CANACOL ENERGY LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2021

FINANCIAL & OPERATING HIGHLIGHTS

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

Financial	Three months ended December 31, 2021	2020	Change	Year ended December 31, 2021	2020	Change
Total natural gas, LNG and crude oil revenues, net of royalties and transportation expense	**77,073**	63,976	20%	**275,662**	246,804	12%
Adjusted funds from operations[1][2]	**43,691**	35,251	24%	**153,847**	145,122	6%
Per share – basic ($)[1]	**0.25**	0.20	25%	**0.86**	0.80	7%
Per share – diluted ($)[1]	**0.25**	0.20	25%	**0.86**	0.80	7%
Net income (loss) and other comprehensive income (loss)	**7,024**	921	662%	**15,177**	(4,743)	n/a
Per share – basic ($)	**0.04**	0.01	300%	**0.09**	(0.03)	n/a
Per share – diluted ($)	**0.04**	0.01	300%	**0.09**	(0.03)	n/a
Cash flow provided by operating activities[2]	**28,881**	26,477	9%	**123,814**	152,325	(19%)
Per share – basic ($)[1]	**0.16**	0.15	7%	**0.70**	0.84	(17%)
Per share – diluted ($)[1]	**0.16**	0.15	7%	**0.70**	0.84	(17%)
Adjusted EBITDAX[1]	**49,198**	45,941	7%	**194,390**	187,528	4%
Weighted average shares outstanding – basic	**176,558**	179,764	(2%)	**178,141**	180,646	(1%)
Capital expenditures, net of dispositions[1]	**21,556**	29,366	(27%)	**99,940**	83,964	19%
				December 31, 2021	December 31, 2020	Change
Cash and cash equivalents				**138,523**	68,280	103%
Working capital surplus				**148,124**	73,404	102%
Total debt				**557,709**	415,209	34%
Total assets				**843,760**	749,792	13%
Common shares, end of period (000's)				**176,167**	179,515	(2%)

Operating	Three months ended December 31, 2021	2020	Change	Year ended December 31, 2021	2020	Change
Natural gas, LNG and crude oil production[1]						
Natural gas and LNG (MMscfpd)	**186,145**	170,087	9%	**182,829**	171,126	7%
Colombia oil (bopd)	**244**	287	(15%)	**289**	291	(1%)
Total (boepd)	**32,901**	30,127	9%	**32,364**	30,313	7%
Realized contractual sales[1]						
Natural gas and LNG (MMscfpd)	**185,896**	169,763	10%	**181,434**	171,600	6%
Colombia oil (bopd)	**490**	300	63%	**294**	286	3%
Total (boepd)	**33,103**	30,083	10%	**32,124**	30,392	6%
Operating netbacks[1]						
Natural gas and LNG ($/Mcf)	**3.59**	3.58	—	**3.40**	3.57	(5%)
Colombia oil ($/bbl)	**21.93**	23.04	(5%)	**28.39**	18.57	53%
Corporate ($/boe)	**20.51**	20.44	—	**19.48**	20.34	(4%)

(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 adjustments related to: i) changes in non-cash working capital of $16.9 million and ii) the payment of the remaining outstanding balance of the Corporation's litigation settlement liability of $13.1 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Canacol Energy Ltd. and its subsidiaries ("Canacol" or the "Corporation") are primarily engaged in natural gas exploration and development activities in Colombia. The Corporation's head office is located at 2000, 215 - 9th Avenue SW, Calgary, Alberta, T2P 1K3, Canada. The Corporation's shares are traded on the Toronto Stock Exchange (the "TSX") under the symbol CNE, the OTCQX in the United States of America under the symbol CNNEF, the Bolsa de Valores de Colombia under the symbol CNEC and the Bolsa Mexicana de Valores under the symbol CNEN.

Advisories

The following management's discussion and analysis ("MD&A") is dated March 16, 2022 and is the Corporation's explanation of its financial performance covered by the audited consolidated financial statements of the Corporation for the years ended December 31, 2021 and 2020 (the "financial statements"), along with an analysis of the Corporation's financial position. Comments should be read in conjunction with the financial statements. The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), and all amounts herein are expressed in United States dollars ("USD"), unless otherwise noted, and all tabular amounts are expressed in thousands of USD, except per share amounts or as otherwise noted. Additional information for the Corporation, including the Annual Information Form, may be found on SEDAR at www.sedar.com.

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

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

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

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

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

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

	Three months ended December 31,		Year ended December 31,	
	2021	2020	**2021**	2020
Cash flow provided by operating activities	**$ 28,881**	$ 26,477	**$ 123,814**	$ 152,325
Changes in non-cash working capital	**14,810**	8,647	**16,906**	(7,924)
Payment of litigation settlement liability(1)(2)	**—**	—	**13,073**	—
Settlement of decommissioning obligations	**—**	127	**54**	721
Adjusted funds from operations	**$ 43,691**	$ 35,251	**$ 153,847**	$ 145,122

(1) The litigation settlement liability was related to a transportation expense dispute, and, as such, the payments were included the cash flows provided by operating activities during the year ended December 31, 2021.
(2) The payment of litigation settlement liability included the regular monthly payments of $0.2 million during the year ended December 31, 2021.

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

	2021				
	Q1	**Q2**	**Q3**	**Q4**	**Rolling**
Net income (loss) and comprehensive income (loss)	$ (3,062)	$ 2,425	$ 8,790	$ 7,024	$ 15,177
(+) Interest expense	7,754	8,078	7,587	8,069	31,488
(+) Income tax expense	17,137	4,769	16,034	5,949	43,889
(+) Depletion and depreciation	16,903	15,930	17,626	17,288	67,747
(+) Exploration expense	5,904	5,671	202	7,570	19,347
(+) Pre-license costs	163	819	538	726	2,246
(+) Unrealized foreign exchange loss	584	4,050	854	1,318	6,806
(+/-) Other non-cash expenses and non-recurring items	1,333	2,897	2,206	1,254	7,690
Adjusted EBITDAX	**$ 46,716**	**$ 44,639**	**$ 53,837**	**$ 49,198**	**$ 194,390**

In addition to the above, management uses the operating netback measures. Operating netback is a benchmark common in the oil and gas industry and is calculated as revenue, net of transportation expense, less royalties, less operating expenses, calculated on a per unit basis of sales volumes. Operating netback is an important measure in evaluating operational performance as it demonstrates profitability relative to current commodity prices.

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

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

Annual 2021 Reserves Highlights

- The Corporation's conventional natural gas proved developed producing reserves ("PDP") decreased 15% since December 31, 2020, totaling 236 billion cubic feet ("Bcf") at December 31, 2021 (39% PDP reserves replacement ratio). The Corporation's conventional natural gas total proved plus probable reserves ("2P") decreased 4% since December 31, 2020, totaling 607 Bcf at December 31, 2021 (54% 2P reserves replacement ratio). The Corporation's conventional natural gas proved reserves ("1P") decreased 7% since December 31, 2020, totaling 368 Bcf at December 31, 2021 (60% 1P reserves replacement ratio).
- 1P and 2P finding and development cost ("F&D cost") were $1.56 per Mcf and $1.20 per Mcf for the three year period ending December 31, 2021, respectively.
- The Corporation achieved a 1.8x and 3.0x 2P recycle ratio for the one and three year period ending December 31, 2021, respectively. The one-year recycle ratio was calculated based on natural gas netback for the year ended December 31, 2021 of $3.40 per Mcf, and the three-year recycle ratio was calculated based on weighted average natural gas netback for the three year ended December 31, 2021 of $3.58 per Mcf.
- The Corporation achieved a 2.3x and 2.3x 1P recycle ratio for the one and three year period ending December 31, 2021, respectively. The one-year recycle ratio was calculated based on natural gas netback for the year ended December 31, 2021 of $3.40 per Mcf, and the three-year recycle ratio was calculated based on weighted average natural gas netback for the three year ended December 31, 2021 of $3.58 per Mcf.
- The Corporation achieved a 1P and 2P Reserves life index ("RLI") of 5.4 years and 8.9 years, respectively, based on annualized fourth quarter 2021 conventional natural gas production of 186.1 MMscfpd or 32,657 Boepd.

Three Months Ended December 31, 2021 Financial and Operational Highlights

- Realized contractual natural gas and liquefied natural gas ("LNG") sales volumes increased 10% to 185.9 MMscfpd for the three months ended December 31, 2021, compared to 169.8 MMscfpd for the same period in 2020. Average natural gas and LNG production volumes increased 9% to 186.1 MMscfpd for the three months ended December 31, 2021, compared to 170.1 MMscfpd for the same period in 2020. The increase is mainly due to increased firm contract and spot market sales as a result of less COVID-19 pandemic restrictions during the three months ended December 31, 2021, compared to the same period in 2020.
- Total natural gas and LNG revenues, net of royalties and transportation expenses for the three months ended December 31, 2021 increased 10% to $67 million, compared to $60.9 million for same period in 2020, mainly attributable to an increase in natural gas production.
- Adjusted funds from operations increased 24% to $43.7 million for the three months ended December 31, 2021, compared to $35.3 million for the same period in 2020. Adjusted funds from operations per basic share increased 25% to $0.25 per basic share, compared to $0.20 per basic share in the same period in 2020.
- Adjusted EBITDAX increased 7% to $49.2 million for the three months ended December 31, 2021, compared to $45.9 million for the same period in 2020.
- The Corporation realized a net income of $7.0 million for the three months ended December 31, 2021, compared to a net income of $0.9 million for the same period in 2020, resulting in a 662% increase year over year. The increased net income was mainly due to the non-cash deferred tax expense of $12.1 million recognized during the three months ended December 31, 2020 and increased net revenues due to increased sales volumes. The deferred tax expense was primarily as a result of the de-recognition of certain deferred tax assets for non-capital losses (refer to the "Income Tax Expense" section of this MD&A for further details).
- The Corporation's natural gas and LNG operating netback slightly increased to $3.59 per Mcf in the three months ended December 31, 2021, compared to $3.58 per Mcf for the same period in 2020. The increase is mainly due to lower royalties of $0.67 per Mcf in the three months ended December 31, 2021, compared to $0.73 per Mcf for the same period in 2020, due to lower production at the Corporation's VIM-5 block, which is subject to a higher royalty rate. The increase in operating netback was offset by higher operating expenses per Mcf of $0.35 per Mcf during the three months ended December 31, 2021, compared to $0.32 per Mcf for the same period in 2020, mainly due to higher maintenance costs.
- Net capital expenditures for the three months ended December 31, 2021 were $21.6 million. Net capital expenditures included non-cash adjustments mainly related to decommissioning obligations and right-of-use leased assets of $1.5 million.
- As at December 31, 2021, the Corporation had $138.5 million in cash and cash equivalents and $148.1 million in working capital surplus. The increase in cash and cash equivalents was mainly due to the refinancing of the Corporation's Senior Notes with an incremental principal amount of $180 million. The Senior Notes interest rate was reduced from 7.25% to 5.75% per annum.

Results of Operations

For the three months ended December 31, 2021, the Corporation's production primarily consisted of natural gas from the Nelson, Palmer, Nispero, Cañahuate and San-Marcos 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".

The emergency measures enacted to combat the COVID-19 pandemic ("COVID-19"), as declared by the World Health Organization, including travel bans, self-imposed quarantine periods and social distancing, caused material disruption to businesses globally resulting in an economic downturn, including in Canada and Colombia. As a result of the economic downturn, the Corporation had lower demand for its spot sales, which make up a small portion of the Corporation's overall sales. The majority of sales are under fixed volume and priced take-or-pay contracts, which limited the impact of COVID-19.

As of the date of this MD&A, COVID-19 restrictions are 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 months and year ended December 31, 2021 were 185.9 MMscfpd and 181.4 MMscfpd, respectively, which have 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 December 31, 2021, the Corporation drilled the Corneta-1 exploration well, located on its VIM-5 block, which has been cased and suspended as a future water disposal well having encountered non-commercial volumes of gas.

During the three months ended December 31, 2021, the Corporation spud the Siku-1 exploration well, located on its VIM-5 block, reaching a total depth of 8,825 feet measured depth ("ft md") within the Cienaga de Oro ("CDO") sandstone reservoir. The well encountered 33 total vertical depth ("TVD") of net gas pay within the CDO sandstone reservoir target. The Corporation has completed casing the well and is expected to complete and tie the well into permanent production in April 2022.

During the three months ended December 31, 2021, the Corporation spud the Clarinete-6 development well located on its VIM-5 block targeting gas and reached a total depth of 7,478 ft md within the CDO sandstone reservoir. The well encountered 174 TVD of net gas pay within the CDO sandstone reservoir target. The well is currently tied in and 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 December 31,			Year ended December 31,		
	2021	2020	Change	**2021**	2020	Change
Natural Gas and LNG (MMscfpd)						
Natural gas and LNG production	**186,145**	170,087	9%	**182,829**	171,126	7%
Field consumption	**(1,561)**	(443)	252%	**(1,745)**	(42)	>1000%
Natural gas and LNG sales (1)	**184,584**	169,644	9%	**181,084**	171,084	6%
Take-or-pay volumes (2)	**1,312**	119	>1000%	**350**	516	(32%)
Realized contractual natural gas and LNG sales	**185,896**	169,763	10%	**181,434**	171,600	6%
Colombia Oil (bopd)						
Crude oil production	**244**	287	(15%)	**289**	291	(1%)
Inventory movements and other	**246**	13	>1000%	**5**	(5)	n/a
Colombia oil sales	**490**	300	63%	**294**	286	3%
Corporate (boepd / bopd)						
Natural gas and LNG production(1)	**32,657**	29,840	9%	**32,075**	30,022	7%
Colombia oil production	**244**	287	(15%)	**289**	291	(1%)
Total production	**32,901**	30,127	9%	**32,364**	30,313	7%
Field consumption and inventory	**(28)**	(65)	(57%)	**(301)**	(12)	>1000%
Total corporate sales	**32,873**	30,062	9%	**32,063**	30,301	6%
Take-or-pay volumes (2)	**230**	21	995%	**61**	91	(33%)
Total realized contractual sales	**33,103**	30,083	10%	**32,124**	30,392	6%

(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 9% increase in the natural gas and LNG production volumes during the three months ended December 31, 2021, compared to the same period in 2020, is mainly due to an increase in firm contracts sales due to: i) higher volumes contracted under firm contracts in December 2021, as compared to December 2020 and ii) certain off-takers taking less contractual downtime and less undelivered nominations, as described in 3 above, during the three months ended December 31, 2021, compared to the same period in 2020.

The 7% increase in the natural gas and LNG production volumes during the year ended December 31, 2021, compared to the same period in 2020, is mainly due to less COVID-19 restrictions in 2021 resulting in: i) an increase in spot market sales during the year ended December 31, 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 year ended December 31, 2021.

Realized contractual natural gas and LNG sales for the three months and year ended December 31, 2021 averaged approximately 185.9 and 181.4 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.

The decrease in Colombia oil production volumes during the three months ended December 31, 2021, compared to the same periods in 2020, is primarily due to natural production declines. The increase in Colombia oil sales volumes during the three months ended December 31, 2021, compared to the same period in 2020 was due to the sale of unsold inventory from prior periods.

Revenues, Net of Royalties and Transportation Expenses

	Three months ended December 31,			Year ended December 31,		
	2021	2020	Change	**2021**	2020	Change
Natural Gas and LNG						
Natural gas and LNG revenues	**$ 85,161**	$ 79,787	7%	**$ 323,738**	$ 315,623	3%
Transportation expenses	**(6,904)**	(7,554)	(9%)	**(34,580)**	(32,015)	8%
Revenues, net of transportation expenses	**78,257**	72,233	8%	**289,158**	283,608	2%
Royalties	**(11,294)**	(11,381)	(1%)	**(45,805)**	(43,264)	6%
Revenues, net of royalties and transportation expenses	**$ 66,963**	$ 60,852	10%	**$ 243,353**	$240,344	1%
Colombia Oil						
Crude oil revenues	**$ 2,957**	$ 942	214%	**$ 6,101**	$ 3,377	81%
Transportation expenses	**(267)**	(1)	>1,000%	**(302)**	14	n/a
Revenues, net of transportation expenses	**2,690**	941	186%	**5,799**	3,391	71%
Royalties	**(232)**	(71)	227%	**(471)**	(257)	83%
Revenues, net of royalties and transportation expenses	**$ 2,458**	$ 870	183%	**$ 5,328**	$ 3,134	70%
Corporate						
Natural gas and LNG revenues	**$ 85,161**	$ 79,787	7%	**$ 323,738**	$ 315,623	3%
Crude oil revenues	**2,957**	942	214%	**6,101**	3,377	81%
Total revenues	**88,118**	80,729	9%	**329,839**	319,000	3%
Royalties	**(11,526)**	(11,452)	1%	**(46,276)**	(43,521)	6%
Natural gas, LNG and crude oil production revenues, net of royalties	**76,592**	69,277	11%	**283,563**	275,479	3%
Take-or-pay natural gas and LNG income (2)	**482**	59	717%	**506**	1,131	(55%)
Natural gas, LNG and crude oil revenues, net of royalties, as reported	**77,074**	69,336	11%	**284,069**	276,610	3%
Natural gas trading revenues	**7,170**	2,195	227%	**26,475**	2,195	>1,000%
Total natural gas, LNG and crude oil revenues, after royalties	**84,244**	71,531	18%	**310,544**	278,805	11%
Transportation expenses	**(7,171)**	(7,555)	(5%)	**(34,882)**	(32,001)	9%
Total revenues, net of royalties and transportation expenses	**$ 77,073**	$ 63,976	20%	**$ 275,662**	$246,804	12%

Natural Gas and LNG Realized Contractual Sales

During the three months and year ended December 31, 2021, the Corporation realized $0.5 million and $0.5 million of take-or-pay income (as described in (2) on page 7 of this MD&A), respectively, which is equivalent to 1.3 MMscfpd and 0.4 MMscfpd, of natural gas and LNG sales, respectively, without actual delivery of the natural gas or LNG.

As at December 31, 2021, the Corporation had deferred income of $5.2 million which related to undelivered natural gas and LNG sales nominations for which the off-takers have a legal right to take delivery at a later maturity date within the next twelve months.

Natural Gas Trading

	Three months ended December 31,			Year ended December 31,		
	2021	2020	Change	**2021**	2020	Change
Natural gas trading revenue	**$ 7,170**	$ 2,195	227%	**$ 26,475**	$ 2,195	>1,000%
Natural gas trading purchase cost	**(7,009)**	(2,170)	223%	**(26,206)**	(2,170)	>1,000%
Natural gas trading profit	**$ 161**	$ 25	544%	**$ 269**	$ 25	976%

The Corporation recognized $7.2 million (2020 - $2.2 million) and $26.5 million (2020 - $2.2 million) of natural gas trading revenue and incurred gas purchase costs of $7 million (2020 - $2.2 million) and $26.2 (2020 - $2.2 million) during the three months and year ended December 31, 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 decreased 9% during the three months ended December 31, 2021, compared to the same period in 2020, primarily due to the decrease in natural gas sales volume subject to transportation expenses, as described above, compared to the same period in 2020.

Natural gas transportation expenses increased 8% during the year ended December 31, 2021, compared to the same period in 2020, primarily due to the increase in natural gas sales volume subject to transportation expenses, as described above, compared to the same period in 2020.

Natural Gas Royalties

	Three months ended December 31,			Year ended December 31,		
	2021	2020	Change	**2021**	2020	Change
Natural Gas						
Esperanza royalties	**$ 1,790**	$ 2,225	(20%)	**$ 7,341**	$ 10,524	(30%)
VIM-5 royalties	**7,638**	8,870	(14%)	**34,791**	32,021	9%
VIM-21 royalties	**1,866**	286	552%	**3,673**	719	411%
Royalty expense	**$ 11,294**	$ 11,381	(1%)	**$ 45,805**	$ 43,264	6%
Natural Gas Royalty Rates						
Esperanza	**7.3%**	7.8%	(6%)	**7.7%**	8.7%	(11%)
VIM-5	**23.2%**	22.0%	5%	**23.0%**	20.9%	10%
VIM-21	**9.3%**	9.5%	(2%)	**9.4%**	9.5%	(2%)
Natural gas royalty rate	**14.4%**	15.8%	(9%)	**15.8%**	15.3%	3%

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 decreased 9% to 14.4% during the three months ended December 31, 2021, compared to 15.8% for the same period in 2020, mainly due to lower production at the VIM-5 block, which is subject to a higher royalty rate.

The natural gas royalty rate increased 3% to 15.8% during the year ended December 31, 2021, compared to 15.3% for the same period in 2020, 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 2021 as the Corporation performed 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 2022.

Average Benchmark and Realized Sales Prices, Net of Transportation

	Three months ended December 31,			Year ended December 31,		
	2021	2020	Change	**2021**	2020	Change
Average Benchmark Prices						
Henry Hub ($/Mcf)	**$ 4.85**	$ 2.77	75%	**$ 3.71**	$ 2.13	74%
Alberta Energy Company ("AECO") ($/Mcf)	**$ 3.89**	$ 2.18	78%	**$ 2.91**	$ 1.68	73%
Brent ($/bbl)	**$ 79.80**	$ 45.21	77%	**$ 70.78**	$ 43.28	64%
Average Sales Prices, Net of Transportation						
Natural gas and LNG ($/Mcf)	**$ 4.61**	$ 4.63	—	**$ 4.37**	$ 4.53	(4%)
Colombia oil ($/bbl)	**$ 59.67**	$ 34.09	75%	**$ 54.04**	$ 32.40	67%
Corporate average ($/boe)	**$ 26.77**	$ 26.46	1%	**$ 25.20**	$ 25.88	(3%)

The sales prices of the Corporation's natural gas sales contracts are largely fixed, with a portion of its portfolio sold on the spot market. The Corporation's transportation expenses associated with the spot sales are compensated by higher gross sales prices, resulting in realized sales prices, net of transportation that are consistent with the Corporation's fixed-priced contracts.

The decrease in average natural gas and LNG sales prices, net of transportation during the three months and year ended December 31, 2021, compared to the same periods in 2020, is mainly due lower priced fixed contracts, offset by higher priced interruptible contract sales. The increase in higher spot market sales prices was a result of less COVID-19 restrictions during the three months and year ended December 31, 2021.

The increase in average crude oil sales prices during the three months and year ended December 31, 2021, compared to the same periods in 2020, is mainly due to increased benchmark crude oil prices.

Operating Expenses

	Three months ended December 31,			Year ended December 31,		
	2021	2020	Change	**2021**	2020	Change
Natural gas and LNG	**$ 5,952**	$ 4,961	20%	**$ 18,418**	$ 16,815	10%
Colombia oil	**1,469**	234	528%	**2,281**	1,190	92%
Total operating expenses	**$ 7,421**	$ 5,195	43%	**$ 20,699**	$ 18,005	15%
Natural gas and LNG ($/Mcf)	**$ 0.35**	$ 0.32	9%	**$ 0.28**	$ 0.27	4%
Colombia oil ($/bbl)	**$ 32.59**	$ 8.48	284%	**$ 21.26**	$ 11.37	87%
Corporate ($/boe)	**$ 2.45**	$ 1.88	30%	**$ 1.77**	$ 1.62	9%

Natural gas and LNG operating expenses per Mcf increased 9% to $0.35 per Mcf for the three months ended December 31, 2021, compared to $0.32 per Mcf for the same period in 2020. The increase is mainly due to maintenance performed during the three months ended December 31, 2021, which would normally be performed throughout the year. The increase was offset by higher natural gas sales volumes, compared to the same period in 2020.

Natural gas and LNG operating expenses per Mcf increased 4% to $0.28 per Mcf for the year ended December 31, 2021, compared to $0.27 per mcf for the same period in 2020. The operating expenses were higher for the year ended December 31, 2021, mainly due to higher labour, equipment rental and regular maintenance costs, offset by higher natural gas sales volumes, compared to the same period in 2020.

Crude oil operating expenses increased 528% and 92% for three months and year ended December 31, 2021, compared to the same periods in 2020, mainly due to: i) lower partner recovery of operating costs due to benchmark prices exceeding $70/bbl, in accordance with the operating agreement and ii) a non-recurring recovery of gas purchases recognized in Q4 2020. In addition, operating expenses were higher in Q4 2021 due to increased inventory being sold during the three months ended December 31, 2021, compared to the same period in 2020.

Operating Netbacks

	Three months ended December 31,			Year ended December 31,		
$/Mcf	**2021**	2020	Change	**2021**	2020	Change
Natural Gas and LNG						
Revenue, net of transportation expense	**$ 4.61**	$ 4.63	—	**$ 4.37**	$ 4.53	(4%)
Royalties	**(0.67)**	(0.73)	(8%)	**(0.69)**	(0.69)	—
Operating expenses	**(0.35)**	(0.32)	9%	**(0.28)**	(0.27)	4%
Operating netback	**$ 3.59**	$ 3.58	—	**$ 3.40**	$ 3.57	(5%)

	Three months ended December 31,			Year ended December 31,		
$/bbl	**2021**	2020	Change	**2021**	2020	Change
Colombia oil						
Revenue, net of transportation expense	**$ 59.67**	$ 34.09	75%	**$ 54.04**	$ 32.40	67%
Royalties	**(5.15)**	(2.57)	100%	**(4.39)**	(2.46)	78%
Operating expenses	**(32.59)**	(8.48)	284%	**(21.26)**	(11.37)	87%
Operating netback	**$ 21.93**	$ 23.04	(5%)	**$ 28.39**	$ 18.57	53%

	Three months ended December 31,			Year ended December 31,		
$/boe	**2021**	2020	Change	**2021**	2020	Change
Corporate						
Revenue, net of transportation expense	**$ 26.77**	$ 26.46	1%	**$ 25.20**	$ 25.88	(3%)
Royalties	**(3.81)**	(4.14)	(8%)	**(3.95)**	(3.92)	1%
Operating expenses	**(2.45)**	(1.88)	30%	**(1.77)**	(1.62)	9%
Operating netback	**$ 20.51**	$ 20.44	—	**$ 19.48**	$ 20.34	(4%)

General and Administrative Expenses

	Three months ended December 31,			Year ended December 31,		
	2021	2020	Change	**2021**	2020	Change
Gross costs	**$ 11,053**	$ 9,783	13%	**$ 35,388**	$ 32,513	9%
Less: capitalized amounts	**(1,581)**	(1,885)	(16%)	**(5,804)**	(5,684)	2%
General and administrative expenses	**$ 9,472**	$ 7,898	20%	**$ 29,584**	$ 26,829	10%
$/boe	**$ 3.13**	$ 2.86	9%	**$ 2.53**	$ 2.42	5%

General and administrative ("G&A") gross costs increased 13% and 9% during the three months and year ended December 31, 2021, compared to the same periods in 2020, respectively, mainly due to higher personnel costs, legal costs mainly related to environmental consulting, offset by lower public company costs.

G&A per boe increased during the three months and year ended December 31, 2021, compared to the same periods in 2020, mainly due to increased costs, as described above, which were offset by higher natural gas and LNG sales volumes during the year ended December 31, 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 December 31,			Year ended December 31,		
	2021	2020	Change	**2021**	2020	Change
Net financing expense paid	**$ 8,990**	$ 7,533	19%	**$ 31,669**	$ 28,662	10%
Non-cash net financing (income) expenses	**(229)**	891	n/a	**2,738**	2,350	17%
Net finance expense	**$ 8,761**	$ 8,424	4%	**$ 34,407**	$ 31,012	11%

Net finance expense increased 4% and 11% during the three months and year ended December 31, 2021, compared to the same periods in 2020, respectively, mainly due to: i) the amortization of upfront transaction costs and interest expense related to the refinancing of the Senior Notes completed in Q4 2021, as a result of a higher principal amount of $500 million, offset by a lower interest rate of 5.75% compared to 7.25% and ii) a loss of $1.9 million related to the prepayment of the Credit Suisse Bank Debt. The increase was offset by: i) a gain of $2.5 million recognized in relation to the refinancing of the Senior Notes, ii) 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 and iii) the payment of the Credit Suisse Bank Debt principal amount of $30 million in Q4 2021.

The increased net finance expense during the year ended December 31, 2021 was also related to: i) interest income of $1 million earned on proceeds owed to the Corporation related to a litigation settlement ruled in favor of the Corporation in Q2 2020, ii) a gain on modification of long-term debt of $1.2 million recognized in Q2 2020 related to the amendment of the Credit Suisse Bank Debt and iii) interest expense related to the Corporation's undrawn revolving credit facility, offset by a lower amended Credit Suisse Bank Debt floating interest rate of LIBOR + 4.25% (LIBOR rate was 0.3% at the amendment date) from a fixed rate of 6.875% in Q2 2020.

Stock-Based Compensation Expense

	Three months ended December 31,			Year ended December 31,		
	2021	2020	Change	**2021**	2020	Change
Equity-settled unit expense	**$ 139**	$ (109)	n/a	**$ 652**	$ 1,509	(57%)
Cash-settled unit expense	**769**	639	20%	**3,898**	4,400	(11%)
Stock-based compensation	**$ 908**	$ 530	71%	**$ 4,550**	$ 5,909	(23%)

Equity-settled expense is a non-cash expense recognized based on the fair value of stock option 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. Equity-settled unit expense increased during the three months ended December 31, 2021, compared to the same period in 2020, mainly due an adjustment made in 2020 which reduced the fair value of granted stock options as a result of the impact of the Corporation's dividend distribution. Stock-based compensation decreased during the year ended December 31, 2021, compared to the same period in 2020, since there were no stock options granted in 2021.

Cash-settled unit expense is a non-cash amortization of restricted share units ("RSUs") and performance share units ("PSUs"), which are expected to be settled in cash, amortized over their respective vesting terms and revalued each period based on the Corporation's share price. Cash-settled unit expense increased during the three months ended December 31, 2021 mainly due to more units being amortized. Cash-settled unit expense decreased during the year ended December 31, 2021 due to a lower share price as at December 31, 2021, compared to 2020.

Depletion and Depreciation Expense

	Three months ended December 31,			Year ended December 31,		
	2021	2020	Change	**2021**	2020	Change
Depletion and depreciation expense	**$ 17,288**	$ 16,314	6%	**$ 67,747**	$ 64,539	5%
$/boe	**$ 5.72**	$ 5.90	(3%)	**$ 5.79**	$ 5.82	(1%)

Depletion and depreciation expense increased 6% and 5% during the three months and year ended December 31, 2021, compared to the same periods in 2020, respectively, primarily as a result of increased natural gas production.

Income Tax Expense

	Three months ended December 31,		Year ended December 31,	
	2021	2020	**2021**	2020
Current income tax expense	**$ 4,565**	$ 8,082	**$ 29,932**	$ 30,769
Deferred income tax expense	**$ 1,384**	12,067	**13,957**	51,370
Income tax expense	**$ 5,949**	$ 20,149	**$ 43,889**	$ 82,139

The Corporation's pre-tax income was subject to the Colombian statutory income tax rate of 31% for the three months and year ended December 31, 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 year ended December 31, 2021 of $14 million was mainly as a result of the 16% devaluation of the COP to USD as at December 31, 2021 of 3,981:1, 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.

During the year ended December 31, 2020, in an effort to simplify Canacol's organizational structure, the Corporation merged certain entities (the "Merger") by way of an absorptive merger process as permitted under Colombian law. The absorbing entity had non-capital losses which were previously recognized as a deferred tax asset. Subsequent to the completion of the Merger, Colombia's Council of State issued a unification ruling concerning the treatment of tax losses in the context of mergers. This ruling significantly limits the ability of the absorbing entity to utilize its existing losses post merger. For more than 15 years, it has been accepted by the Colombian Taxation Authorities and in decisions of the Council of State, that, in the case of mergers, the absorbing company can utilize 100% of its tax losses accumulated up to the merger to offset future profits realized after the merger. The Corporation is in the process of presenting a Constitutional challenge against the interpretation of the relevant article in Colombia's Tax Statute in the Constitutional Court on the basis that such new interpretation violates the constitutional principles of Tax Justice, Equity and Neutrality and that based on the new interpretation of the Council of State, the relevant part of the article must be declared unconstitutional. As the outcome of the challenge is currently unknown, the Corporation de-recognized $29.7 million in association with such non-capital losses during the year ended December 31, 2020. In the event that the Constitutional Court challenge is successful, at that time, the Corporation will recognize a deferred tax asset and realize a deferred tax recovery as it will have the ability to utilize the losses against future taxable income.

Income Tax Cash Payments

	Three months ended December 31,		Year ended December 31,	
	2021	2020	**2021**	2020
Income taxes paid	**$ 12,125**	$ 9,533	**$ 44,061**	$ 33,695

During the year ended December 31, 2021, 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 $12.1 million and $32.7 million during the three months and year ended December 31, 2021, respectively.

Assets and Liabilities Held for Sale

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

Capital Expenditures

	Three months ended December 31,		Year ended December 31,	
	2021	2020	**2021**	2020
Drilling and completions	**$ 8,253**	$ 14,797	**$ 49,459**	$ 44,434
Facilities, workovers and infrastructure	**6,718**	7,995	**25,320**	24,516
Land, seismic, communities and other	**4,961**	1,637	**18,135**	10,874
Capitalized G&A	**1,581**	1,885	**5,804**	5,684
Net proceeds on disposition of property, plant and equipment	**—**	(56)	**(297)**	(114)
Net cash capital expenditures	**21,513**	26,258	**98,421**	85,394
Non-cash costs and adjustments:				
Right-of-Use leased assets	**886**	239	**1,392**	1,664
Disposition	**(1,456)**	(142)	**(1,371)**	(295)
Non-cash costs and adjustments(1)	**613**	3,011	**1,498**	(2,799)
Net capital expenditures	**$ 21,556**	$ 29,366	**$ 99,940**	$ 83,964
Net capital expenditures recorded as:				
Expenditures on exploration and evaluation assets	**$ 8,888**	$ 8,747	**$ 41,565**	$ 25,511
Expenditures on property, plant and equipment	**14,124**	20,817	**60,043**	58,862
Disposition	**(1,456)**	(198)	**(1,668)**	(409)
Net capital expenditures	**$ 21,556**	$ 29,366	**$ 99,940**	$ 83,964

(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 December 31, 2021 are primarily related to:

- San Marcos-1 exploration well completion costs;
- Clarinete-6 development well drilling and completion costs;
- Corneta-1 exploration well drilling costs;
- Siku-1 exploration well drilling costs;
- VIM-5 and Esperanza block facility costs;
- Medellin pipeline pre-construction costs; and
- Land, seismic and other costs at the VIM-21, SNNJ-7, VMM-47 and VMM-45 blocks.

Liquidity and Capital Resources

Foreign Currency Risk

As at December 31, 2021, the COP to the USD exchange rate was 3,981:1 (December 31, 2020 – 3,433:1) and the CAD to USD exchange rate was 1.27:1 (December 31, 2020 – 1.27:1). The 16% devaluation of the COP resulted in the reduction of certain expenditures and liabilities as at and during the three months and year ended December 31, 2021. In addition, the total deferred income tax expense of $14.0 million recognized during the year ended December 31, 2021 was mainly as a result of the devaluation of COP to USD.

During the three months and year ended December 31, 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 2022, 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.

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.

On November 24, 2021, the Corporation completed a private offering of senior unsecured notes in the aggregate principal amount of $500 million ("2028 Senior Notes"). The 2028 Senior Notes will pay interest semi-annually at a rate of 5.75% per annum, and will mature in 2028, unless earlier redeemed or repurchased in accordance with their terms. The 2028 Senior Notes will be fully and unconditionally guaranteed by certain subsidiaries of Canacol. In connection with the 2028 Senior Notes offering, the Corporation entered into a tender offer with Credit Suisse Securities (USA) LLC ("Purchaser") to purchase any and all of the outstanding $320 million Senior Notes due in 2025 ("Tender Offer"), which were subject to a 7.25% interest rate ("2025 Senior Notes"). The total consideration paid for each $1,000 principal amount of the 2025 Senior Notes was $1,065.85, totaling $21.1 million ("Total Consideration").

The Corporation used the $500 million proceeds to: i) repay its Credit Suisse Bank Debt of $30 million, ii) refinance its 2025 Senior Notes of $320 million, iii) paid the Total Consideration, as described above, of $21.1 million and iv) paid transaction costs of $14.9 million.

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

The Corporation's Senior Notes, 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 Corporation's bank debt is also subject to various financial covenants, including a maximum consolidated total debt, less cash and cash equivalents, to twelve months trailing adjusted EBITDAX ratio ("Consolidated Leverage Ratio") of 3.25:1.00 and a minimum twelve months trailing adjusted EBITDAX to interest expense, excluding non-cash expenses, ratio ("Consolidated Interest Coverage Ratio") of 2.50:1.00. As at December 31, 2021, the Corporation was in compliance with the covenants.

	December 31, 2021	December 31, 2020
Senior Notes - principal (2021 - 5.75%; 2020 - 7.25%)[3]	**$ 500,000**	$ 320,000
Credit Suisse Bank Debt - principal (LIBOR + 4.25%)[1][3]	**—**	30,000
Bridge Loan - principal (LIBOR + 4.25%)[1]	**25,000**	25,000
Operating Loan - principal (IBR + 1.5%)[2]	**2,513**	2,913
Colombia Bank Debt - principal (IBR + 2.5%)[2][4]	**12,107**	—
Litigation settlement liability (8.74%)[4]	**—**	14,353
Lease obligation (5.1%)	**18,089**	22,943
Total debt	**557,709**	415,209
Less: working capital surplus	**(148,124)**	(73,404)
Net debt	**$ 409,585**	**$ 341,805**

(1) The LIBOR rate during the year ended December 31, 2021 was 0.338%.
(2) The IBR rate during the year ended December 31, 2021 was 2.41%.
(3) During the year ended December 31, 2021, the Corporation refinanced its Senior Notes while drawing an additional $180 million principal amount and reducing the interest rate from 7.25% to 5.75%. The Corporation repaid its Credit Suisse Bank Debt with the proceeds.
(4) During the year ended December 31, 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:

	December 31, 2021	December 31, 2020
Total debt	**$ 557,709**	$ 415,209
Less: cash and cash equivalents	**(138,523)**	(68,280)
Net debt for covenant purposes	**$ 419,186**	$ 346,929
Adjusted EBITDAX	**$ 194,390**	$ 187,528
Consolidated Leverage Ratio	**2.16**	**1.85**

The Consolidated Interest Coverage Ratio is calculated as follows:

	December 31, 2021	December 31, 2020
Adjusted EBITDAX	**$ 194,390**	$ 187,528
Interest expense, excluding non-cash expenses	**$ 31,488**	$ 30,788
Consolidated Interest Coverage Ratio	**6.17**	**6.09**

As at March 16, 2022, the Corporation had 170.9 million common shares, 8.2 million stock options, 1.2 million RSUs, 1 million PSUs and 0.1 million DSUs outstanding.

Contractual Obligations

The following table provides a summary of the Corporation's cash requirements to meet its financial liabilities and contractual obligations existing at December 31, 2021:

	Less than 1 year	1-3 years	Thereafter	Total
Long-term debt – principal	$ 2,512	$ 37,107	$ 500,000	$ 539,619
Lease obligations – undiscounted	4,779	6,515	9,596	20,890
Trade and other payables	52,363	—	—	52,363
Dividend payable	7,226	—	—	7,226
Taxes payable	3,444	—	—	3,444
Other long term obligations	—	4,069	—	4,069
Long-term incentive compensation liability	1,991	94	—	2,085
Exploration and production contracts	5,608	63,312	16,379	85,299
Compression station operating contracts	2,660	5,482	8,645	16,787
	$ 80,583	**$ 116,579**	**$ 534,620**	**$ 731,782**

Letters of Credit

At December 31, 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 December 31, 2021 of $85.3 million and has issued $33.4 million in financial guarantees related thereto.

Related Party Transactions

The Corporation holds 41.7 million shares of Arrow Exploration Ltd. ("Arrow") valued at $5 million as at December 31, 2021 and a receivable balance of $3.4 million. Two members of key management of Canacol are also members of the board of directors of Arrow.

During the year ended December 31, 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) $1.7 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$5 million, which brings Canacol's ownership of Arrow to 19.9% and ii) half of the remaining balance of $3.4 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 $1.7 million of its $3.4 million receivable balance as non-current as at December 31, 2021.

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 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 2022 and beyond, the Corporation is committed to continue developing and maintaining a robust ESG strategy and, as such, is implementing 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.

During the first half of 2022, the Corporation plans to announce its short and medium-term carbon emission reduction targets, together with a projected timeline for achieving net-zero emissions. In the meantime, the Corporation strives to achieve scope 1 and 2 greenhouse gas ("GHG") emissions intensities that are at least 40% lower on average than gas focused peers (and 90% lower on average than oil focused peers) in North and South America.

OUTLOOK

For the remainder of 2022, the Corporation is focused on the following objectives: 1) drilling of up to twelve exploration and development wells in a continuous program targeting a 2P reserves replacement ratio of more than 200% and a 2P RLI of 9.3 years; 2) acquisition of 470 square kilometers of 3D seismic on the Corporation's VIM-5 block to expand its exploration prospect inventory; 3) purchase of rental facilities equipment and the installation of gas compression to lower operating expenses and increase recovery factors, respectively; 4) selection of a contractor for the new gas pipeline from Jobo to Medellin which will add 100 MMscfpd (with expansion potential up to 200 MMscfpd) of new gas sales to the interior in late 2024, resulting in Canacol being responsible for 30% (up to 40%) of Colombia's domestic gas supply; 5) continuing the return of capital to shareholders in the form of dividends and common share buybacks; and 6) continue with the Corporation's commitment to its ESG strategy and achievement of scope 1 and 2 GHG emissions intensities that are at least 40% lower on average than its gas focused peers (and 90% lower on average than oil focused peers) in North and South America.

SUMMARY OF QUARTERLY RESULTS

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

	2021				2020			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Financial								
Total natural gas, LNG and crude oil revenues, net of royalties and transportation expense	**77,073**	72,802	59,969	65,818	63,976	57,429	54,405	70,994
Adjusted funds from operations(1)(2)	**43,691**	38,227	33,643	38,085	35,251	33,409	31,181	45,281
Per share – basic ($)(1)	**0.25**	0.22	0.19	0.21	0.20	0.18	0.17	0.25
Per share – diluted ($)(1)	**0.25**	0.22	0.19	0.21	0.20	0.18	0.17	0.25
Cash flow provided (used) by operating activities(2)	**28,881**	57,046	(13)	37,900	26,477	50,016	37,814	38,018
Net income (loss) and comprehensive income (loss)	**7,024**	8,790	2,424	(3,062)	921	2,609	17,715	(25,988)
Per share – basic ($)	**0.04**	0.05	0.01	(0.02)	0.01	0.01	0.10	(0.14)
Per share – diluted ($)	**0.04**	0.05	0.01	(0.02)	0.01	0.01	0.10	(0.14)
Adjusted EBITDAX(1)	**49,198**	53,836	44,638	46,716	45,941	42,303	40,415	58,870
Weighted average shares outstanding – basic	**176,558**	177,245	179,289	179,515	179,764	180,980	180,916	180,931
Weighted average shares outstanding – diluted	**176,558**	177,245	179,289	179,515	179,764	181,495	181,484	181,811
Capital expenditures, net of dispositions(1)	**21,556**	24,177	26,363	27,844	29,366	26,437	8,269	19,892
Operations								
Natural gas, LNG and crude oil production(1)								
Natural gas and LNG (MMscfpd)	**186,145**	192,402	173,117	179,474	170,087	162,012	151,127	201,398
Colombia oil (bopd)	**244**	394	262	256	287	317	245	315
Total (boepd)	**32,901**	34,149	30,633	31,743	30,127	28,740	26,758	35,648
Realized contractual sales, before royalties(1)								
Natural gas and LNG (MMscfpd)	**185,896**	190,553	171,463	177,633	169,763	162,984	152,248	201,524
Colombia oil (bopd)	**490**	168	209	307	300	347	197	298
Total (boepd)	**33,103**	33,598	30,290	31,471	30,083	28,941	26,907	35,653
Operating netbacks(1)								
Natural gas and LNG ($/Mcf)	**3.59**	3.49	3.14	3.36	3.58	3.47	3.63	3.60
Colombia oil ($/bbl)	**21.93**	30.93	33.54	34.06	23.04	17.04	12.16	20.13
Corporate ($/boe)	**20.51**	19.96	17.98	19.33	20.44	19.76	20.61	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 $16.9 million and ii) the payment of the remaining outstanding balance of the Corporation's litigation settlement liability of $13.1 million.

SUMMARY OF ANNUAL INFORMATION

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

Year ended December 31,	2021	2020	2019
Financial			
Total natural gas and crude oil revenues, net of royalties and transportation expense	**275,662**	246,804	219,522
Net income (loss) and comprehensive income (loss)(2)	**15,177**	(4,743)	34,247
Per share – basic ($)	**0.09**	(0.03)	0.19
Per share – diluted ($)	**0.09**	(0.03)	0.19
Adjusted funds from operations(1)	**153,847**	145,122	124,915
Per share – basic ($)(1)	**0.86**	0.80	0.70
Per share – diluted ($)(1)	**0.86**	0.80	0.69
Adjusted EBITDAX(1)	**194,390**	187,528	167,515
Cash and cash equivalents	**138,523**	68,280	41,239
Total assets	**843,760**	749,792	754,062
Total debt	**557,709**	415,209	392,946
Capital expenditures, net of dispositions(1)	**99,940**	83,964	100,487
Operating			
Natural gas and crude oil production, before royalties(1)			
Natural gas (Mcfpd)	**182,829**	171,126	143,524
Colombia oil (bopd)	**289**	291	351
Total (boepd)	**32,364**	30,313	25,531
Realized contractual sales, before royalties(1)			
Natural gas (Mcfpd)	**181,434**	171,600	142,603
Colombia oil (bopd)	**294**	286	356
Total (boepd)	**32,124**	30,392	25,374
Operating netbacks ($/boe)(1)			
Natural gas ($/Mcf)	**3.40**	3.57	3.82
Colombia oil ($/bbl)	**28.39**	18.57	25.92
Corporate ($/boe)	**19.48**	20.34	21.80

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

(2) During the year ended December 31, 2020, the Corporation realized a net loss of $4.7 million as a result of a non-cash deferred tax expense of $51.4 million related mainly to the de-recognition of certain deferred tax assets for non-capital losses (refer to the “Income Tax Expense” section of this MD&A for further details).

RISKS AND UNCERTAINTIES

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

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

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

The Corporation is exposed to foreign exchange and currency risk as a result of fluctuations in exchange rates through its cash deposits and investments denominated in the COP and the CAD. Most of the Corporation's revenues and funds from financing activities are expected to be received in reference to USD denominated prices while a portion of its operating, capital, and general and administrative costs are denominated in COP and CAD. During the year ended December 31, 2021, the Corporation has not entered into any foreign currency hedges.

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

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

The Corporation's policy is to enter into agreements with customers that are well established and well-financed entities in the oil and gas industry such that the level of risk associated with one or more of its customers facing financial difficulties are mitigated while balancing factors of economic dependence with profit maximization. To date, the Corporation has not experienced any material credit loss in the collection of trade accounts receivable.

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

A more comprehensive discussion of risks and uncertainties is contained in the Corporation's Annual Information Form for the year ended December 31, 2021 as filed on SEDAR and hereby incorporated by reference.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

CHANGES IN ACCOUNTING POLICIES

The Corporation has not implemented new accounting policies during the year ended December 31, 2021. Detailed discussions of new accounting policies and impact are provided in the financial statements.

REGULATORY POLICIES

Disclosure Controls and Procedures

Disclosure Controls and Procedures ("DC&P") are designed to provide reasonable assurance that all material information is gathered and reported on a timely basis to senior management so that appropriate decisions can be made regarding public disclosure and that information required to be disclosed by the issuer under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation. The Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), along with other members of management, have designed, or caused to be designed under the CEO and CFO's supervision, DC&P and have assessed the design and operating effectiveness of the Corporation's DC&P as at December 31, 2021. Based on this assessment, it was concluded that the design and operation of the Corporation's DC&P are effective as at December 31, 2021.

Internal Controls over Financial Reporting

The CEO and CFO, along with participation from other members of management, are responsible for establishing and maintaining adequate Internal Control over Financial Reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial statements prepared in accordance with IFRS. The Corporation's CEO and CFO, with support of management have assessed the design and operating effectiveness of the Corporation's ICFR as at December 31, 2021 based on criteria described in "Internal Control - Integrated Framework" issued in 2013 by the Committee of Sponsoring Organization of the Treadway Commission. Based on this assessment, it was concluded that the design and operation of the Corporation's ICFR are effective as at December 31, 2021.

During the three months ended December 31, 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.