ 198,589** | $ 182,828 | 9% |

### Natural Gas Trading

| | Three months ended September 30, | | | Nine months ended September 30, | | |
|---|---|---|---|---|---|---|
| | **2021** | 2020 | Change | **2021** | 2020 | Change |
| Natural gas trading revenue | **$ 6,514** | $ — | n/a | **$ 19,305** | $ — | n/a |
| Natural gas trading purchases cost | **(6,466)** | — | n/a | **(19,197)** | — | n/a |
| Natural gas trading profit | **$ 48** | $ — | n/a | **$ 108** | $ — | n/a |

The Corporation recognized $6.5 million and $19.3 million of natural gas trading revenues and incurred gas purchase costs of $6.5 million and $19.2 million during the three and nine months ended September 30, 2021, respectively, related to the delivery of a certain off-taker's long-term contract. The Corporation's gas purchases are isolated to this particular long-term contract and it does not intend to engage in speculative gas trading activities.

**Natural Gas Transportation Expenses**

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

Natural gas transportation expenses increased 29% and 13% during the three and nine months ended September 30, 2021, compared to the same periods in 2020, respectively, primarily due to the increase in natural gas sales volume subject to transportation expenses, as described above, compared to the same periods in 2020.

**Natural Gas Royalties**

| | Three months ended September 30, | | | Nine months ended September 30, | | |
|---|---|---|---|---|---|---|
| | **2021** | 2020 | Change | **2021** | 2020 | Change |
| **Natural Gas** | | | | | | |
| Esperanza royalties | **$ 2,058** | $ 2,556 | (19%) | **$ 5,551** | $ 8,300 | (33%) |
| VIM-5 royalties | **8,913** | 7,152 | 25% | **27,152** | 23,151 | 17% |
| VIM-21 royalties | **1,124** | 161 | 598% | **1,808** | 432 | 319% |
| **Royalty expense** | **$ 12,095** | $ 9,869 | 23% | **$ 34,511** | $ 31,883 | 8% |
| **Natural Gas Royalty Rates** | | | | | | |
| Esperanza | **8.0%** | 9.0% | (11%) | **7.8%** | 9.0% | (13%) |
| VIM-5 | **22.8%** | 20.0% | 14% | **22.9%** | 20.5% | 12% |
| VIM-21 | **9.5%** | 9.4% | 1% | **9.6%** | 9.5% | — |
| **Natural gas royalty rate** | **15.6%** | 14.9% | 5% | **16.4%** | 15.1% | 9% |

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 Esperanza and VIM-5 natural gas production is subject to an additional overriding royalty of 2% - 4%. The Corporation's VIM-5 and VIM-21 natural gas production is subject to additional x-factor royalty rates of 13% and 3%, respectively.

The natural gas royalty rate increased 5% and 9% to 15.6% and 16.4% during the three and nine months ended September 30, 2021, compared to 14.9% and 15.1% for the same periods in 2020, respectively, mainly due to higher production at the VIM-5 block, which is subject to a higher royalty rate. In addition, the VIM-5 royalty rate was higher, as compared to 2020, as a result of production at certain fields exceeding the 5,000 boepd threshold, at which point, is subject to a higher royalty rate, as described above. The production allocation at the Corporation's Esperanza block, which is subject to a lower royalty rate, was lower during the third quarter of 2021 as the Corporation continues to perform routine maintenance at the block. Going forward, the maintenance is expected to increase the production at the Esperanza block and, as such, the overall royalty rate is expected to decrease for the remainder of 2021.

## Average Benchmark and Realized Sales Prices, Net of Transportation

| | Three months ended September 30, | | | Nine months ended September 30, | | |
|---|---|---|---|---|---|---|
| | **2021** | 2020 | Change | **2021** | 2020 | Change |
| **Average Benchmark Prices** | | | | | | |
| Henry Hub ($/Mcf) | **$ 4.32** | $ 2.14 | 102% | **$ 3.34** | $ 1.92 | 74% |
| Alberta Energy Company ("AECO") ($/Mcf) | **$ 2.97** | $ 1.69 | 76% | **$ 2.59** | $ 1.51 | 72% |
| Brent ($/bbl) | **$ 73.23** | $ 43.32 | 69% | **$ 67.77** | $ 42.64 | 59% |
| **Average Sales Prices, Net of Transportation** | | | | | | |
| Natural gas and LNG ($/Mcf) | **$ 4.43** | $ 4.42 | — | **$ 4.29** | $ 4.50 | (5%) |
| Colombia oil ($/bbl) | **$ 53.70** | $ 33.11 | 62% | **$ 50.17** | $ 31.82 | 58% |
| **Corporate average ($/boe)** | **$ 25.38** | $ 25.28 | — | **$ 24.66** | $ 25.69 | (4%) |

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 increase in average natural gas and LNG sales prices, net of transportation during the three months ended September 30, 2021, compared to the same period in 2020, is mainly due to higher priced interruptible sales. The increase in higher spot market sales prices during the three months ended September 30, 2021 was a result of the COVID-19 pandemic restrictions gradually being lifted during the three months ended September 30, 2021.

The decrease in average natural gas and LNG sales prices, net of transportation during the nine months ended September 30, 2021, compared to the same period in 2020, is mainly due to lower priced fixed contracts for the 2021 contract year as compared to the 2020 contract year. The decrease during the nine months ended September 30, 2021 was offset by higher spot market sales prices as a result of the COVID-19 pandemic restrictions gradually being lifted.

The increase in average crude oil sales prices during the three and nine months ended September 30, 2021, compared to the same periods in 2020, is mainly due to increased benchmark crude oil prices.

## Operating Expenses

| | Three months ended September 30, | | | Nine months ended September 30, | | |
|---|---|---|---|---|---|---|
| | **2021** | 2020 | Change | **2021** | 2020 | Change |
| Natural gas and LNG | **$ 4,311** | $ 4,291 | — | **$ 12,468** | $ 11,854 | 5% |
| Colombia oil | **288** | 431 | (33%) | **812** | 956 | (15%) |
| **Total operating expenses** | **$ 4,599** | $ 4,722 | (3%) | **$ 13,280** | $ 12,810 | 4% |
| Natural gas and LNG ($/Mcf) | **$ 0.25** | $ 0.29 | (14%) | **$ 0.25** | $ 0.25 | — |
| Colombia oil ($/bbl) | **$ 18.63** | $ 13.50 | 38% | **$ 13.10** | $ 12.42 | 5% |
| **Corporate ($/boe)** | **$ 1.49** | $ 1.78 | (16%) | **$ 1.53** | $ 1.54 | (1%) |

Natural gas and LNG operating expenses per Mcf decreased 14% to $0.25 per Mcf for the three months ended September 30, 2021, compared to $0.29 per Mcf for the same period in 2020. The decrease is mainly due to higher natural gas sales volumes, as the majority of operating expenses are fixed, during the three months ended September 30, 2021, compared to the same period in 2020.

Natural gas and LNG operating expenses of $0.25 per Mcf was consistent for the nine months ended September 30, 2021, compared to the same period in 2020. The operating expenses were higher for the nine months ended September 30, 2021, mainly due to higher reservoir engineering, labour and rental costs related to certain well testing performed, offset by higher natural gas sales volumes, compared to the same period in 2020.

Crude oil operating expenses decreased 33% and 15% for three and nine months ended September 30, 2021, compared to the same periods in 2020, mainly due to a higher level of crude oil inventory as at September 30, 2021.

## Operating Netbacks

| $/Mcf | Three months ended September 30, 2021 | 2020 | Change | Nine months ended September 30, 2021 | 2020 | Change |
|---|---|---|---|---|---|---|
| **Natural Gas and LNG** | | | | | | |
| Revenue, net of transportation expense | **$ 4.43** | $ 4.42 | — | **$ 4.29** | $ 4.50 | (5%) |
| Royalties | **(0.69)** | (0.66) | 5% | **(0.70)** | (0.68) | 3% |
| Operating expenses | **(0.25)** | (0.29) | (14%) | **(0.25)** | (0.25) | — |
| **Operating netback** | **$ 3.49** | $ 3.47 | 1% | **$ 3.34** | $ 3.57 | (6%) |

| $/bbl | Three months ended September 30, 2021 | 2020 | Change | Nine months ended September 30, 2021 | 2020 | Change |
|---|---|---|---|---|---|---|
| **Colombia oil** | | | | | | |
| Revenue, net of transportation expense | **$ 53.70** | $ 33.11 | 62% | **$ 50.17** | $ 31.82 | 58% |
| Royalties | **(4.14)** | (2.57) | 61% | **(3.86)** | (2.42) | 60% |
| Operating expenses | **(18.63)** | (13.50) | 38% | **(13.10)** | (12.42) | 5% |
| **Operating netback** | **$ 30.93** | $ 17.04 | 82% | **$ 33.21** | $ 16.98 | 96% |

| $/boe | Three months ended September 30, 2021 | 2020 | Change | Nine months ended September 30, 2021 | 2020 | Change |
|---|---|---|---|---|---|---|
| **Corporate** | | | | | | |
| Revenue, net of transportation expense | **$ 25.38** | $ 25.28 | — | **$ 24.66** | $ 25.69 | (4%) |
| Royalties | **(3.93)** | (3.74) | 5% | **(4.00)** | (3.85) | 4% |
| Operating expenses | **(1.49)** | (1.78) | (16%) | **(1.53)** | (1.54) | (1%) |
| **Operating netback** | **$ 19.96** | $ 19.76 | 1% | **$ 19.13** | $ 20.30 | (6%) |

## General and Administrative Expenses

| | Three months ended September 30, 2021 | 2020 | Change | Nine months ended September 30, 2021 | 2020 | Change |
|---|---|---|---|---|---|---|
| Gross costs | **$ 7,715** | $ 7,665 | 1% | **$ 24,335** | $ 22,730 | 7% |
| Less: capitalized amounts | **(1,400)** | (1,313) | 7% | **(4,223)** | (3,799) | 11% |
| **General and administrative expenses** | **$ 6,315** | $ 6,352 | (1%) | **$ 20,112** | $ 18,931 | 6% |
| **$/boe** | **$ 2.04** | $ 2.39 | (15%) | **$ 2.32** | $ 2.27 | 2% |

General and administrative ("G&A") gross costs increased 1% and 7% during the three and nine months ended September 30, 2021, compared to the same periods in 2020, respectively, mainly due to certain year-end annual costs which are typically paid at year-end now being accrued on a quarterly basis throughout the year.

G&A per boe decreased 15% during the three months ended September 30, 2021, mainly due to higher natural gas and LNG sales volumes, compared to the same period in 2020.

G&A per boe increased 2% during the nine months ended September 30, 2021, compared to the same period in 2020, mainly due to certain year-end annual costs being accrued on a quarterly basis throughout the year during the nine months ended September 30, 2021. Annual gross costs are expected to remain relatively flat as the Corporation's production base grows, which will result in the G&A per boe to decrease going forward.

## Net Finance Expense

| | Three months ended September 30, | | | Nine months ended September 30, | | |
|---|---|---|---|---|---|---|
| | **2021** | 2020 | Change | **2021** | 2020 | Change |
| Net financing expense paid | **$ 7,279** | $ 7,230 | 1% | **$ 22,679** | $ 21,129 | 7% |
| Non-cash financing expenses | **1,060** | 930 | 14% | **2,967** | 1,459 | 103% |
| **Net finance expense** | **$ 8,339** | $ 8,160 | 2% | **$ 25,646** | $ 22,588 | 14% |

Net finance expense increased 2% during the three months ended September 30, 2021, compared to the same period in 2020, mainly due to higher bank fees incurred in 2021. The increase is offset by lower interest expense related to the Colombia Bank Debt, which is subject to a lower interest rate, as compared to the litigation settlement liability, which was fully paid in Q2 2021.

Net finance expense increased 14% during the nine months ended September 30, 2021, compared to the same period in 2020, 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 during the nine months ended September 30, 2020 and ii) a gain on debt modification of $1.2 million related to the Credit Suisse Bank Debt modification during the nine months ended September 30, 2020.

## Stock-Based Compensation Expense and Restricted Share Units

| | Three months ended September 30, | | | Nine months ended September 30, | | |
|---|---|---|---|---|---|---|
| | **2021** | 2020 | Change | **2021** | 2020 | Change |
| Stock-based compensation expense | **$ 143** | $ 502 | (72%) | **$ 513** | $ 1,618 | (68%) |
| Restricted share unit expense | **1,073** | 863 | 24% | **3,129** | 3,761 | (17%) |
| **Stock-based compensation and restricted share unit expense** | **$ 1,216** | $ 1,365 | (11%) | **$ 3,642** | $ 5,379 | (32%) |

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 and restricted share units expense decreased 11% and 32% during the three and nine months ended September 30, 2021, compared to the same periods in 2020, respectively. Stock-based compensation decreased due to no stock options being granted in 2021. Restricted share unit expense decreased due to a lower share price as at September 30, 2021, as compared to as at September 30, 2020. In addition, there were less restricted share units amortized during the nine months ended September 30, 2020 due to the timing of the grant.

## Depletion and Depreciation Expense

| | Three months ended September 30, | | | Nine months ended September 30, | | |
|---|---|---|---|---|---|---|
| | **2021** | 2020 | Change | **2021** | 2020 | Change |
| Depletion and depreciation expense | **$ 17,626** | $ 14,045 | 25% | **$ 50,459** | $ 48,225 | 5% |
| $/boe | **$ 5.70** | $ 5.28 | 8% | **$ 5.81** | $ 5.79 | — |

Depletion and depreciation expense increased 25% and 5% during the three and nine months ended September 30, 2021, compared to the same periods in 2020, respectively, primarily as a result of increased natural gas production.

## Income Tax Expense

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 |
| Current income tax expense | **$ 13,184** | $ 5,035 | **$ 25,367** | $ 22,687 |
| Deferred income tax expense | **$ 2,850** | 9,829 | **12,573** | 39,303 |
| **Income tax expense** | **$ 16,034** | $ 14,864 | **$ 37,940** | $ 61,990 |

The Corporation's pre-tax income was subject to the Colombian statutory income tax rate of 31% for the three and nine months ended September 30, 2021. The Colombian statutory income tax rate is currently set to increase to 35% on January 1, 2022 onwards.

The Corporation's unused tax losses and cost pools are denominated in COP, which are re-valued at each reporting date using the period end COP to USD foreign exchange rate. The non-cash deferred income tax expense recognized during the nine months ended September 30, 2021 of $12.6 million was mainly as a result of the 12% devaluation of the COP to USD as at September 30, 2021 of 3,835:1, compared to the December 31, 2020 rate of 3,433:1. In the event that the COP strengthens in the future, the Corporation would realize a deferred income tax recovery for the period.

**Income Tax Cash Payments**

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 |
| Income taxes paid | **$ 5,899** | $ 3,272 | **$ 31,936** | $ 24,162 |

During the nine months ended September 30, 2020, the Corporation paid its remaining 2020 income tax expense balance of $11.4 million. In addition, the Corporation also paid tax installments related to its 2021 income tax expense of $5.9 million and $20.5 million during the three and nine months ended September 30, 2021, respectively.

## Capital Expenditures

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | 2020 |
| Drilling and completions | **$ 12,011** | $ 13,705 | **$ 41,206** | $ 29,637 |
| Facilities, workovers and infrastructure | **6,718** | 9,621 | **18,602** | 16,521 |
| Land, seismic, communities and other | **3,949** | 2,618 | **13,174** | 9,240 |
| Capitalized G&A | **1,400** | 1,313 | **4,223** | 3,799 |
| Net proceeds on disposition of property, plant and equipment | **(27)** | — | **(297)** | (58) |
| **Net cash capital expenditures** | **24,051** | 27,257 | **76,908** | 59,139 |
| Non-cash costs and adjustments: | | | | |
| Right-of-Use leased assets | **32** | 120 | **506** | 1,425 |
| Disposition | **(79)** | (128) | **85** | (153) |
| Non-cash costs and adjustments(1) | **173** | (812) | **885** | (5,813) |
| **Net capital expenditures** | **$ 24,177** | $ 26,437 | **$ 78,384** | $ 54,598 |
| Net capital expenditures recorded as: | | | | |
| Expenditures on exploration and evaluation assets | **$ 7,462** | $ 11,697 | **$ 32,677** | $ 16,764 |
| Expenditures on property, plant and equipment | **16,821** | 14,868 | **45,919** | 38,045 |
| Disposition | **(106)** | (128) | **(212)** | (211) |
| **Net capital expenditures** | **$ 24,177** | $ 26,437 | **$ 78,384** | $ 54,598 |

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

Net capital expenditures during the three months ended September 30, 2021 are primarily related to:

- Drilling and completion of the San Marcos-1 exploration well;
- Drilling and completion of the Aguas Vivas-2 appraisal well;
- Drilling and completion of the Aguas Vivas-3 appraisal well;
- Facility related costs of the VIM-5 block;
- Workovers of the Pandereta-2, Nelson-8 and Nelson-9 wells;
- Facility related costs of the Esperanza block; and
- Seismic related costs of the SNNJ-7 and VMM-45, VMM-47 and VMM-49 blocks.

## Liquidity and Capital Resources

### Foreign Currency Risk

As at September 30, 2021, the COP to the USD exchange rate was 3,835:1 (December 31, 2020 – 3,433:1) and the CAD to USD exchange rate was 1.27:1 (December 31, 2020 – 1.27:1). The 12% devaluation of the COP resulted in the reduction of certain expenditures and liabilities as at and during the three and nine months ended September 30, 2021. In addition, the total deferred income tax expense of $12.6 million recognized during the nine months ended September 30, 2021 was mainly as a result of the devaluation of COP to USD.

During the three and nine months ended September 30, 2021, the Corporation held no foreign exchange contract.

As a result of recent world events, the Corporation is currently benefiting from the recent devaluation of the COP. The decline of the COP against the USD effectively reduces COP denominated expenditures including capital expenditures, operating costs and G&A for the remainder of 2021, as compared to the Corporation's original budget estimates.

### Capital Management

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

On June 17, 2021, the Corporation entered into a three year term credit agreement with Banco Davivienda ("Colombia Bank Debt") for a principal amount of $12.9 million denominated in COP, which is subject to an annual interest rate of Reference Bank Indicator ("IBR") plus 2.5% (IBR was 1.86% at the agreement date). The Colombia Bank Debt was used to repay the Corporation's litigation settlement liability, which was subject to an 8.74% annual interest rate. As a result of a lower interest rate, the Corporation will realize annual interest savings of approximately $0.6 million (lower interest rate of 4.38% at the agreement date).

On August 12, 2021, the Corporation amended its Bridge Loan to extend both the term and the availability period of undrawn amounts from July 31, 2022 to July 31, 2023. The Bridge Loan was entered into by the Corporation to construct and own the Medellin pipeline (the "Project"), with Canacol being the guarantor throughout the outstanding term of the Bridge Loan. During the term, Canacol intends to divest between 75% to 100% ownership of the Project, while maintaining up to a 25% working interest in the ownership with Canacol being the guarantor throughout the outstanding term of the Bridge Loan.

The Corporation's Senior Notes, Credit Suisse 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 September 30, 2021, the Corporation was in compliance with the covenants.

| | September 30, 2021 | December 31, 2020 |
|---|---|---|
| Senior Notes - principal (7.25%) | **$ 320,000** | $ 320,000 |
| Credit Suisse Bank Debt - principal (LIBOR + 4.25%)(1) | **30,000** | 30,000 |
| Bridge Loan - principal (LIBOR + 4.25%)(1) | **25,000** | 25,000 |
| Operating Loan - principal (IBR + 1.5%)(2) | **2,608** | 2,913 |
| Colombia Bank Debt - principal (IBR + 2.5%)(2)(3) | **12,569** | — |
| Litigation settlement liability (8.74%)(3) | **—** | 14,353 |
| Lease obligation (5.1%) | **19,015** | 22,943 |
| Total debt | **409,192** | 415,209 |
| Less: working capital surplus | **(37,996)** | (73,404) |
| **Net debt** | **$ 371,196** | **$ 341,805** |

(1) The LIBOR rate during the three and nine months ended September 30, 2021 was 0.116% and 0.171%, respectively.
(2) The IBR rate during the three and nine months ended September 30, 2021 was 2.45% and 1.96%, respectively.
(3) During the nine months ended September 30, 2021, the Corporation replaced its litigation settlement liability, which was subject to an 8.74% annual interest rate with its Colombia Bank Debt, which is subject to a significantly lower annual interest rate of IBR plus 2.5% (IBR was 1.86% at the agreement date), resulting in significant interest savings going forward.

The Consolidated Leverage Ratio is calculated as follows:

| | September 30, 2021 | December 31, 2020 |
|---|---|---|
| Total debt | **$ 409,192** | $ 415,209 |
| Less: cash and cash equivalents | **(43,114)** | (68,280) |
| Net debt for covenant purposes | **$ 366,078** | $ 346,929 |
| EBITDAX | **$ 191,131** | $ 187,529 |
| **Consolidated Leverage Ratio** | **1.92** | **1.85** |

The Consolidated Interest Coverage Ratio is calculated as follows:

| | September 30, 2021 | December 31, 2020 |
|---|---|---|
| EBITDAX | **$ 191,131** | $ 187,529 |
| Interest expense, excluding non-cash expenses | **$ 31,269** | $ 30,788 |
| **Consolidated Interest Coverage Ratio** | **6.11** | **6.09** |

As at November 3, 2021, the Corporation had 176.7 million common shares, 10 million stock options and 1 million restricted share units outstanding.

### Contractual Obligations

The following table provides a summary of the Corporation's cash requirements to meet its financial liabilities and contractual obligations existing at September 30, 2021:

| | Less than 1 year | 1-3 years | Thereafter | Total |
|---|---|---|---|---|
| Long-term debt – principal | $ 19,751 | $ 50,426 | $ 320,000 | $ 390,177 |
| Lease obligations – undiscounted | 4,903 | 6,837 | 10,365 | 22,105 |
| Trade and other payables | 59,582 | — | — | 59,582 |
| Dividend payable | 7,214 | — | — | 7,214 |
| Taxes payable | 5,262 | — | — | 5,262 |
| Other long term obligations | — | 3,844 | — | 3,844 |
| Restricted share units | 1,292 | — | — | 1,292 |
| Exploration and production contracts | 5,273 | 34,172 | 16,426 | 55,871 |
| Compression station operating contracts | 2,648 | 5,456 | 9,335 | 17,439 |
| | **$ 105,925** | **$ 100,735** | **$ 356,126** | **$ 562,786** |

### Sustainability

Canacol continues to be committed to strengthening its environmental, social and governance ("ESG") strategy. Canacol enthusiastically supports global goals to meet the Paris Agreement targets as well as Colombia's commitment to a 51% reduction in emissions by 2030, of which natural gas will play a crucial role in a fair and equitable energy transition.

The Corporation's purpose with regards ESG matters is to improve the quality of life of millions of people through the exploration, production and supply of conventional natural gas in Colombia. Alongside this, the Corporation's objective is to generate value for its stakeholders in a sustainable, collaborative, co-responsible, respectful and transparent way. With the Corporation's transition to natural gas, it now has an environmentally friendly value proposition that contributes to the reduction of CO2 emissions in Colombia and provides for a more efficient use of resources.

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

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

In 2021, the Corporation has made substantial improvements not only in the many ESG aspects related to its business but also in the way it manages and reports sustainability to its stakeholders. For the remainder of 2021 and beyond, the Corporation is committed to developing and maintaining a robust ESG strategy and, as such, has developed a six-year plan with the following four priorities:

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

The Corporation has identified specific targets as part of the six-year plan that encompass the four priorities, including such things as further reduction targets for CO2 emissions, a year over year increase in renewable and low-or-no carbon sources of energy, the establishment of biodiversity conservation agreements with local stakeholders, the implementation of a 100% zero waste model for the Corporation's operations, further strengthening of its diverse and inclusive work environment and the demonstration of zero tolerance for corruption and human rights violations.

### Letters of Credit

At September 30, 2021, the Corporation had letters of credit outstanding totaling $76 million to guarantee work commitments on exploration blocks in Colombia and to guarantee other contractual commitments, of which, $4.1 million financial guarantees relate to certain petroleum assets previously sold, which are scheduled to be transferred no later than December 31, 2022.

### Exploration and Production Contracts

The Corporation has entered into a number of exploration contracts in Colombia which require the Corporation to fulfill work program commitments and issue financial guarantees related thereto. In aggregate, the Corporation has outstanding exploration commitments at September 30, 2021 of $55.9 million and has issued $33.4 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 September 30, 2021 and a receivable balance of $6.4 million. Two members of key management of Canacol are also members of the board of directors of Arrow.

During the nine months ended September 30, 2020, the Corporation entered into a sixth and seventh amended promissory note with Arrow. The most recent amendment includes a new principal amount of $6.4 million, an annual interest rate of 15%, and the following repayment terms: i) $3.2 million, which was paid on October 27, 2021 through the receipt of Arrow shares, following their recent Alternative Investment Market ("AIM") financing of approximately C$15 million, which brings Canacol's ownership of Arrow to 19.9% and ii) half of the remaining balance of $3.2 million will be paid no later than December 31, 2022 and the other half will be paid no later than June 30, 2023. As such, the Corporation has classified $3.2 million of its $6.4 million receivable balance as non-current as at September 30, 2021.

## OUTLOOK

For the remainder of 2021, the Corporation anticipates the completion of an eleven well drilling program, which will be marked by the drilling of the Siku-1 exploration well. With respect to the Medellin pipeline project, the Corporation continues to focus on the following activities related to the pipeline project, all of which are anticipated to be completed by the end of Q1 2022: 1) finalize work on the environmental permit to submit to the ANLA for approval, 2) finalize the selection of the construction company that will be responsible for building and operating the pipeline, 3) arrange the necessary financing as required to execute the project, and 4) continue to negotiate and execute an additional 45 MMscfpd of gas sales contracts with consumers in the interior to fill the initial 100 MMscfpd capacity of the pipeline.

## SUMMARY OF QUARTERLY RESULTS

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

| | 2021 | | | 2020 | | | | 2019 |
|---|---|---|---|---|---|---|---|---|
| | **Q3** | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 |
| **Financial** | | | | | | | | |
| Total natural gas, LNG and crude oil revenues, net of royalties and transportation expense | **72,802** | 59,969 | 65,818 | 63,976 | 57,429 | 54,405 | 70,994 | 65,795 |
| Adjusted funds from operations(1)(2) | **38,227** | 33,643 | 38,085 | 35,251 | 33,409 | 31,181 | 45,281 | 33,004 |
| Per share – basic ($)(1) | **0.22** | 0.19 | 0.21 | 0.20 | 0.18 | 0.17 | 0.25 | 0.18 |
| Per share – diluted ($)(1) | **0.22** | 0.19 | 0.21 | 0.20 | 0.18 | 0.17 | 0.25 | 0.18 |
| Cash flow (used) provided by operating activities(2) | **57,046** | (13) | 37,900 | 26,477 | 50,016 | 37,814 | 38,018 | 37,181 |
| Net income (loss) and comprehensive income (loss) | **8,790** | 2,424 | (3,062) | 921 | 2,609 | 17,715 | (25,988) | 25,432 |
| Per share – basic ($) | **0.05** | 0.01 | (0.02) | 0.01 | 0.01 | 0.10 | (0.14) | 0.14 |
| Per share – diluted ($) | **0.05** | 0.01 | (0.02) | 0.01 | 0.01 | 0.10 | (0.14) | 0.14 |
| EBITDAX(1) | **53,836** | 44,638 | 46,716 | 45,941 | 42,303 | 40,415 | 58,870 | 43,144 |
| Weighted average shares outstanding – basic | **177,245** | 179,289 | 179,515 | 179,764 | 180,980 | 180,916 | 180,931 | 179,238 |
| Weighted average shares outstanding – diluted | **177,245** | 179,289 | 179,515 | 179,764 | 181,495 | 181,484 | 181,811 | 181,412 |
| Capital expenditures, net of dispositions | **24,177** | 26,363 | 27,844 | 29,366 | 26,437 | 8,269 | 19,892 | 21,514 |
| **Operations** | | | | | | | | |
| Natural gas, LNG and crude oil production(1) | | | | | | | | |
| Natural gas and LNG (MMscfpd) | **192,402** | 173,117 | 179,474 | 170,087 | 162,012 | 151,127 | 201,398 | 180,986 |
| Colombia oil (bopd) | **394** | 262 | 256 | 287 | 317 | 245 | 315 | 309 |
| Total (boepd) | **34,149** | 30,633 | 31,743 | 30,127 | 28,740 | 26,758 | 35,648 | 32,061 |
| Realized contractual sales, before royalties(1) | | | | | | | | |
| Natural gas and LNG (MMscfpd) | **190,553** | 171,463 | 177,633 | 169,763 | 162,984 | 152,248 | 201,524 | 180,753 |
| Colombia oil (bopd) | **168** | 209 | 307 | 300 | 347 | 197 | 298 | 301 |
| Total (boepd) | **33,598** | 30,290 | 31,471 | 30,083 | 28,941 | 26,907 | 35,653 | 32,012 |
| Operating netbacks(1) | | | | | | | | |
| Natural gas and LNG ($/Mcf) | **3.49** | 3.14 | 3.36 | 3.58 | 3.47 | 3.63 | 3.60 | 3.58 |
| Colombia oil ($/bbl) | **30.93** | 33.54 | 34.06 | 23.04 | 17.04 | 12.16 | 20.13 | 27.08 |
| Corporate ($/boe) | **19.96** | 17.98 | 19.33 | 20.44 | 19.76 | 20.61 | 20.49 | 20.49 |

(1) Non-IFRS measure – see “Non-IFRS Measures” section above.
(2) Adjusted funds from operations represents cash flow provided by operating activities before certain adjustments related to: i) changes in non-cash working capital of $2.1 million, primarily due to certain income tax expense cash payments (see the “Income Tax Expense” section in this MD&A), offset by the majority of the 2020 prepaid tax installments totaling $9 million being received from the Colombian tax authority during the three months ended September 30, 2021 and ii) the payment of the remaining outstanding balance of the Corporation’s litigation settlement liability of $13.1 million.

## RISKS AND UNCERTAINTIES

There have been no significant changes in the three months ended September 30, 2021 to the risks and uncertainties as identified in the MD&A for the year ended December 31, 2020.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

## CHANGES IN ACCOUNTING POLICIES

The Corporation has not implemented new accounting policies during the three months ended September 30, 2021.

## REGULATORY POLICIES

**Disclosure Controls and Procedures**

Disclosure Controls and Procedures ("DC&P") are designed to provide reasonable assurance that all material information is gathered and reported on a timely basis to senior management so that appropriate decisions can be made regarding public disclosure and that information required to be disclosed by the issuer under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation. The Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), along with other members of management, have designed, or caused to be designed under the CEO and CFO's supervision, DC&P and established processes to ensure that they are provided with sufficient knowledge to support the representations made in the interim certificates required to be filed under National Instrument 52-109.

**Internal Controls over Financial Reporting**

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

During the three months ended September 30, 2021, 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.