CANACOL ENERGY LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS
THREE MONTHS ENDED MARCH 31, 2019

FINANCIAL & OPERATING HIGHLIGHTS

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

Financial	Three months ended March 31, 2019	2018	Change
Total natural gas and crude oil revenues, net of royalties and transportation expense	**49,404**	47,629	4%
Funds from operations(1)	**29,907**	21,581	39%
Per share – basic ($)(1)	**0.17**	0.12	42%
Per share – diluted ($)(1)	**0.17**	0.12	42%
Net income and comprehensive income	**6,274**	8,278	(24%)
Per share – basic ($)	**0.03**	0.05	(40%)
Per share – diluted ($)	**0.03**	0.05	(40%)
EBITDAX(1)	**39,822**	33,611	18%
Weighted average shares outstanding – basic	**177,547**	176,572	1%
Weighted average shares outstanding – diluted	**179,637**	178,759	—
Capital expenditures, net, including acquisitions	**34,725**	40,194	(14%)
	Mar 31, 2019	Dec 31, 2018	Change
Cash and cash equivalents	**38,998**	51,632	(24%)
Restricted cash	**4,308**	4,196	3%
Working capital surplus	**51,173**	60,782	(16%)
Total debt	**394,318**	388,222	2%
Total assets	**720,095**	705,003	2%
Common shares, end of period (000's)	**177,403**	177,462	—

Operating	Three months ended March 31, 2019	2018	Change
Natural gas and crude oil production, before royalties(1)			
Natural gas (Mcfpd)	**123,291**	105,262	17%
Colombia oil (bopd)(2)	**433**	1,924	(77%)
Total (boepd)(3)	**22,063**	20,391	8%
Realized contractual sales, before royalties(1)			
Natural gas (Mcfpd)	**122,025**	106,334	15%
Colombia oil (bopd)(2)	**440**	1,896	(77%)
Total (boepd)(3)	**21,848**	20,551	6%
Operating netbacks(1)			
Natural gas ($/Mcf)	**4.03**	3.71	9%
Colombia oil (bopd)(2)	**23.64**	33.21	(29%)
Corporate ($/boe)(3)	**23.00**	22.25	3%

(1) Non-IFRS measures – see "Non-IFRS Measures" section within MD&A.
(2) Decreased in the three months ended March 31, 2019, due to the sale of the Corporation's petroleum assets in 2018.
(3) The Corporation has excluded results relating to the Ecuador IPC in the prior period for comparative purposes.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Advisories

The following management's discussion and analysis ("MD&A") is dated May 7, 2019 and is the Corporation's explanation of its financial performance for the period covered by the financial statements along with an analysis of the Corporation's financial position. Comments relate to and should be read in conjunction with the unaudited interim condensed consolidated financial statements of the Corporation for the three months ended March 31, 2019 and 2018 ("the financial statements"), and the audited consolidated financial statements and MD&A for the year ended December 31, 2018. The financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting, and all amounts herein are expressed in United States dollars, unless otherwise noted, and all tabular amounts are expressed in thousands of United States dollars, except per share amounts or as otherwise noted. Additional information for the Corporation, including the Annual Information Form, may be found on SEDAR at www.sedar.com.

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

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

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

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

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

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

	Three months ended March 31,	
	2019	2018
Cash flow provided by operating activities	**$ 25,255**	$ 19,868
Changes in non-cash working capital	**1,911**	1,713
Settlement of decommissioning obligations	**2,741**	—
Funds from operations	**$ 29,907**	$ 21,581

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

	2018			2019	
	Q2	**Q3**	**Q4**	**Q1**	**Rolling**
Net income (loss) and comprehensive income (loss)	$ (25,979)	$ 12,138	$ (16,272)	$ 6,274	$ (23,838)
(+) Interest expense	7,428	8,225	8,249	7,737	31,639
(+/-) Income taxes (recovery)	11,627	(2,738)	22,189	4,765	35,843
(+) Depletion and depreciation	11,677	10,636	11,802	12,689	46,804
(+) Exploration expenses	10,490	1,844	745	171	13,250
(+/-) Other non-cash expenses and non-recurring items	18,374	5,901	6,727	8,186	39,188
EBITDAX	**$ 33,617**	**$ 36,006**	**$ 33,440**	**$ 39,822**	**$ 142,886**

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

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

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

Three Months Ended March 31, 2019 Financial and Operational Highlights

- Realized contractual natural gas sales increased 15% to 122 MMscfpd for the three months ended March 31, 2019, compared to 106.3 MMscfpd for the same period in 2018. Average natural gas production volumes increased 17% to 123.3 MMscfpd for the three months ended March 31, 2019, compared to 105.3 MMscfpd for the same period in 2018. The increases are primarily due to the increase in natural gas sales as a result of the completion of the Sabanas pipeline.
- Total natural gas revenue, net of royalties and transportation expenses for the three months ended March 31, 2019, increased 23% to $47.4 million, compared to $38.6 million for same period in 2018, mainly attributable to the increase of natural gas production.
- Funds from operations increased 39% to $29.9 million for the three months ended March 31, 2019, compared to $21.6 million for the same period in 2018.
- Funds from operations per share increased 42% to $0.17 per share for the three months ended March 31, 2019, compared to $0.12 per share for the same period in 2018.
- The Corporation realized an EBITDAX of $39.8 million for the three months ended March 31, 2019, compared to $33.6 million for the same period in 2018.
- The Corporation recorded a net income of $6.3 million for the three months ended March 31, 2019, compared to a net income of $8.3 million for the same period in 2018.
- The Corporation's natural gas operating netback increased 9% to $4.03 per Mcf in the three months ended March 31, 2019, compared to $3.71 per Mcf for the same period in 2018. The increase is mainly attributable to: i) a 5% increase in realized natural gas sales prices, net of transportation expense to $4.97 per Mcf, compared to $4.73 per Mcf for the same period in 2018 and ii) a 25% reduction of operating expenses to $0.30 per Mcf for the three months ended March 31, 2019, compared to $0.40 per Mcf for the same period in 2018.
- Net capital expenditures for the three months ended March 31, 2019 was $34.7 million. Net capital expenditures included a non-cash addition relating to decommissioning obligations of $1.2 million and a non-cash addition of $5.9 million relating to right-of-use leased assets recognized during the three months ended March 31, 2019.
- As at March 31, 2019, the Corporation had $39 million in cash and $4.3 million in restricted cash.

Results of Operations

For the three months ended March 31, 2019, the Corporation's production primarily consisted of natural gas from the Nelson, Palmer, Trombon, Nispero and Cañahuate fields in the Esperanza block, the Clarinete, Chirimia, Pandereta and Oboe fields in the VIM-5 block and the Toronja field in the VIM-21 block, located in the Lower Magdalena Basin in Colombia. The Corporation's production also includes crude oil from its Rancho Hermoso property in Colombia ("Colombia oil").

The Corporation drilled Nelson-13 development well, the seventh well on its Nelson natural gas field in its Esperanza block, which was discovered in 2011. The well encountered 104 feet true vertical depth ("ft TVD") of net gas pay within the productive shallow Porquero sandstone reservoir and 162 ft TVD of net gas pay within the Ciénaga de Oro sandstone reservoir ("CDO"). During the three months ended March 31, 2019, the CDO was perforated in six intervals over an interval from 8,765 and 8,984 feet measured depth ("ft md") within the CDO and flowed at a rate of 33 MMscfpd directly into the Jobo processing facility, to which it is now connected and on permanent production.

During the three months ended March 31, 2019, the Corporation drilled the Palmer-2 appraisal well, the Corporation's second well drilled on its Palmer field, discovered in 2015. The well reached a total depth of 8,309 ft md in 20 days. The well encountered 81 ft TVD of net gas pay with average porosity of 23% within the CDO. The well has been cased and completed and will be tied into the Palmer-1 manifold and brought onto permanent production. Upon leaving the Palmer-2 drilling location, the Pioneer 302 rig will be mobilized to drill the Nelson-7 development well. The Nelson-7 development well will take approximately five weeks to drill and complete, after which the rig will be mobilized to drill the Acordeon-1 exploration well, which is anticipated to spud in early May 2019.

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

Average Daily Natural Gas and Crude Oil Production and Sales Volumes

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

	Three months ended March 31,		
	2019	2018	Change
Natural Gas (Mcfpd)			
Natural gas production	**123,291**	105,262	17%
Field consumption	**(1,830)**	(752)	143%
Natural gas sales	**121,461**	104,510	16%
Take-or-pay volumes	**564**	1,824	(69%)
Realized Contractual Natural Gas Sales	**122,025**	106,334	15%
Colombia Oil (bopd)			
Crude oil production	**433**	1,924	(77%)
Inventory movements and other	**7**	(28)	n/a
Colombia Oil Sales	**440**	1,896	(77%)
Corporate			
Natural gas production (boepd)	**21,630**	18,467	17%
Colombia oil production (bopd)	**433**	1,924	(77%)
Total production (boepd)	**22,063**	20,391	8%
Field consumption and inventory (boepd)	**(314)**	(160)	96%
Total Corporate Sales (boepd)	**21,749**	20,231	8%
Take-or-pay volumes (boepd)	**99**	320	(69%)
Total realized contractual sales (boepd)	**21,848**	20,551	6%

The increase in natural gas production volumes during the three months ended March 31, 2019, compared to the same period in 2018, is primarily as a result of the Corporation's partially owned Sabanas pipeline operating at full capacity in February 2018. Canacol's ownership of its infrastructure continues to allow the Corporation to control production levels at its fields from wellhead to the sales delivery point and enables the Corporation to quickly respond to changing conditions and thereby maximize profitability.

The decrease in Colombia oil production volumes during the three months ended March 31, 2019, compared to the same period in 2018, is primarily due to the Corporation selling its interest in the majority of its petroleum assets during the year ended December 31, 2018.

Realized contractual natural gas sales for the three months ended March 31, 2019 averaged approximately 122 MMscfpd. Realized contractual sales is defined as gas produced and sold plus gas revenues received from nominated take-or-pay contracts.

Natural Gas and Crude Oil Revenues

	Three months ended March 31,		
	2019	2018	Change
Natural Gas			
Natural gas revenues	**55,718**	48,325	15%
Transportation expenses	**(1,401)**	(3,893)	(64%)
Revenues, net of transportation expense	**54,317**	44,432	22%
Royalties	**(6,951)**	(5,799)	20%
Revenues, net of royalties and transportation expenses	**47,366**	38,633	23%
Colombia Oil			
Crude oil revenues	**2,028**	9,836	(79%)
Transportation expenses	**(121)**	(234)	(48%)
Revenues, net of transportation expense	**1,907**	9,602	(80%)
Royalties	**(158)**	(975)	(84%)
Revenues, net of royalties and transportation expenses	**1,749**	8,627	(80%)
Corporate			
Natural gas revenues	**55,718**	48,325	15%
Crude oil revenues	**2,028**	9,836	(79%)
Total revenues	**57,746**	58,161	(1%)
Royalties	**(7,109)**	(6,774)	5%
Natural gas and crude oil revenues, net of royalties, as reported	**50,637**	51,387	(1%)
Take-or-pay natural gas income (2)	**289**	369	(22%)
Total natural gas and crude oil revenues, after royalties, as reported	**50,926**	51,756	(2%)
Transportation expenses	**(1,522)**	(4,127)	(63%)
Total revenues, net of royalties and transportation expenses	**49,404**	47,629	4%

The Corporation has three types of natural gas sales:

1) *Natural Gas sales* - represents natural gas production less a typically small amount of gas volume that is consumed at the field level;

2) *Take-or-pay income* - represents the portion of natural gas sales nominations by the Corporation's off-takers that do not get delivered, due to the off-taker's inability to accept such gas and for which the off-takers have no recourse or legal right to delivery at a later date. As such, they are recorded as revenue in the period;

3) *Undelivered gas nominations* - represents the portion of undelivered natural gas sales nominations for which the off-takers have a legal right to take delivery at a later date, for a fixed period of time ("make-up rights"). These nominations are paid for at the time, alongside gas sales and take-or-pay income, and as such are included in deferred income for the period. The Corporation recognizes revenues associated with such make-up rights ("settlements") at the earlier of: a) when the make-up volume is delivered; b) the make-up right expires; or c) when it is determined that the likelihood that the off-taker will utilize the make-up right is remote.

For the three months ended March 31, 2019, the Corporation has realized $0.3 million of take-or-pay income (as described in (2) above), which is equivalent to 0.6 MMscfpd of natural gas sales, without actual delivery of the natural gas.

As at March 31, 2019, the Corporation has received proceeds for crude oil and natural gas to be delivered at a later date (as described in (3) above). As at March 31, 2019, undelivered nominations resulted in a deferred income balance of $5 million ($4.8 million related to gas; $0.2 million related to crude oil) and has been classified as a current liability as it is expected to be settled within the next twelve months.

Average Benchmark and Realized Sales Prices

	Three months ended March 31,		
	2019	2018	Change
Guajira ($/Mcf)	$ **4.30**	$ 4.24	1%
Brent ($/bbl)	$ **63.19**	$ 66.72	(5%)
West Texas Intermediate ($/bbl)	$ **55.36**	$ 62.74	(12%)
Natural gas, net of transportation ($/Mcf)	$ **4.97**	$ 4.73	5%
Colombia oil, net of transportation ($/bbl)	$ **48.16**	$ 56.27	(14%)
Corporate average, net of transportation ($/boe)	$ **28.72**	$ 29.68	(3%)

The increase in average realized natural gas sales prices, net transportation costs during the three months ended March 31, 2019, compared to the same period in 2018, is mainly due to higher priced spot sales.

The decrease in average realized crude oil sales prices during the three months ended March 31, 2019, compared to the same period in 2018, is mainly due to decreased benchmark crude oil prices.

Operating Expenses

	Three months ended March 31,		
	2019	2018	Change
Natural gas	$ **3,281**	$ 3,802	(14%)
Colombia oil	**813**	2,961	(73%)
Total operating expenses	$ **4,094**	$ 6,763	(39%)
Natural gas ($/Mcf)	$ **0.30**	$ 0.40	(25%)
Colombia oil ($/bbl)	$ **20.53**	$ 17.35	18%
Corporate ($/boe)	$ **2.09**	$ 3.71	(44%)

Total natural gas operating expenses per Mcf decreased by 25% to $0.30/Mcf for the three months ended March 31, 2019, compared to $0.40/Mcf for the same period in 2018. The decrease is mainly attributable to the purchase and operation of Jobo 2 and other operating efficiencies. The Corporation also capitalized certain operating costs as a result of a change in accounting policy during the three months ended March 31, 2019.

Over 90% of the Corporation's natural gas operating expenses is fixed and, as such, the Corporation expects its natural gas operating expenses per Mcf to further decrease, upon the commencement of operations of the new Promigas pipeline by mid-2019.

Total Colombia oil operating expenses per bbl increased during the three months ended March 31, 2019, compared to the same periods in 2018, primarily due to fixed costs over lower production volumes as a result of the Corporation selling its interest in the majority of its petroleum assets in late 2018.

Operating Netbacks

$/Mcf		Three months ended March 31, 2019		2018	Change
Natural Gas					
Revenue, net of transportation expense	$	**4.97**	$	4.73	5%
Royalties		**(0.64)**		(0.62)	3%
Operating expenses		**(0.30)**		(0.40)	(25%)
Operating netback	$	**4.03**	$	3.71	9%

$/bbl		Three months ended March 31, 2019		2018	Change
Colombia oil					
Revenue, net of transportation expense	$	**48.16**	$	56.27	(14%)
Royalties		**(3.99)**		(5.71)	(30%)
Operating expenses		**(20.53)**		(17.35)	18%
Operating netback	$	**23.64**	$	33.21	(29%)

$/boe		Three months ended March 31, 2019		2018	Change
Corporate					
Revenue, net of transportation expense	$	**28.72**	$	29.68	(3%)
Royalties		**(3.63)**		(3.72)	(2%)
Operating expenses		**(2.09)**		(3.71)	(44%)
Operating netback	$	**23.00**	$	22.25	3%

General and Administrative Expenses

		Three months ended March 31, 2019		2018	Change
Gross costs	$	**7,388**	$	7,550	(2%)
Less: capitalized amounts		**(1,565)**		(1,437)	9%
General and administrative expenses	$	**5,823**	$	6,113	(5%)
$/boe	$	**2.97**	$	3.36	(12%)

General and administrative expenses ("G&A") per boe decreased 12% during the three months ended March 31, 2019, compared to the same period in 2018. The decrease is mainly due to the 17% increase in natural gas production as well as capitalized costs as a result of a change in accounting policy during the three months ended March 31, 2019. G&A per boe is expected to continue to decrease as the Corporation's production base grows for the remainder of 2019 and into 2020.

Net Finance Expense

		Three months ended March 31, 2019		2018	Change
Net financing expense paid	$	**7,388**	$	7,657	(4%)
Non-cash financing costs		**838**		1,393	(40%)
Net finance expense	$	**8,226**	$	9,050	(9%)

Net financing expense paid decreased during the three months ended March 31, 2019, compared to the same period in 2018, mainly as a result of: a) lower interest rates on the Corporation's long-term debt, and b) the purchase of the Corporation's Jobo 2 natural gas processing facility, previously held under a finance lease arrangement. The decrease is offset by the increase in interest during the three months ended March 31, 2019 due to the long-term debt principal amount increase from $305 million to $350 million.

Stock-Based Compensation Expense and Restricted Share Units

	Three months ended March 31,		
	2019	2018	Change
Stock-based compensation expense	$ 1,548	$ 2,220	(30%)
Restricted share unit expense	3,257	2,253	45%
Stock-based compensation and restricted share unit expense	**$ 4,805**	$ 4,473	7%

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

Depletion and Depreciation Expense

	Three months ended March 31,		
	2019	2018	Change
Depletion and depreciation expense	$ 12,689	$ 10,131	25%
$/boe	$ 6.48	$ 5.56	17%

Depletion and depreciation expense increased 25% during the three months ended March 31, 2019, compared to the same period in 2018, primarily as a result of higher natural gas production and the depreciation of the right-of-use leased assets recognized in the period as a result of a change in accounting policy.

Income Tax Expense

	Three months ended March 31,	
	2019	2018
Current income tax expense	$ 7,258	$ 7,194
Deferred income tax recovery	(2,493)	(9,089)
Income tax expense (recovery)	**$ 4,765**	$ (1,895)

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

Capital Expenditures

	Three months ended March 31,	
	2019	2018
Drilling and completions	$ 6,792	$ 13,108
Facilities, work overs and infrastructure	15,802	3,364
Midstream pipeline costs	—	2,210
Land, seismic, communities and other	3,486	5,958
Right-of-Use leased assets	5,877	11,300
Capitalized G&A	1,565	1,437
Non-cash costs and adjustments(1)	1,203	2,817
Net capital expenditures	**$ 34,725**	$ 40,194
Net capital expenditures recorded as:		
Expenditures on exploration and evaluation assets	$ 2,490	$ 15,131
Expenditures on property, plant and equipment	32,235	25,063
Net capital expenditures	**$ 34,725**	$ 40,194

(1) Non-cash costs and adjustments include change in estimates related to decommissioning obligations

Capital expenditures during the three months ended March 31, 2019 are primarily related to:

- Jobo 3 natural gas plant expansion;
- Completion and tie-in of Nelson-13 well;
- Drilling of Palmer-2 well;
- Pre-drilling of Nelson-7;
- Facility costs at Esperanza and VIM-5; and
- Right-of-use leased assets (non-cash);

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

Liquidity and Capital Resources

Capital Management

The Corporation's policy is to maintain a strong capital base in order to provide flexibility in the future development of the business and maintain investor, creditor and market confidence. The Corporation manages its capital structure and makes adjustments in response to changes in economic conditions and the risk characteristics of the underlying assets. The Corporation considers its capital structure to include share capital, long-term debt, settlement liability, lease obligations and working capital, defined as current assets less current liabilities less current portion of long-term obligations. In order to maintain or adjust the capital structure, from time to time the Corporation may issue or repurchase common shares or other securities, sell assets or adjust its capital spending to manage current and projected debt levels.

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

The Corporation's bank debt includes various non-financial covenants relating to indebtedness, operations, investments, assets sales, capital expenditures and other standard operating business covenants. The bank debt is also subject to various financial covenants, including a maximum consolidated total debt, less cash and cash equivalents, to EBITDAX ratio ("Consolidated Leverage Ratio") of 3.50:1.00 and a minimum EBITDAX to interest expense, excluding non-cash expenses, ratio ("Consolidated Interest Coverage Ratio") of 2.50:1.00. As at March 31, 2019, the Corporation was in compliance with the covenants.

	March 31, 2019	December 31, 2018
Senior Notes - Principal (7.25%)	$ 320,000	$ 320,000
Bank debt - Principal (6.875%)	30,000	30,000
Settlement liability (8.74%)	16,711	16,749
Lease obligation (2019 - 6.875%; 2018 - 5.2%)	27,607	21,473
Total debt	394,318	388,222
Less: working capital surplus	(51,173)	(60,782)
Net debt	**$ 343,145**	**$ 327,440**

The Consolidated Leverage Ratio is calculated as follows:

Consolidated Leverage Ratio	March 31, 2019
Total debt	$ 394,318
Less: cash and cash equivalents	(38,998)
Net debt for covenant purposes	355,320
EBITDAX	142,886
Consolidated Leverage Ratio	**2.49**

The Consolidated Interest Coverage Ratio is calculated as follows:

Consolidated Interest Coverage Ratio		March 31, 2019
EBITDAX	$	142,886
Interest expense, excluding non-cash expenses		31,639
Consolidated Interest Coverage Ratio		**4.52**

Letters of Credit

At March 31, 2019, the Corporation had letters of credit outstanding totaling $88.8 million to guarantee work commitments on exploration blocks in Colombia and to guarantee other contractual commitments, of which, $21.9 million financial guarantees relate to certain petroleum assets previously sold. The letters of credit related to such petroleum assets will be cancelled upon completion of the transition period.

As at May 7, 2019, the Corporation had 177.5 million common shares, 16.2 million stock options and 1.2 million restricted share units outstanding.

Contractual Obligations

The following table provides a summary of the Corporation's cash requirements to meet its financial liabilities and contractual obligations existing at March 31, 2019:

		Less than 1 year		1-3 years		Thereafter		Total
Long-term debt – principal	$	—	$	21,818	$	328,182	$	350,000
Lease obligations – undiscounted		6,511		8,364		18,718		33,593
Trade and other payables		49,895		—		—		49,895
Deferred income		5,013		—		—		5,013
Settlement liability		3,600		7,200		5,911		16,711
Other long term obligations		—		3,193		—		3,193
Restricted share units		3,987		14		—		4,001
Exploration and production contracts		25,084		38,946		5,989		70,019
Compression station operating contracts		2,520		5,192		16,121		23,833
Other lease payments		9,432		—		—		9,432

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, 2019 of $70 million and has issued $40 million in financial guarantees related thereto. Due to the sale of certain petroleum assets, $21.9 million of the total $40 million financial guarantees relating to these assets will be cancelled upon completion of the transition period.

OUTLOOK

Looking forward to the remainder of 2019, we are about to spud our Accordeon-1, our first exploration well of 2019. Accordeon-1 is located approximately three kilometers to the southeast of the Clarinete field, and has the potential for a significant reserves add. The Promigas expansion between Jobo and Cartagena is on target to deliver an additional 80 MMscfpd of new transportation capacity in June 2019, which will lift gas sales to approximately 215 MMscfpd for the remainder of 2019. Finally, good progress is being made towards signing sales and shipping agreements for a new pipeline that will transport 100 MMscfpd of new gas sales to Medellin in 2022.

SUMMARY OF QUARTERLY RESULTS

	2019	2018				2017		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Financial								
Total natural gas and crude oil revenues, net of royalties and transportation expense	**49,404**	50,727	53,398	52,397	47,629	39,781	35,962	37,022
Funds from operations(1)	**29,907**	28,679	26,482	28,826	21,581	16,573	13,876	18,644
Per share – basic ($)(1)	**0.17**	0.16	0.15	0.16	0.12	0.09	0.08	0.11
Per share – diluted ($)(1)	**0.17**	0.16	0.15	0.16	0.12	0.09	0.08	0.11
Net income (loss) and comprehensive income (loss)	**6,274**	(16,272)	12,138	(25,979)	8,278	(150,343)	(1,514)	11,770
Per share – basic ($)	**0.03**	(0.09)	0.07	(0.15)	0.05	(0.85)	(0.01)	0.07
Per share – diluted ($)	**0.03**	(0.09)	0.07	(0.15)	0.05	(0.85)	(0.01)	0.07
EBITDAX(1)	**39,822**	33,440	36,006	33,617	35,567	29,857	32,912	29,071
Weighted average shares outstanding – basic	**177,547**	177,678	177,453	177,018	176,572	175,988	175,663	174,668
Weighted average shares outstanding – diluted	**179,637**	178,977	178,985	178,742	178,759	177,881	177,705	176,739
Capital expenditures, net	**34,725**	37,701	18,585	31,111	40,194	41,652	24,978	30,572
Operations (boepd)								
Natural gas and crude oil production, before royalties(1)								
Natural gas (Mcfpd)	**123,291**	116,616	114,923	111,446	105,262	83,043	75,947	77,948
Colombia oil (bopd)	**433**	488	1,816	1,967	1,924	1,825	1,890	1,920
Total (boepd)(2)	**22,063**	20,947	21,978	21,519	20,391	16,394	15,214	15,595
Realized contractual sales, before royalties(1)								
Natural gas (Mcfpd)	**122,025**	119,284	115,316	111,933	106,334	85,214	76,027	78,059
Colombia oil ($/bbl)	**440**	592	1,945	1,903	1,896	1,820	1,895	1,933
Total (boepd)(2)	**21,848**	21,519	22,176	21,540	20,551	16,770	15,233	15,628
Operating netbacks ($/boe)(1)								
Natural gas ($/Mcf)	**4.03**	3.92	3.80	3.79	3.71	3.56	3.84	3.96
Colombia oil ($/bbl)	**23.64**	27.89	26.27	35.30	33.21	23.44	20.28	15.58
Corporate ($/boe)(2)	**23.00**	22.51	22.04	22.90	22.24	19.07	21.62	21.70

(1) Non-IFRS measure – see "Non-IFRS Measures" section above.
(2) The Corporation has excluded results relating to the Ecuador IPC in the prior periods for comparative purposes.

RISKS AND UNCERTAINTIES

There have been no significant changes in the three months ended March 31, 2019 to the risks and uncertainties as identified in the MD&A for the year ended December 31, 2018.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

CHANGES IN ACCOUNTING POLICIES

The Corporation has implemented new accounting policies during the three months ended March 31, 2019. Detailed discussions of new accounting policies and impact are provided in the financial statements.

REGULATORY POLICIES

Disclosure Controls and Procedures

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

Internal Controls over Financial Reporting

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

During the three months ended March 31, 2019, there has been no change in the Corporation's ICFR that has materially affected, or is reasonably likely to materially affect, the Corporation's ICFR.

Limitations of Controls and Procedures

The Corporation's management, including its CEO and CFO, believe that any DC&P or ICFR, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Corporation have been prevented or detected. These inherent limitations include the realities that judgements in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.