CANACOL ENERGY LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS
THREE MONTHS ENDED MARCH 31, 2023

FINANCIAL & OPERATING HIGHLIGHTS

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

Financial	Three months ended March 31,		
	2023	2022	Change
Total revenues, net of royalties and transportation expense	**73,913**	65,883	12%
Adjusted funds from operations[1]	**32,693**	33,816	(3%)
Per share – basic ($)[1][2]	**0.96**	0.98	(2%)
Per share – diluted ($)[1][2]	**0.96**	0.98	(2%)
Net income and other comprehensive income	**16,874**	24,415	(31%)
Per share – basic ($)[2]	**0.49**	0.71	(31%)
Per share – diluted ($)[2]	**0.49**	0.71	(31%)
Cash flow provided by operating activities	**30,969**	38,063	(19%)
Per share – basic ($)[1][2]	**0.91**	1.10	(17%)
Per share – diluted ($)[1][2]	**0.91**	1.10	(17%)
Adjusted EBITDAX[1]	**60,928**	49,624	23%
Weighted average shares outstanding – basic[2]	**34,111**	34,490	(1%)
Weighted average shares outstanding – diluted[2]	**34,111**	34,490	(1%)
Net cash capital expenditures[1]	**47,123**	27,478	71%
	March 31, 2023	December 31, 2022	Change
Cash and cash equivalents	**72,073**	58,518	23%
Working capital deficit	**(22,666)**	(22,603)	—%
Total debt	**590,037**	550,752	7%
Total assets	**1,096,428**	1,014,848	8%
Common shares, end of period (000's)[2]	**34,111**	34,111	—%

Operating	Three months ended March 31,		
	2023	2022	Change
Natural gas, LNG and crude oil production[1]			
Natural gas and LNG (Mcfpd)	**188,384**	183,130	3%
Colombia oil (bopd)	**565**	428	32%
Total (boepd)	**33,615**	32,556	3%
Realized contractual sales[1]			
Natural gas and LNG (Mcfpd)	**185,624**	181,813	2%
Colombia oil (bopd)	**587**	412	42%
Total (boepd)	**33,153**	32,309	3%
Operating netbacks[1]			
Natural gas and LNG ($/Mcf)	**4.01**	3.58	12%
Colombia oil ($/bbl)	**25.86**	14.23	82%
Corporate ($/boe)	**22.88**	20.33	13%

(1) Non-IFRS measures – see "Non-IFRS Measures" section within this MD&A.
(2) Restated to reflect the 5:1 share consolidation on January 17, 2023 - see "Share Consolidation" section within this MD&A.

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 May 10, 2023 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 months ended March 31, 2023 ("financial statements"), and the audited consolidated financial statements and MD&A for the year ended December 31, 2022. 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 adjusted EBITDAX, which are measures not defined in IFRS. Adjusted funds from operations represents cash flow provided by operating activities before the settlement of decommissioning obligations and changes in non-cash working capital, adjusted for non-recurring charges. 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 dividend 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 March 31,	
	2023	2022
Cash flow provided by operating activities	**$ 30,969**	$ 38,063
Changes in non-cash working capital	**1,507**	(4,247)
Settlement of decommissioning obligations	**217**	—
Adjusted funds from operations	**$ 32,693**	$ 33,816

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

	2022			2023	
	Q2	**Q3**	**Q4**	**Q1**	**Rolling**
Net income (loss) and comprehensive income (loss)	$ (6,404)	$ (4,463)	$ 133,722	$ 16,874	$ 139,729
(+) Interest expense	8,475	8,438	8,632	9,671	35,216
(+) Income tax expense	27,156	25,970	(135,523)	8,869	(73,528)
(+) Depletion and depreciation	18,284	17,388	16,226	18,971	70,869
(+) Exploration expense	—	—	22,333	—	22,333
(+) Pre-license costs	535	446	453	408	1,842
(+) Unrealized foreign exchange loss (gain)	2,995	4,999	2,660	1,745	12,399
(+/-) Other non-cash or non-recurring items	4,167	3,237	3,500	4,390	15,294
Adjusted EBITDAX	**$ 55,208**	**$ 56,015**	**$ 52,003**	**$ 60,928**	**$ 224,154**

In addition to the above, management uses the operating netback measure. 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, boe is expressed 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 thousand cubic feet per day ("Mcfpd") or million cubic feet per day ("MMcfpd") throughout this MD&A.

Three Months Ended March 31, 2023 Financial and Operational Highlights

- Adjusted EBITDAX increased 23% to $60.9 million for the three months ended March 31, 2023, compared to $49.6 million for the same period in 2022.
- The Corporation's natural gas and LNG operating netback increased 12% to $4.01 per Mcf for the three months ended March 31, 2023, compared to $3.58 per Mcf for the same period in 2022. The increase is mainly due to an increase in average sales prices, net of transportation expenses and a decrease in operating expenses, partially offset by an increase in royalties.
- Realized contractual natural gas and liquefied natural gas ("LNG") sales volume increased 2% to 185.6 MMcfpd for the three months ended March 31, 2023, compared to 181.8 MMcfpd for the same period in 2022. The increase is mainly due to gas sales to Tesorito, partially offset by a decrease in interruptible sales as further explained in the "Average Daily Production and Realized Contractual Sales Volumes" section of this MD&A.
- Total revenues, net of royalties and transportation expenses for the three months ended March 31, 2023 increased 12% to $73.9 million, compared to $65.9 million for same period in 2022, mainly due to higher natural gas and LNG sales volume as well as higher average sales price, net of transportation expenses.
- Adjusted funds from operations decreased 3% to $32.7 million for the three months ended March 31, 2023, compared to $33.8 million for the same period in 2022, mainly due to an increase in current income tax expense, offset by an increase in total revenue, net of royalties and transportation expenses, and a decrease in operating expenses. Refer to the "Income Taxes" section of this MD&A for further explanation on the increase in current income tax expense.
- The Corporation realized a net income of $16.9 million for the three months ended March 31, 2023, compared to a net income of $24.4 million for the same period in 2022.
- As at March 31, 2023, the Corporation had $72.1 million in cash and cash equivalents and $22.7 million in working capital deficit.

Share Consolidation

On December 19, 2022, the shareholders of the Corporation approved the consolidation of common shares of the Corporation ("Common Shares") on the basis of five (5) existing pre-consolidation Common Shares for every one (1) post-consolidation Common Share (the "Share Consolidation"). As a result of the Share Consolidation, on January 17, 2023, 170,557,290 Common Shares issued and outstanding prior to the Share Consolidation have been reduced to 34,111,458 Common Shares (disregarding the treatment of any resulting fractional shares). Each shareholder percentage ownership in the Corporation and proportional voting power remains unchanged after the Share Consolidation. All share units and per share amounts in this MD&A were restated to reflect the Share Consolidation.

Results of Operations

For the three months ended March 31, 2023, the Corporation's production primarily consisted of natural gas from the Esperanza, VIM-5 and VIM-21 blocks located in the Lower Magdalena Basin in Colombia. The Corporation's production also included crude oil from its Rancho Hermoso block 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 addition to its producing blocks, the Corporation has interests in several natural gas exploration contracts in Colombia.

During the three months ended March 31, 2023, the Corporation completed the drilling of the Dividivi-1 exploration well on its 100% operated VIM-33 E&P contract located in the Lower Magdalena Basin. The Dividivi-1 well reached a total depth of 4,692 feet measured depth ("ft md") on January 2, 2023 and encountered 89 feet of gross gas pay within the primary CDO sandstone and Cicuco limestone reservoirs.

During the three months ended March 31, 2023, the Corporation completed the drilling of the Saxofon-1 exploration well on its VIM-5 block. The Saxofon-1 well reached a total depth of 9,416 ft md on January 7, 2023 and encountered 338 feet of gross gas pay within the Porquero and CDO reservoirs.

In April 2023, the Corporation spud the Lulo-1 exploration well. The Lulo-1 exploration well is targeting the lower Cienaga de Oro formation with strong AVO presence, located adjacent to the Corporation's Jobo processing facilities, which implies quick and low cost tie-in. The Lulo-1 exploration well is anticipated to take approximately four weeks to drill, complete and production test.

Average Daily Production and Realized Contractual Sales Volumes

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

	Three months ended March 31,		
	2023	2022	Change
Natural Gas and LNG (Mcfpd)			
Natural gas and LNG production	**188,384**	183,130	3%
Field consumption	**(2,873)**	(1,721)	67%
Natural gas and LNG sales	**185,511**	181,409	2%
Take-or-pay volumes (2)	**113**	404	(72%)
Realized contractual natural gas and LNG sales	**185,624**	181,813	2%
Colombia Oil (bopd)			
Crude oil production	**565**	428	32%
Inventory movements and other	**22**	(16)	(238%)
Colombia oil sales	**587**	412	42%
Corporate (boepd / bopd)			
Natural gas and LNG production	**33,050**	32,128	3%
Colombia oil production	**565**	428	32%
Total production	**33,615**	32,556	3%
Field consumption and inventory	**(482)**	(318)	52%
Total corporate sales	**33,133**	32,238	3%
Take-or-pay volumes (2)	**20**	71	(72%)
Total realized contractual sales	**33,153**	32,309	3%

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.

Realized contractual natural gas and LNG sales for the three months ended March 31, 2023 averaged 185.6 MMcfpd. Realized contractual sales is defined as natural gas and LNG produced and sold plus income received from nominated take-or-pay contracts without the actual delivery of natural gas or LNG and the expiry of the customers' rights to take the deliveries.

The 2% increase in realized contractual natural gas and LNG sales for the three months ended March 31, 2023, compared to the same period in 2022, is mainly attributable to natural gas sales to a Colombian power generation plant owned by Termoelectrica el Tesorito S.A.S. ESP ("Tesorito") which commenced operations in September of 2022, offset by a decrease in natural gas sales as a result of decrease in demand in the natural gas market. Natural gas demand was lower due to the region experiencing high reservoir levels caused by heavy rain, which temporarily reduced the demand for natural gas.

Revenues, Net of Royalties and Transportation Expenses

	Three months ended March 31,		
	2023	2022	Change
Natural Gas and LNG			
Natural gas and LNG revenues	**$ 87,938**	$ 85,080	3%
Transportation expenses	**(2,290)**	(8,952)	(74%)
Revenues, net of transportation expenses	**85,648**	76,128	13%
Royalties	**(14,579)**	(11,834)	23%
Revenues, net of royalties and transportation expenses	**$ 71,069**	$ 64,294	11%
Colombia Oil			
Crude oil revenues	**$ 2,192**	$ 1,633	34%
Transportation expenses	**(28)**	(87)	(68%)
Revenues, net of transportation expenses	**2,164**	1,546	40%
Royalties	**(130)**	(100)	30%
Revenues, net of royalties and transportation expenses	**$ 2,034**	$ 1,446	41%
Corporate			
Natural gas and LNG revenues	**$ 87,938**	$ 85,080	3%
Crude oil revenues	**2,192**	1,633	34%
Total revenues	**90,130**	86,713	4%
Royalties	**(14,709)**	(11,934)	23%
Natural gas, LNG and crude oil production revenues, net of royalties	**75,421**	74,779	1%
Power generation standby revenue	**749**	—	n/a
Take-or-pay natural gas income	**61**	143	(57%)
Total revenues, net of royalties, as reported	**76,231**	74,922	2%
Transportation expenses	**(2,318)**	(9,039)	(74%)
Total revenues, net of royalties and transportation expenses	**$ 73,913**	$ 65,883	12%

Natural Gas and LNG Sales and Power Generation Standby Revenue

Natural gas and LNG revenues, net of transportation expenses for the three months ended March 31, 2023 increased 13% to $85.6 million, compared to $76.1 million for the same period in 2022, due to a 3% increase in natural gas and LNG sales volume and a 10% increase in average sales price, net of transportation expenses.

During the three months ended March 31, 2023, the Corporation realized power generation standby revenue of $0.7 million for its commitment to supply natural gas for Tesorito. The power generation standby revenue is earned on a daily basis, regardless of whether natural gas is actually delivered.

As at March 31, 2023, the Corporation had deferred income of $15.8 million, which was related to undelivered natural gas and LNG sales nominations that were paid for or accrued in accounts receivable, for which the off-takers have a legal right to take delivery at a later date, at which point they will be recognized as revenue. Should the off-takers not accept delivery within the allotted period, the Corporation will recognize the corresponding nominations as take-or-pay income as explained on page 5 of this MD&A.

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 74% for the three months ended March 31, 2023, compared to the same period in 2022, primarily due to the decrease in natural gas sales subject to transportation expenses, as described above, compared to the same period in 2022.

Natural Gas Royalties

	Three months ended March 31,		
	2023	2022	Change
Natural Gas			
Esperanza royalties	**$ 1,014**	$ 1,260	(20%)
VIM-5 royalties	**11,991**	8,322	44%
VIM-21 royalties	**1,574**	2,252	(30%)
Royalty expense	**$ 14,579**	$ 11,834	23%
Natural Gas Royalty Rates			
Esperanza	**8.6%**	8.4%	2%
VIM-5	**20.8%**	23.0 %	(10%)
VIM-21	**10.2%**	9.4%	9%
Natural gas royalty rate	**17.0%**	15.5%	10%

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 600,000 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 to 17.0% for the three months ended March 31, 2023, compared to 15.5% for the same period in 2022, mainly due to higher production at the VIM-5 block, which is subject to a higher royalty rate.

Average Benchmark and Realized Sales Prices, Net of Transportation

	Three months ended March 31,		
	2023	2022	Change
Average Benchmark Prices			
Henry Hub ($/MMBtu)	**$ 2.41**	$ 4.57	(47%)
Alberta Energy Company ("AECO") ($/MMBtu)	**$ 2.05**	$ 3.68	(44%)
Brent ($/bbl)	**$ 79.21**	$ 97.38	(19%)
Average Sales Prices, Net of Transportation			
Natural gas and LNG ($/Mcf)	**$ 5.13**	$ 4.66	10%
Colombia oil ($/bbl)	**$ 40.96**	$ 41.69	(2%)
Corporate average ($/boe)	**$ 29.45**	$ 26.77	10%

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

The 10% increase in average natural gas and LNG sales prices, net of transportation to $5.13 per Mcf for the three months ended March 31, 2023, compared to the same period in 2022, is mainly due to higher priced firm and interruptible contracts. The increase in average sales price of firm contracts is as a result of new contracts signed with higher tariffs, as well as existing contracts' price escalation.

The 2% decrease in average crude oil sales prices for the three months ended March 31, 2023, compared to the same period in 2022, is mainly due to a decrease in crude oil benchmark prices on the Corporation's non-tariff oil production.

Operating Expenses

	Three months ended March 31,		
	2023	2022	Change
Natural gas and LNG	$ 4,236	$ 5,844	(28%)
Colombia oil	668	918	(27%)
Total operating expenses	$ 4,904	$ 6,762	(27%)
Natural gas and LNG ($/Mcf)	$ 0.25	$ 0.36	(31%)
Colombia oil ($/bbl)	$ 12.64	$ 24.76	(49%)
Corporate ($/boe)	$ 1.64	$ 2.33	(30%)

Natural gas and LNG operating expenses per Mcf decreased 31% to $0.25 per Mcf for the three months ended March 31, 2023, compared to $0.36 per Mcf for the same period in 2022, mainly due to less maintenance activities performed during the quarter, offset by inflation.

Colombia oil operating expenses decreased 27% for the three months ended March 31, 2023 compared to the same period in 2022, mainly due to less maintenance activities during the three months ended March 31, 2023, offset by inflation.

Operating Netbacks

	Three months ended March 31,		
$/Mcf	2023	2022	Change
Natural Gas and LNG			
Revenue, net of transportation expense(1)	$ 5.13	$ 4.66	10%
Royalties	(0.87)	(0.72)	21%
Operating expenses(2)	(0.25)	(0.36)	(31%)
Operating netback	$ 4.01	$ 3.58	12%

	Three months ended March 31,		
$/bbl	2023	2022	Change
Colombia oil			
Revenue, net of transportation expense(1)	$ 40.96	$ 41.69	(2%)
Royalties	(2.46)	(2.70)	(9%)
Operating expenses(2)	(12.64)	(24.76)	(49%)
Operating netback	$ 25.86	$ 14.23	82%

(1) Refer to the “Average Benchmark and Realized Sales Prices, Net of Transportation” of this MD&A for more information.
(2) Refer to the “Operating Expenses” section of this MD&A for more information.

	Three months ended March 31,		
$/boe	2023	2022	Change
Corporate			
Revenue, net of transportation expense	$ 29.45	$ 26.77	10%
Royalties	(4.93)	(4.11)	20%
Operating expenses	(1.64)	(2.33)	(30%)
Operating netback	$ 22.88	$ 20.33	13%

General and Administrative Expenses

	Three months ended March 31,		
	2023	2022	Change
Gross costs	**$ 9,210**	$ 8,504	8%
Less: capitalized amounts	**(2,014)**	(2,014)	—%
General and administrative expenses	**$ 7,196**	$ 6,490	11%
$/boe	**$ 2.41**	$ 2.24	8%

General and administrative ("G&A") gross costs increased 8% for the three months ended March 31, 2023, compared to the same period in 2022, mainly due to inflation.

G&A per boe increased 8% for the three months ended March 31, 2023, compared to the same period in 2022, mainly due to higher G&A gross costs as a result of inflation, offset by higher natural gas and LNG sales volume during the three months ended March 31, 2023.

Net Finance Expense

	Three months ended March 31,		
	2023	2022	Change
Net financing expense paid	**$ 8,864**	$ 8,324	6%
Non-cash net financing expenses (income)	**3,905**	1,979	97%
Net finance expense	**$ 12,769**	$ 10,303	24%

Net finance expense increased 24% for the three months ended March 31, 2023, compared to the same period in 2022, mainly due to a $1.9 million increase in the non-cash amortization of upfront transaction costs as well as higher interest expense as a result of an increase in total debt by $30.7 million.

Stock-Based Compensation Expense

	Three months ended March 31,		
	2023	2022	Change
Equity-settled unit expense	**$ 14**	$ 81	(83%)
Cash-settled unit expense	**1,577**	1,623	(3%)
Stock-based compensation	**$ 1,591**	$ 1,704	(7%)

Cash-settled unit expense is a non-cash amortization of restricted share units ("RSUs"), performance share units ("PSUs") and deferred share units ("DSUs"), 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 decreased marginally for the three months ended March 31, 2023 compared to the same period in 2022.

Depletion and Depreciation Expense

	Three months ended March 31,		
	2023	2022	Change
Depletion and depreciation expense	**$ 18,971**	$ 16,668	14%
$/boe	**$ 6.36**	$ 5.74	11%

Depletion and depreciation expense increased 14% for the three months ended March 31, 2023, compared to the same period in 2022, primarily as a result of higher natural gas production.

Income Tax Expense

	Three months ended March 31,	
	2023	2022
Current income tax expense	**$ 26,292**	$ 13,362
Deferred income tax expense (recovery)	**(17,423)**	(12,159)
Income tax expense (recovery)	**$ 8,869**	$ 1,203

The Corporation's pre-tax income was subject to the Colombian statutory income tax rate of 35% for the three months ended March 31, 2023. In addition, taxable income generated from business relating to crude oil was subject to an additional 15% surtax. Further, as a result of the tax reform, for the three months ended March 31, 2023, base royalty expense (6.4% of natural gas revenue, net of transportation and 8% of crude oil revenue, net of transportation) was not deductible for income tax purposes.

Current income tax expense increased $12.9 million for the three months ended March 31, 2023, compared to the same period in 2022, primarily due to a) additional current income tax expense generated from the $11.3 million increase in EBITDA, b) trailing upfront tax cost relating to the Corporation's corporate restructuring process, which started in Q4 of 2022, whereby the Corporation has transferred its Esperanza and VIM-21 assets from one wholly-owned subsidiary to another in an effort to better align the operational needs of the business and to create a more efficient and cost-effective organizational structure ("Corporate Restructuring"), c) base royalty expense was not deductible for tax purposes, as explained above, and d) 15% surtax on taxable income generated from the Corporation's crude oil business.

Income Tax Cash Payments

	Three months ended March 31,	
	2023	2022
Income taxes paid	**$ 18,255**	$ 7,553

During the three months ended March 31, 2023 , the Corporation paid income tax of $14.8 million (2022 - $3.3 million) for the 2022 tax year. In addition, the Corporation also prepaid advances related to its 2023 income tax expense of $3.5 million (2022 - $4.3 million) during the three months ended March 31, 2023.

Capital Expenditures

	Three months ended March 31,	
	2023	2022
Drilling and completions	**$ 20,099**	$ 9,619
Facilities, workovers and infrastructure	**7,416**	7,274
Land, seismic, communities, inventory and other	**18,003**	8,571
Capitalized G&A	**2,014**	2,014
Proceeds on disposition	**(409)**	—
Net cash capital expenditures	**47,123**	27,478
Non-cash costs and adjustments:		
Right-of-Use leased assets	**81**	1,902
Disposition	**380**	(3,367)
Change in decommissioning obligations and other	**8,692**	630
Net capital expenditures	**$ 56,276**	$ 26,643
Net capital expenditures recorded as:		
Expenditures on exploration and evaluation assets	**$ 11,598**	$ 12,182
Expenditures on property, plant and equipment	**44,715**	17,828
Disposition	**(37)**	(3,367)
Net capital expenditures	**$ 56,276**	$ 26,643

Net capital expenditures for the three months ended March 31, 2023 are primarily related to:

- Chimela-1 well drilling costs;
- Dividivi-1 well drilling costs;
- Saxofon-1 well drilling costs;
- Natilla-1 exploration well drilling costs;
- 3D seismic costs at the VIM-5 block;
- Medellin pipeline engineering design costs;
- Facility and workover related costs at the VIM-5, VIM-21 and Esperanza blocks; and
- Lands and other costs at the VIM-5, VMM-47, VIM-21, VMM10-1, VMM-53 and VMM-45 blocks.

Liquidity and Capital Resources

Capital Management

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

Normal Course Issuer Bid

On January 31, 2023, the Corporation renewed its normal course issuer bid ("NCIB"), as authorized by the TSX to purchase up to 1,971,950 outstanding Common Shares, representing approximately 10% of the public float of Canacol at the time. The maximum number of Common Shares that Canacol may purchase on any given day is 13,095 Common Shares, which was 25% of the Corporation's average daily trading volume on the TSX for the six months ended December 30, 2022. Canacol may also make one weekly block repurchase which exceeds the daily limit subject to prescribed rules. The Corporation is authorized to make purchases during the period from February 2, 2023 to February 1, 2024 or until such earlier time as the NCIB is completed or terminated at the option of the Corporation. The Corporation did not purchase any Common Shares during the three months ended March 31, 2023.

On January 31, 2023, Canacol renewed its automatic share purchase plan ("ASPP") with its designated broker. The ASPP is intended to allow for the purchase of Common Shares under the NCIB at times when the Corporation is not ordinarily permitted to purchase Common Shares due to regulatory restrictions and customary self-imposed blackout periods. Pursuant to the ASPP, the designated broker is able to purchase Common Shares until the expiry of the NCIB on February 1, 2024. Such purchases are determined by the broker at its sole discretion based on the purchasing parameters set out by the Corporation, in accordance with the rules of the TSX, applicable securities laws and the terms of the ASPP. The ASPP will terminate on the earlier of the date on which: (i) the NCIB expires, (ii) the maximum number of Common Shares have been purchased under the ASPP, and (iii) the Corporation terminates the ASPP in accordance with its terms. Outside of the ASPP, Common Shares can continue to be purchased under the NCIB based on management's discretion, in compliance with the rules of the TSX and applicable securities laws. All purchases made under the ASPP are included in the number of Common Shares available for purchase under the NCIB.

Bridge Loan

On July 31, 2020, the Corporation entered into a $75 million senior unsecured bridge term loan ("Bridge Loan") with a syndicate of banks. The Bridge Loan had an initial two-year term, and was intended to be used to construct a pipeline from the Corporation's operations at Jobo to the city of Medellin, Colombia (the "Project").

On August 28, 2020, the Corporation withdrew the initial $25 million of the Bridge Loan, net of transaction costs of $3.1 million, which was used for initial engineering and environmental licensing costs related to the Project. The remaining $50 million was available to be drawn at any time up to the maturity date and was intended to be used for construction materials for the Project. The Bridge Loan bore an annual interest rate of LIBOR + 4.25%, and the Corporation was able to repay the Bridge Loan at any time within the term without penalty. Any undrawn amounts were subject to a commitment fee of 30% of the 4.25% interest margin throughout the availability period. Interest and financing costs associated with the Bridge Loan were capitalized in PP&E.

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.

On February 17, 2023, the Corporation repaid the $25 million outstanding on the Bridge Loan with proceeds from the New RCF (see "Revolving Credit Facility" below) and subsequently terminated the loan agreement.

Colombia Bank Debt

On June 17, 2021, the Corporation entered into a three-year term loan agreement with Banco Davivienda ("Colombia Bank Debt") for $12.9 million denominated in COP, which was subject to an annual interest rate of IBR + 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. The principal was scheduled to mature three years from the agreement date on June 18, 2024.

On February 17, 2023, the Corporation repaid the $9.9 million outstanding on the Colombia Bank Debt with proceeds from the New RCF (see "Revolving Credit Facility" below) and subsequently terminated the loan agreement.

Senior Notes

On November 24, 2021, the Corporation completed a private offering of senior unsecured notes in the aggregate principal amount of $500 million ("Senior Notes"). The Senior Notes pay interest semi-annually at a fixed rate of 5.75% per annum, and mature in 2028 unless earlier redeemed or repurchased in accordance with their terms. The Senior Notes are fully and unconditionally guaranteed by certain subsidiaries of Canacol.

Revolving Credit Facility

On July 31, 2020, the Corporation entered into a $46 million senior unsecured revolving credit facility ("RCF") with a syndicate of banks. The RCF bore an annual interest rate of LIBOR + 4.75%, had a three-year term, and the Corporation was able to repay/redraw the RCF at any time within the term without penalty. Any undrawn amounts were subject to a commitment fee equal to 30% of the 4.75% interest margin throughout the availability period. The RCF was not subject to typical periodic redeterminations.

On February 17, 2023, the Corporation terminated the undrawn RCF and entered into a new $200 million senior unsecured revolving credit facility ("New RCF") with a syndicate of banks. The New RCF bears an annual interest rate of SOFR + 4.5%, has a four-year term, and the Corporation is able to repay/redraw the New RCF at any time within the term without penalty. Any undrawn amounts are subject to a commitment fee equal to 30% of the 4.50% interest margin throughout the availability period. The New RCF is not subject to typical periodic redeterminations. The amount drawn and outstanding as at March 31, 2023 was $75 million.

Financial Covenants

The Corporation's Senior Notes and its New RCF include various covenants relating to maximum leverage, minimum interest coverage, indebtedness, operations, investments, assets sales, capital expenditures and other standard operating business covenants. The Corporation's financial covenants include: a) a maximum consolidated total debt, less cash and cash equivalents, to 12-month trailing adjusted EBITDAX ratio ("Consolidated Leverage Ratio") of 3.25:1.00 and b) a minimum 12-month trailing adjusted EBITDAX to interest expense, excluding non-cash expenses, ratio ("Consolidated Interest Coverage Ratio") of 2.50:1.00.

As at March 31, 2023, the Corporation was in compliance with the covenants.

	March 31, 2023	December 31, 2022
Senior Notes - principal (5.75%)	**$ 500,000**	$ 500,000
Bridge Loan - principal (LIBOR + 4.25%)	**—**	25,000
New RCF (SOFR + 4.5%)	**75,000**	—
Colombia Bank Debt - principal (IBR + 2.5%)	**—**	10,020
Lease obligation	**15,037**	15,732
Total debt	**590,037**	550,752
Working capital deficit	**22,666**	22,603
Net debt	**$ 612,703**	$ 573,355

The Consolidated Leverage Ratio is calculated as follows:

	March 31, 2023	December 31, 2022
Total debt	**$ 590,037**	$ 550,752
Less: cash and cash equivalents	**(72,073)**	(58,518)
Net debt for covenant purposes	**$ 517,964**	$ 492,234
Adjusted EBITDAX	**$ 224,154**	$ 212,850
Consolidated Leverage Ratio	**2.31**	2.31

The Consolidated Interest Coverage Ratio is calculated as follows:

	March 31, 2023	December 31, 2022
Adjusted EBITDAX	**$ 224,154**	$ 212,850
Interest expense, excluding non-cash expenses	**$ 35,216**	$ 34,058
Consolidated Interest Coverage Ratio	**6.37**	6.25

As at May 10, 2023, the Corporation had 34.1 million common shares, 0.9 million stock options, and 0.8 million RSU's, DSU's and PSU's outstanding.

Contractual Obligations

The following table provides a summary of the Corporation's cash requirements to meet its financial liabilities and contractual obligations existing as at March 31, 2023:

	Less than 1 year	1-3 years	Thereafter	Total
Long-term debt – principal	$ —	$ —	$ 500,000	$ 500,000
Lease obligations – undiscounted	3,553	7,288	6,364	17,205
Trade and other payables	78,228	—	—	78,228
Dividend payable	6,553	—	—	6,553
Taxes payable	86,101	—	—	86,101
Other long term obligations	—	4,422	—	4,422
Long-term incentive compensation liability	2,984	503	—	3,487
Exploration and production contracts	23,163	10,184	16,336	49,683
Compression station operating contracts	2,728	5,620	5,099	13,447
	$ 203,310	**$ 28,017**	**$ 527,799**	**$ 759,126**

Letters of Credit

As at March 31, 2023, the Corporation had letters of credit outstanding totaling $88.1 million (December 31, 2022 - $87.9 million) to guarantee work commitments on exploration blocks in Colombia and to guarantee other contractual commitments.

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 March 31, 2023 of $49.7 million and has issued $38.3 million of the total $88.1 million in financial guarantees related thereto.

Related Party Transactions

As at March 31, 2023, the Corporation held 41.7 million shares and 18.4 million warrants of Arrow with carrying values of $5.3 million (cost) and $2.2 million (fair market value), respectively, and a receivable balance of $2 million. The receivable balance of $2 million will be paid no later than June 30, 2023. Two members of key management of Canacol are also members of the board of directors of Arrow.

Sustainability

As indicated in the Corporation's 2021 Environmental, Social and Governance ("ESG") Integrated Report, Canacol currently leads the industry as one of the cleanest oil and gas producers in both Colombia and North America with Scope 1 and 2 greenhouse gas ("GHG") emissions that are 80% lower than our oil focused peers and 50% lower than our gas focused peers, on average. Canacol's ambition is to continue to lead the oil and gas industry in Colombia in terms of supplying the increasing energy demands of Colombians while reducing carbon emissions, exploring avenues for renewable energy generation, fostering national energy self-sufficiency, and catalyzing the growth and development of Colombia's economy and its people. 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 objective on ESG 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, Canacol is focused on generating 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 CO_2 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, local economic 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 uses control mechanisms that protect shareholder's interests, respect and promote human rights, guarantee ethical behavior, integrity and transparency, ensure regulatory compliance and minimize risk.

For 2023 and beyond, the Corporation is committed to continue developing and maintaining a robust ESG strategy and, as such, is implementing a 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. Transparent and ethical business - adopt best practices, incorporate governance, 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.

OUTLOOK

For the remainder of 2023, the Corporation is focused on the following objectives: 1) the drilling of up to 10 exploration and appraisal wells in a continuous program targeting a 2P reserves replacement ratio of more than 200%; 2) the acquisition of 282 square kilometers of 3D seismic on the VIM-5 block to expand the Corporation's exploration prospect inventory; 3) progressing the new gas pipeline project from Jobo to Medellin which will add 100 MMcfpd of new gas sales to the interior in late 2024, allowing Canacol to increase gas sales to over 300 MMcfpd; 4) continuing to return capital to shareholders; and 5) continuing with our commitment of strengthening our environmental, social and governance strategy and reporting with the objective of improving the Corporation's ranking on various sustainability indices.

SUMMARY OF QUARTERLY RESULTS

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

	2023	2022				2021		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Financial								
Total revenues, net of royalties and transportation expense	**73,913**	67,956	70,133	70,256	65,883	69,903	66,288	53,534
Adjusted funds from operations[(1)]	**32,693**	(16,977)	38,715	39,086	33,816	43,691	38,227	33,643
Per share – basic ($)[(1)(2)]	**0.96**	(0.50)	1.15	1.15	1.00	1.25	1.10	0.95
Per share – diluted ($)[(1)(2)]	**0.96**	(0.50)	1.15	1.15	1.00	1.25	1.10	0.95
Cash flow provided (used) by operating activities	**30,969**	50,034	61,994	35,338	38,063	28,881	57,046	(13)
Net (loss) income and comprehensive (loss) income	**16,874**	133,722	(4,463)	(6,404)	24,415	7,024	8,790	2,424
Per share – basic ($)[(2)]	**0.49**	3.92	(0.15)	(0.20)	0.70	0.20	0.25	0.05
Per share – diluted ($)[(2)]	**0.49**	3.92	(0.15)	(0.20)	0.70	0.20	0.25	0.05
Adjusted EBITDAX[(1)]	**60,928**	52,003	56,015	55,208	49,624	49,198	53,836	44,638
Weighted average shares outstanding – basic[(2)]	**34,111**	34,113	34,157	34,118	34,490	35,312	35,449	35,858
Weighted average shares outstanding – diluted[(2)]	**34,111**	34,113	34,157	34,118	34,490	35,312	35,449	35,858
Net cash capital expenditures[(1)]	**47,123**	50,382	45,742	42,686	27,478	21,513	24,051	24,480
Operations								
Natural gas, LNG and crude oil production[(1)]								
Natural gas and LNG (Mcfpd)	**188,384**	177,985	186,695	190,559	183,130	186,145	192,402	173,117
Colombia oil (bopd)	**565**	546	544	571	428	244	394	262
Total (boepd)	**33,615**	31,771	33,298	34,002	32,556	32,901	34,149	30,633
Realized contractual sales, before royalties[(1)]								
Natural gas and LNG (Mcfpd)	**185,624**	175,580	184,163	187,963	181,813	185,896	190,553	171,463
Colombia oil (bopd)	**587**	541	558	565	412	490	168	209
Total (boepd)	**33,153**	31,345	32,867	33,541	32,309	33,103	33,598	30,290
Operating netbacks[(1)]								
Natural gas and LNG ($/Mcf)	**4.01**	3.73	3.73	3.66	3.58	3.59	3.49	3.14
Colombia oil ($/bbl)	**25.86**	22.81	27.48	27.49	14.23	21.93	30.93	33.54
Corporate ($/boe)	**22.88**	21.27	21.31	21.02	20.33	20.51	19.96	17.98

(1) Non-IFRS measure – see “Non-IFRS Measures” section within this MD&A.
(2) Restated to reflect the 5:1 share consolidation on January 17, 2023 - see “Share Consolidation” section within this MD&A.

RISKS AND UNCERTAINTIES

There have been no significant changes in the three months ended March 31, 2023 to the risks and uncertainties as identified in the MD&A for the year ended year ended December 31, 2022.

A more comprehensive discussion of risks and uncertainties is contained in the Corporation's Annual Information Form for the year ended December 31, 2022 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 three months ended March 31, 2023. Detailed discussions of new accounting policies and impact are provided in the financial statements.

REGULATORY POLICIES

Disclosure Controls and Procedures

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

Internal Controls over Financial Reporting

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

During the three months ended March 31, 2023, 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.