CANACOL ENERGY LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2015

FINANCIAL & OPERATING HIGHLIGHTS

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

Financial	Three months ended June 30, 2015	2014	Change	Year ended June 30, 2015	2014	Change
Petroleum and natural gas revenues, net of royalties	**27,297**	61,744	(56%)	**149,047**	207,787	(28%)
Adjusted petroleum and natural gas revenues, net of royalties, including revenues related to the Ecuador IPC [2]	**33,892**	68,975	(51%)	**177,937**	230,903	(23%)
Cash provided by (used in) operating activities	**(10,905)**	8,715	n/a	**64,445**	77,944	(17%)
Per share – basic ($)	**(0.09)**	0.09	n/a	**0.58**	0.87	(33%)
Per share – diluted ($)	**(0.09)**	0.09	n/a	**0.58**	0.86	(33%)
Adjusted funds from operations [1][2]	**16,359**	23,995	(32%)	**87,395**	98,915	(12%)
Per share – basic ($)	**0.14**	0.25	(44%)	**0.79**	1.10	(28%)
Per share –diluted ($)	**0.14**	0.24	(42%)	**0.78**	1.09	(28%)
Net income (loss)	**(58,524)**	(2,070)	>999%	**(106,022)**	9,937	n/a
Per share – basic ($)	**(0.50)**	(0.02)	>999%	**(0.96)**	0.11	n/a
Per share – diluted ($)	**(0.50)**	(0.02)	>999%	**(0.96)**	0.11	n/a
Capital expenditures, net, including acquisitions	**28,935**	77,093	(62%)	**217,342**	153,165	42%
Adjusted capital expenditures, net, including acquisitions and capital expenditures related to the Ecuador IPC [1][2]	**30,893**	87,584	(65%)	**243,108**	188,109	29%
				June 30, 2015	June 30, 2014	Change
Cash and cash equivalents				**45,765**	163,729	(72%)
Restricted cash				**61,772**	66,827	(8%)
Working capital surplus, excluding the current portion of bank debt and non-cash items [1]				**62,883**	159,117	(60%)
Short-term and long-term bank debt				**267,023**	210,688	27%
Total assets				**669,742**	756,587	(11%)
Common shares, end of period (000s)				**126,434**	107,736	17%

Operating	Three months ended June 30, 2015	2014	Change	Year ended June 30, 2015	2014	Change
Petroleum and natural gas **production**, before royalties (boepd)						
Petroleum [3]	**6,007**	9,271	(35%)	**7,999**	7,652	5%
Natural gas	**3,954**	2,941	34%	**3,505**	2,925	20%
Total [2]	**9,961**	12,212	(18%)	**11,504**	10,577	9%
Petroleum and natural gas **sales**, before royalties (boepd)						
Petroleum [3]	**6,192**	9,386	(34%)	**8,010**	7,577	6%
Natural gas	**4,064**	2,937	38%	**3,512**	2,893	21%
Total [2]	**10,256**	12,323	(17%)	**11,522**	10,470	10%
Realized sales prices ($/boe)						
LLA-23 (oil)	**49.96**	92.39	(46%)	**59.91**	90.29	(34%)
Esperanza (natural gas)	**26.65**	23.21	15%	**25.04**	26.49	(5%)
Ecuador (tariff oil) [2]	**38.54**	38.54	-	**38.54**	38.54	-
Total [2]	**38.76**	66.92	(42%)	**45.76**	65.10	(30%)
Operating netbacks ($/boe) [1]						
LLA-23 (oil)	**30.06**	67.37	(55%)	**34.91**	65.30	(47%)
Esperanza (natural gas)	**22.41**	18.32	22%	**20.62**	21.95	(6%)
Ecuador (tariff oil) [2]	**38.54**	38.54	-	**38.54**	38.54	-
Total [2]	**26.68**	44.70	(40%)	**28.05**	41.85	(33%)

(1) Non-IFRS measure – see "Non-IFRS Measures" section within MD&A.
(2) Inclusive of amounts related to the Ecuador IPC – see "Non-IFRS Measures" section within MD&A.
(3) Includes tariff oil production and sales related to the Ecuador IPC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Canacol Energy Ltd. and its subsidiaries ("Canacol" or the "Corporation") are primarily engaged in petroleum and natural gas exploration and development activities in Colombia and Ecuador, with non-core activities in Peru. The Corporation's head office is located at 4500, 525 - 8th Avenue SW, Calgary, Alberta, T2P 1G1, Canada. The Corporation's shares are traded on the Toronto Stock Exchange under the symbol CNE, the OTCQX in the United States of America under the symbol CNNEF, and the Bolsa de Valores de Colombia under the symbol CNEC.

Advisories

The following management's discussion and analysis ("MD&A") is dated September 21, 2015 and is the Corporation's explanation of its financial performance for the year 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 audited consolidated financial statements of the Corporation for the years ended June 30, 2015 and 2014 (the "financial statements"). The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), and all amounts herein are expressed in United States dollars, 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 petroleum and natural gas 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 oil and gas 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 oil and gas 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** – Due to the nature of the equity method of accounting the Corporation applies under IFRS 11 to its interest in the incremental production contract for the Libertador and Atacapi fields in Ecuador ("Ecuador IPC"), the Corporation does not record its proportionate share of revenues and expenditures as would be typical in oil and gas joint interest arrangements. Therefore, within this MD&A, management has provided supplemental measures of adjusted revenues and expenditures, which are inclusive of the Ecuador IPC, to supplement the IFRS disclosures of the Corporation's operations. Such supplemental measures should not be considered as an alternative to, or more meaningful than, the measures as determined in accordance with IFRS as an indicator of the Corporation's performance, and such measures may not be comparable to that reported by other companies.*

One of the benchmarks the Corporation uses to evaluate its performance is adjusted funds from operations. Adjusted funds from operations is a measure not defined in IFRS. It represents cash provided by operating activities before changes in non-cash working capital and decommissioning obligation expenditures, and includes the Corporation's proportionate interest of those items that would otherwise have contributed to funds from operations from the Ecuador IPC had it been accounted for under the proportionate consolidation method of accounting. The Corporation considers adjusted funds from operations a key measure as it demonstrates the ability of the business to generate the cash flow necessary to fund future growth through capital investment and to repay debt. Adjusted funds from operations should not be considered as an alternative to, or more meaningful than, cash provided by operating activities as determined in accordance with IFRS as an indicator of the Corporation's performance. The Corporation's determination of adjusted funds from operations 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 weighted-average shares outstanding consistent with the calculation of earnings per share. The following table reconciles the Corporation's cash provided by operating activities to adjusted funds from operations:

	Three months ended June 30,		Year ended June 30,	
	2015	2014	**2015**	2014
Cash provided by (used in) operating activities	**$ (10,905)**	$ 8,715	**$ 64,445**	$ 77,944
Changes in non-cash working capital	**20,639**	8,049	**(4,742)**	(2,145)
Ecuador IPC revenue, net of current income tax	**6,625**	7,231	**27,692**	23,116
Adjusted funds from operations	**$ 16,359**	$ 23,995	**$ 87,395**	$ 98,915

In addition to the above, management uses working capital and operating netback measures. Working capital is calculated as current assets less current liabilities, excluding non-cash items such as the current portion of commodity contracts, the current portion of convertible debentures, the current portion of warrants, and the current portion of any embedded derivatives asset/liability, 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 total petroleum and natural gas sales, less royalties, less production and transportation expenses, calculated on a per barrel equivalent ("boe") basis of sales volumes using a conversion. Operating netback is an important measure in evaluating operational performance as it demonstrates field level 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.

RESULTS OF OPERATIONS

For the three months ended June 30, 2015, the Corporation's production primarily consisted of crude oil from its Leono, Labrador, Pantro, Tigro and Maltes fields in the Llanos Basin in Colombia, natural gas from its Nelson and Palmer fields in the Lower Magdalena Basin in Colombia, tariff oil from the Ecuador IPC, and, to a lesser extent, crude oil from its Rancho Hermoso, VMM-2 and Santa Isabel properties in Colombia.

Producing Properties

The Esperanza block, located in the Lower Magdalena Basin in Colombia, produces dry natural gas for sale to local customers under long-term contracts. On July 13, 2015, the Corporation announced that the Autoridad Nacional de Licencias Ambientales has approved the environmental permit enabling Promigas S.A. E.S.P. ("Promigas") to commence construction necessary to increase capacity of the existing Jobo to Cartagena natural gas pipeline. This expansion allows Canacol to increase net gas production by an additional 65 million standard cubic feet per day ("MMscfpd") (11,400 boe per day ("boepd")) commencing December 1, 2015. Upon completion of this pipeline expansion, anticipated to be prior to December 1, 2015, the Corporation's net natural gas shipping capacity will increase to approximately 83 MMscfpd (14,500 boepd). Canacol currently sells approximately 18 MMscfpd (3,158 boepd) of gas from the Nelson Field to a local ferronickel producer under a 10 year contract that expires in 2021. The existing Nelson and Palmer wells are expected to have sufficient productive capacity to deliver the contracted gas by the end of calendar 2015.

The Corporation, through a consortium, participates in an incremental production contract for the Libertador and Atacapi fields in Ecuador whereby the Corporation receives a tariff price of $38.54/bbl for each incremental barrel of oil produced over a pre-determined production base curve. Such incremental production volumes are reported as production in this MD&A. As further described above, as required under IFRS 11, the Ecuador IPC is being accounted for under the equity method of accounting versus the proportionate consolidation method of accounting. For purposes of this MD&A, management has provided supplemental measures for adjusted revenues and expenditures, which are inclusive of the Ecuador IPC, to supplement the IFRS disclosures of the Corporation's operations. During the quarter ended June 30, 2015, the Corporation participated in the drilling of one new exploration well, Secoya Oeste – A001, located adjacent to the producing Libertador and Atakapa light oil fields in the Oriente Basin. The Secoya Oeste - A001 exploration well was spud in early June 2015 targeting the T, U, and basal Tena sandstone reservoirs which produce in the adjacent Libertador and Atacapi oil fields. The well encountered 33 feet of net oil pay within these reservoirs. The Lower U sandstone reservoir tested at an average gross rate of 972 bopd (243 bopd net) of 27° API oil with a 10% water cut over the course of a 50 hour test using a jet pump. The Upper U sandstone tested at an average gross rate of 326 bopd (82 bopd net) of 29° API oil with 8% water cut over the course of a 53 hour test using a jet pump. The consortium plans to commingle the two intervals and bring the well on permanent production shortly, and is using the well results to plan the drilling of potential follow up appraisal and development wells.

Both gas sales from Esperanza (currently sold based on Guajira price index of $5.08/MMbtu or $28.96/boe) and tariff oil from Ecuador ($38.54/bbl), together comprising approximately 57% of production in the three months ended June 30, 2015, are insensitive to world oil prices, offering the Corporation a significant degree of protection from the effects of low benchmark oil prices. Despite the drop in crude oil average realized prices during the three months ended June 30, 2015, the Corporation's primary oil producing fields located on the LLA-23 block achieved over $30/bbl operating netbacks as a result of cost-cutting initiatives such as centralizing the production, loading, and water disposal operations from the different fields within our LLA-23 block to the Pointer platform, and so reducing operating expenses, transportation expenses and water handling costs via reinjection.

Over the past two years the Corporation has made five key light oil discoveries on its LLA-23 block located in the Llanos basin, those being Labrador in December 2012, Leono in December 2013, Pantro in April 2014, Tigro in August 2014, and Maltes in January 2015. These discoveries are currently producing approximately 35% of the Corporation's current production. The Corporation is acquiring/interpreting 400 square kilometer 3D seismic program with the objective of firming up the portfolio of 12 currently identified exploration leads into prospects for drilling in the remainder of calendar 2015 through to 2016.

For the three months ended June 30, 2015, the Corporation also had other crude oil production from its Rancho Hermoso, VMM-2 and Santa Isabel properties in Colombia. Rancho Hermoso is a mature field and its production and netbacks have become immaterial to the consolidated results overall. The Corporation's Rancho Hermoso, VMM-2 and Santa Isabel properties individually contributed only a minor amount to total production in the quarter ended June 30, 2015 and, therefore, they were aggregated into a single group for analysis purposes in this MD&A. These properties are susceptible to negative cash flows in a low oil price environment and the Corporation plans to shut-in any wells under its control that are uneconomic. As of the date of this MD&A, all wells at the Capella field have been shut-in.

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

Average Daily Petroleum and Natural Gas Production and Sales Volumes

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

	Three months ended June 30,			Year ended June 30,		
	2015	2014	Change	**2015**	2014	Change
Production (boepd)						
LLA-23 (oil)	**3,472**	5,774	(40%)	**4,657**	4,291	9%
Esperanza (gas)	**3,954**	2,941	34%	**3,505**	2,925	20%
Ecuador (tariff oil)	**1,759**	1,884	(7%)	**1,927**	1,402	37%
Rancho Hermoso and other (oil and liquids)	**776**	1,613	(52%)	**1,415**	1,959	(28%)
Total production	**9,961**	12,212	(18%)	**11,504**	10,577	9%
Inventory movements, power generation and other	**295**	111	166%	**18**	(107)	n/a
Total sales	**10,256**	12,323	(17%)	**11,522**	10,470	10%
Sales (boepd)						
LLA-23 (oil)	**3,586**	5,751	(38%)	**4,668**	4,348	7%
Esperanza (gas)	**4,064**	2,937	38%	**3,512**	2,893	21%
Ecuador (tariff oil)	**1,759**	1,884	(7%)	**1,927**	1,402	37%
Rancho Hermoso and other (oil and liquids)	**847**	1,751	(52%)	**1,415**	1,827	(23%)
Total sales	**10,256**	12,323	(17%)	**11,522**	10,470	10%

The overall decrease in production volumes in the three months ended June 30, 2015 compared to the same period in 2014 is primarily due to production declines from LLA-23, Ecuador and Rancho Hermoso, offset by production increases in Esperanza.

The overall increase in production volumes in the year ended June 30, 2015 compared to the same period in 2014 is primarily due to new production from the Tigro and Maltes discoveries on the LLA-23 block, production increases from the Libertador and Atacapi fields in Ecuador and production increases from the Esperanza block, offset by declines in Rancho Hermoso.

Petroleum and Natural Gas Revenues

	Three months ended June 30,			Year ended June 30,		
	2015	2014	Change	**2015**	2014	Change
LLA-23	**$ 16,303**	$ 48,354	(66%)	**$ 102,076**	$ 143,299	(29%)
Esperanza	**9,857**	6,204	59%	**32,093**	27,973	15%
Rancho Hermoso and other	**3,845**	13,882	(72%)	**31,144**	57,802	(46%)
Petroleum and natural gas revenues, before royalties	**30,005**	68,440	(56%)	**165,313**	229,074	(28%)
Royalties	**(2,708)**	(6,696)	(60%)	**(16,266)**	(21,287)	(24%)
Petroleum and natural gas revenues, after royalties, as reported	**27,297**	61,744	(56%)	**149,047**	207,787	(28%)
Ecuador tariff and other revenues	**6,595**	7,231	(9%)	**28,890**	23,116	25%
Adjusted petroleum and natural gas revenues, after royalties (1)	**$ 33,892**	$ 68,975	(51%)	**$ 177,937**	$ 230,903	(23%)

(1) Non-IFRS measure – inclusive of amounts related to the Ecuador IPC – see "Non-IFRS Measures" section above.

The decrease in adjusted petroleum and natural gas revenues in the three months ended June 30, 2015 compared to the same period in 2014 is primarily the result of the decreased overall sales of 17% by volume and the impact of lower realized average prices during the quarter as a result of declines in benchmark crude oil prices. The decrease in adjusted petroleum and natural gas revenues in the year ended June 30, 2015 compared to the same period in 2014 is primarily the result of the impact of lower realized average prices during the period, offset by the increased overall sales of 10% by volume.

Average Benchmark and Realized Sales Prices

	Three months ended June 30,			Year ended June 30,		
	2015	2014	Change	**2015**	2014	Change
Brent ($/bbl)	**$ 61.61**	$ 109.69	(44%)	**$ 73.51**	$ 109.33	(33%)
West Texas Intermediate ($/bbl)	**$ 57.74**	$ 103.32	(44%)	**$ 69.46**	$ 101.35	(31%)
LLA-23 ($/bbl)	**$ 49.96**	$ 92.39	(46%)	**$ 59.91**	$ 90.29	(34%)
Esperanza ($/boe)	**26.65**	23.21	15%	**25.04**	26.49	(5%)
Ecuador ($/bbl)	**38.54**	38.54	-	**38.54**	38.54	-
Rancho Hermoso and other ($/bbl)	**49.89**	87.12	(43%)	**60.31**	86.70	(30%)
Average realized sales price ($/boe) [1]	**$ 38.76**	$ 66.92	(42%)	**$ 45.76**	$ 65.10	(30%)

(1) Non-IFRS measure – inclusive of amounts related to the Ecuador IPC – see "Non-IFRS Measures" section above.

The decrease in average realized crude oil sales prices in the three months and year ended June 30, 2015 compared to the same periods in 2014 is due to decreased benchmark crude oil prices.

The increase in average realized natural gas sales prices in the three months ended June 30, 2015 compared to the same period in 2014 is due to the increase in the Guajira price in October 2014, from $3.97/MMbtu to $5.08/MMbtu, at which it remains. The decrease in average realized natural gas sales prices in the year ended June 30, 2015 compared to the same period in 2014 is due to the Corporation intermittently selling natural gas on the spot market at various prices per the intermittent contracts.

The tariff price for Ecuador tariff oil production is fixed at $38.54/bbl.

Royalties

	Three months ended June 30,		Year ended June 30,	
	2015	2014	**2015**	2014
LLA-23	**$ 1,516**	$ 5,140	**$ 11,018**	$ 14,436
Esperanza	**851**	474	**2,669**	2,289
Rancho Hermoso and other	**341**	1,082	**2,579**	4,562
Total royalties	**$ 2,708**	$ 6,696	**$ 16,266**	$ 21,287

In Colombia, crude oil royalties are generally at a rate of 8% until net field production reaches 5,000 boepd, then increase on a sliding scale to 20% up to field production of 125,000 boepd. Crude oil royalties in Labrador and Rancho Hermoso are taken in kind. The Corporation's LLA-23 and VMM-2 blocks are subject to an additional x-factor royalty of 3% (effectively 2.76%). Crude oil royalties in LLA-23 and VMM-2 are calculated from crude oil revenue net of transportation expenses. The Corporation's Capella heavy oil field is subject to a 6% royalty. There are no royalties on tariff production in Ecuador. Natural gas royalties are calculated from natural gas revenue, generally at a rate of 6.4%. In addition, the Corporation's natural gas production is subject to an additional overriding royalty of 2%.

Production and Transportation Expenses

Total production and transportation expenses were as follows:

	Three months ended June 30,			Year ended June 30,		
	2015	2014	Change	**2015**	2014	Change
Production expenses	**$ 7,477**	$ 14,431	(48%)	**$ 51,253**	$ 51,233	0%
Transportation expenses	**1,089**	3,791	(71%)	**6,961**	16,326	(57%)
Total production and transportation expenses	**$ 8,566**	$ 18,222	(53%)	**$ 58,214**	$ 67,559	(14%)
$/boe	**$ 9.18**	$ 16.25	(44%)	**$ 13.84**	$ 17.68	(22%)

An analysis of production expenses is provided below:

	Three months ended June 30,			Year ended June 30,		
	2015	2014	Change	**2015**	2014	Change
LLA-23	**$ 4,108**	$ 5,357	(23%)	**$ 27,094**	$ 16,192	67%
Esperanza	**718**	834	(14%)	**3,004**	2,498	20%
Rancho Hermoso and other	**2,651**	8,240	(68%)	**21,155**	32,543	(35%)
Total production expenses	**$ 7,477**	$ 14,431	(48%)	**$ 51,253**	$ 51,233	0%
$/boe						
LLA-23	**$ 12.59**	$ 10.24	23%	**$ 15.90**	$ 10.20	56%
Esperanza	**$ 1.94**	$ 3.12	(38%)	**$ 2.34**	$ 2.37	(1%)
Total	**$ 8.01**	$ 12.87	(38%)	**$ 12.19**	$ 13.41	(9%)

Production expenses at LLA-23 decreased 23% in the three months ended June 30, 2015 compared to the same period in 2014. The decrease is primarily due to lower production, lower renegotiated operating costs and devaluation of the Colombian peso versus the United States dollar. Production expenses at LLA-23 increased 67% in the year ended June 30, 2015 compared to the same period in 2014. The increase is primarily due to new production from the Tigro and Maltes discoveries, offset by lower renegotiated operating costs and the devaluation of the Colombian peso versus the United States dollar.

Production expenses at Esperanza decreased 14% in the three ended June 30, 2015 compared to the same period in 2014. The decrease is primarily due to the devaluation of the Colombian peso versus the United States dollar increased production, offset by increased production. Production expenses at Esperanza increased 20% in the year ended June 30, 2015 compared to the same period in 2014. The increase is primarily due to increased production, offset by the devaluation of the Colombian peso versus the United States dollar during fiscal Q3 and Q4 2015.

Production expenses at Rancho Hermoso and other decreased 68% and 35% in the three months and year ended June 30, 2015, respectively, compared to the same periods in 2014. The decrease is primarily the result of decreased production in the Rancho Hermoso field, lower renegotiated operating costs and the devaluation of the Colombian peso versus the United States dollar. Under its contract with Ecopetrol, the Corporation pays 100% of the production expenses at Rancho Hermoso while only recognizing non-tariff production before royalties of approximately 24-25% of gross non-tariff production. As a result, production expenses for Rancho Hermoso oil are higher than a similar operation that is subject to an ANH contract, such as LLA-23, Capella, VMM-2 and Santa Isabel.

In light of continued weakness in benchmark crude oil prices, the Corporation continues to focus its efforts on reducing production expenses in order to maintain profitability in its operations. The Corporation has successfully renegotiated some tariffs with its major service providers to reduce production expenses. Further, the Corporation is centralizing its production, loading, and water disposal operations from the different fields within the LLA-23 block to the Pointer platform; by doing so reducing operating expenses, transportation expenses and water handling costs via reinjection. In Rancho Hermoso, the Corporation has shut-in wells with high water cut which helps reduce overall power generation and water handling costs. The Corporation will continue to monitor its non-operated fields at VMM-2 and Capella and work with the operators to optimize profitability. As of the date of this MD&A, all wells at the Capella field have been shut-in.

The Corporation does not pay production expenses in Ecuador, and as such, its tariff price of $38.54 equals netback.

An analysis of transportation expenses is provided below:

	Three months ended June 30,			Year ended June 30,		
	2015	2014	Change	**2015**	2014	Change
LLA-23	**$ 868**	$ 2,598	(67%)	**$ 4,480**	$ 9,027	(50%)
Rancho Hermoso and other	**221**	1,193	(81%)	**2,481**	7,299	(66%)
Total transportation expenses	**$ 1,089**	$ 3,791	(71%)	**$ 6,961**	$ 16,326	(57%)
$/boe						
LLA-23	**$ 2.66**	$ 4.96	(46%)	**$ 2.63**	$ 5.69	(54%)
Total	**$ 1.17**	$ 3.38	(65%)	**$ 1.66**	$ 4.27	(61%)

Total transportation expenses have decreased by 71% and 57% in the three months and year ended June 30, 2015, respectively, compared to the same periods in 2014 mainly due to lower transportation rates, decreased sales volumes, more delivery of crude oil at the field, and the devaluation of the Colombian peso versus the United States dollar. The Corporation does not pay transportation costs at Esperanza or in Ecuador.

Operating Netbacks

	Three months ended June 30,			Year ended June 30,		
$/boe	**2015**	2014	Change	**2015**	2014	Change
Petroleum and natural gas revenues	**$ 38.76**	$ 66.92	(42%)	**$ 45.76**	$ 65.10	(30%)
Royalties	**(2.90)**	(5.97)	(51%)	**(3.87)**	(5.57)	(31%)
Production and transportation expenses	**(9.18)**	(16.25)	(44%)	**(13.84)**	(17.68)	(22%)
Operating netback [1]	**$ 26.68**	$ 44.70	(40%)	**$ 28.05**	$ 41.85	(33%)

(1) Non-IFRS measure – inclusive of amounts related to the Ecuador IPC – see "Non-IFRS Measures" section above.

Operating netbacks by major production categories were as follows:

	Three months ended June 30,			Year ended June 30,		
$/boe	**2015**	2014	Change	**2015**	2014	Change
LLA-23						
Crude oil revenues	**$ 49.96**	$ 92.39	(46%)	**$ 59.91**	$ 90.29	(34%)
Royalties	**(4.65)**	(9.82)	(53%)	**(6.47)**	(9.10)	(29%)
Production and transportation expenses	**(15.25)**	(15.20)	0%	**(18.53)**	(15.89)	17%
Operating netback	**$ 30.06**	$ 67.37	(55%)	**$ 34.91**	$ 65.30	(47%)
Esperanza						
Natural gas revenues	**$ 26.65**	$ 23.21	15%	**$ 25.04**	$ 26.49	(5%)
Royalties	**(2.30)**	(1.77)	30%	**(2.08)**	(2.17)	(4%)
Production expenses	**(1.94)**	(3.12)	(38%)	**(2.34)**	(2.37)	(1%)
Operating netback	**$ 22.41**	$ 18.32	22%	**$ 20.62**	$ 21.95	(6%)
Ecuador						
Tariff revenues [1]	**$ 38.54**	$ 38.54	-	**$ 38.54**	$ 38.54	-
Operating netback [1]	**$ 38.54**	$ 38.54	-	**$ 38.54**	$ 38.54	-

(1) Revenues related to the Ecuador IPC are not included in Petroleum and Natural Gas Revenues as reported under IFRS – see "Non-IFRS Measures" section above.

General and Administrative Expenses

	Three months ended June 30,			Year ended June 30,		
	2015	2014	Change	**2015**	2014	Change
Gross costs	**$ 6,342**	$ 7,962	(20%)	**$ 28,259**	$ 30,555	(8%)
Less: capitalized amounts	**(796)**	(982)	(19%)	**(4,209)**	(3,510)	20%
General and administrative expenses	**$ 5,546**	$ 6,980	(21%)	**$ 24,050**	$ 27,045	(11%)
$/boe	**$ 5.94**	$ 6.22	(5%)	**$ 5.72**	$ 7.08	(19%)

Gross general and administrative expenses decreased by 20% and 8% in the three months and year ended June 30, 2015, respectively, compared to same periods in 2014 primarily due to the Corporation's efforts to manage its general and administrative expenses in light of the recent weakness in benchmark crude oil prices and the devaluation of the Colombian peso versus the United States dollar.

Net Finance Income and Expense

	Three months ended June 30, 2015		2014	Change	Year ended June 30, 2015		2014	Change
Net financing paid	$	6,744	$ 1,970	242%	$	16,761	$ 6,679	151%
Non-cash financing costs		6,931	1,121	518%		11,046	2,977	271%
Net finance expense	$	13,675	$ 3,091	342%	$	27,807	$ 9,656	188%

Net finance expense increased by 342% and 188% in the three months and year ended June 30, 2015, respectively, compared the same periods in 2014 primarily due to increased interest and financing costs incurred on the $200 million (2014 – $220 million) Senior Term Loan and the $75 million Senior Note (2014 – $ nil).

Commodity Contracts

During the year ended June 30, 2015, the Corporation had one financial oil collars outstanding under the following terms:

Period	Volume	Type	Price Range
Jan 2014 – Dec 2014	500 bbls/day	Financial Brent Oil Collar	$75.00 – $123.50

Gains and losses on commodity contracts recognized in net income/loss are summarized below:

	Three months ended June 30, 2015	2014	Year ended June 30, 2015	2014
Unrealized change in fair value	$ -	$ 5	$ (38)	$ (242)
Realized cash settlement	-	-	(182)	432
Total loss (gain)	$ -	$ 5	$ (220)	$ 190

Stock-Based Compensation Expense

	Three months ended June 30, 2015		2014	Change	Year ended June 30, 2015		2014	Change
Gross costs	$	1,033	$ 5,704	(82%)	$	8,353	$ 10,528	(21%)
Less: capitalized amounts		(208)	(1,750)	(88%)		(2,466)	(3,370)	(27%)
Stock-based compensation expense	$	825	$ 3,954	(79%)	$	5,887	$ 7,158	(18%)

Stock-based compensation expense is a non-cash expense that is based on the fair value of stock options granted. The fair value is calculated on grant date and amortized over the vesting period.

Restricted Share Units

	Number (000s)		Amount
Balance at June 30, 2014	62	$	404
Granted	244		1,034
Settled	(148)		(377)
Realized loss	-		25
Unrealized gain	-		(625)
Foreign exchange gain	-		(111)
Balance at June 30, 2015	**158**	$	**350**

On October 2, 2014 and January 21, 2015, the Corporation granted 234,781 and 9,333 restricted share units ("RSUs") to certain directors, officers and employees with a reference price of C$4.80 and C$3.21 per share, respectively. The RSUs granted on October 2, 2014 vest as to one-half in six months and one-half in twelve months from the grant date, and will be settled in cash. The RSUs granted on January 21, 2015 vest as to one-half in one year and one-half in two years from the grant date, and will be settled in cash.

Depletion and Depreciation Expense

	Three months ended June 30,			Year ended June 30,		
	2015	2014	Change	2015	2014	Change
Depletion and depreciation expense	$ 12,662	$ 14,897	(15%)	$ 61,262	$ 38,740	58%
$/boe	$ 13.57	$ 13.28	2%	$ 14.57	$ 10.14	44%

Depletion and depreciation expense decreased 15% in the three months ended June 30, 2015 compared to 2014 primarily as a result of the lower production during the quarter. Depletion and depreciation expense increased 58% in the year ended June 30, 2015 compared to 2014 primarily as a result of higher production and higher depletable base during the year.

Impairment on Development Assets

	Three months ended June 30,		Year ended June 30,	
	2015	2014	2015	2014
Impairment on development assets	$ 44,661	$ 10,577	$ 72,057	$ 10,577

In light of weakness in benchmark crude oil prices, impairment tests were carried out at June 30, 2015 using forecasted crude oil price estimates. The impairment tests resulted in a write-down primarily related to the Rancho Hermoso, Capella, Santa Isabel and VMM-2 assets totalling $72.1 million as at June 30, 2015. The Corporation's other CGUs were unaffected.

Income Tax Expense

	Three months ended June 30,		Year ended June 30,	
	2015	2014	2015	2014
Current income tax expense	$ 2,994	$ 11,030	$ 7,671	$ 24,823
Deferred income tax recovery	(4,930)	(6,115)	(204)	(2,807)
Income tax (recovery) expense	$ (1,936)	$ 4,915	$ 7,467	$ 22,016

The Corporation's pre-tax income is subject to a combined Colombian statutory income tax rate of 39%. Offsetting the non-cash deferred income tax recovery of $4.9 million and $0.2 million in the three months and year ended June 30, 2015, respectively, was a $29.7 million and $43.2 million non-cash deferred income tax expense charge, respectively, attributable to the impact of the devaluation of the Colombian peso versus the United States dollar on the Corporation's tax pools.

Cash and Funds from Operations and Net Income (Loss)

	Three months ended June 30,			Year ended June 30,		
	2015	2014	Change	2015	2014	Change
Cash provided by (used in) operating activities	$ (10,905)	$ 8,715	n/a	$ 64,445	$ 77,944	(17%)
Per share – basic ($)	$ (0.09)	$ 0.09	n/a	$ 0.58	$ 0.87	(33%)
Per share – diluted ($)	$ (0.09)	$ 0.09	n/a	$ 0.58	$ 0.86	(33%)
Adjusted funds from operations [(1)]	$ 16,359	$ 23,995	(32%)	$ 87,395	$ 98,915	(12%)
Per share – basic ($)	$ 0.14	$ 0.25	(44%)	$ 0.79	$ 1.10	(28%)
Per share – diluted ($)	$ 0.14	$ 0.24	(42%)	$ 0.78	$ 1.09	(28%)
Net income (loss)	$ (58,524)	$ (2,070)	>999%	$ (106,022)	$ 9,937	n/a
Per share – basic ($)	$ (0.50)	$ (0.02)	>999%	$ (0.96)	$ 0.11	n/a
Per share – diluted ($)	$ (0.50)	$ (0.02)	>999%	$ (0.96)	$ 0.11	n/a

(1) Non-IFRS measure – inclusive of amounts related to the Ecuador IPC – see "Non-IFRS Measures" section above.

The net loss of $58.5 million for the three months ended June 30, 2015 was mainly driven by non-cash items that did not affect the core business of the Corporation. Most significantly, the devaluation of the Colombian peso versus the United States dollar in the quarter resulted in a non-cash deferred tax expense impact of approximately $29.7 million, the non-cash depletion and depreciation expense of $12.7 million, and the non-cash impairment expense on development assets of $44.7 million.

The net loss of $106 million for the year ended June 30, 2015 was mainly driven by non-cash items that did not affect the core business of the Corporation. Most significantly, the devaluation of the Colombian peso versus the United States dollar in the year resulted in a non-cash deferred tax expense impact of approximately $43.2 million, the non-cash depletion and depreciation expense of $61.3 million, and the non-cash impairment expense on development assets of $72.1 million.

Capital Expenditures

	Three months ended June 30, 2015	Three months ended June 30, 2014	Year ended June 30, 2015	Year ended June 30, 2014
Drilling and completions	**$ 4,815**	$ 27,662	**$ 97,320**	$ 68,143
Facilities, work overs and infrastructure	**5,193**	3,207	**18,276**	12,193
Seismic, capitalized general and administrative expenses, capitalized borrowing cost and other non-cash costs (2)	**21,398**	6,224	**47,791**	17,829
Property acquisitions	**-**	40,000	**75,609**	55,000
Dispositions and farm-outs	**(2,471)**	-	**(21,654)**	-
Net capital expenditures	**28,935**	77,093	**217,342**	153,165
Ecuador	**1,958**	10,491	**25,766**	34,944
Adjusted net capital expenditures (1)	**$ 30,893**	$ 87,584	**$ 243,108**	$ 188,109
Net capital expenditures recorded as:				
Expenditures on exploration and evaluation assets	**$ 2,367**	$ 12,732	**$ 148,792**	$ 42,108
Expenditures on property, plant and equipment	**29,039**	64,361	**90,204**	111,057
Disposition and farm-outs	**(2,471)**	-	**(21,654)**	-
Net capital expenditures	**$ 28,935**	$ 77,093	**$ 217,342**	$ 153,165

(1) Non-IFRS measure – inclusive of amounts related to the Ecuador IPC – see "Non-IFRS Measures" section above.
(2) Other non-cash costs include capitalized stock-based compensation and capitalized costs related to decommissioning liabilities.

Capital expenditures in fiscal Q4 2015 primarily related to:

- Drilling, recompletion and facilities costs at LLA-23;
- Drilling related costs at Clarinete;
- Workover costs at VMM-2 (non-operated);
- Drilling, completion and recompletion costs related to the Ecuador IPC (accounted for under the equity method of accounting); and
- Other capitalized costs

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, bank debt and working capital, defined as current assets less current liabilities, excluding non-cash items such as the current portion warrants. In order to maintain or adjust the capital structure, from time to time the Corporation may issue 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 the ratio of net debt to adjusted funds from operations. This ratio is calculated as net debt, defined as the principal amount of its total outstanding bank debt, less working capital, as defined above, divided by adjusted funds from operations. The Corporation uses the ratio of net debt to adjusted funds from operations as a key indicator of the Corporation's leverage and to monitor the strength of its financial position.

In order to facilitate the management of this ratio, the Corporation prepares annual budgets, which are updated as necessary depending on varying factors including current and forecast crude oil 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.

Due to the weakness in crude oil prices over recent months and the resulting impact on cash flows, the Corporation's net debt leverage ratio has increased. The Corporation has taken steps to reduce capital spending and preserve liquidity which, at June 30, 2015, had left the Corporation with $45.8 million in cash and cash equivalents and a further $61.8 million in restricted cash. In addition, at June 30, 2015, the Corporation had available an additional $25 million in committed Senior Notes that it can draw down at any time up to April 2016 at the sole discretion of the Corporation, subject to certain conditions. Additionally, to increase financial flexibility, in April 2015, the Corporation completed the refinancing of its senior secured term loan with the new term loan (see "Credit Facilities and Debt" section below) that pushed out current amortization payments to December 31, 2017. While crude oil prices are expected to remain weak for the remainder of 2015, the higher than normal leverage ratio is considered temporary since significant new contracted gas deliveries are expected to commence on December 1, 2015, thereby materially increasing revenues and funds from operations by the end of calendar 2015 and significantly reducing the net debt leverage ratio. In the meantime, the Corporation plans to maintain a prudent capital spending program and to focus on cost reductions to maximize profitability of the existing producing assets.

		June 30, 2015
Bank debt (current and long-term) – principal	$	275,000
Working capital surplus		(62,883)
Net debt	$	212,117
Trailing 12 months adjusted funds from operations (1)	$	87,395
Net debt to trailing 12 months adjusted funds from operations		2.4

(1) Non-IFRS measure – inclusive of amounts related to the Ecuador IPC – see "Non-IFRS Measures" section above.

Private Placement

On September 3, 2015, the Corporation completed a private placement with Cavengas Holding S.R.L, a Barbados company ("Cavengas"), for the amount of C$78,975,000 consisting of the issuance of 17,590,000 subscription receipts issued at $2.50 per subscription receipt of the Corporation and convertible into 17,590,000 common shares of the Corporation upon certain Release Conditions (as such term is defined below), along with the issuance of 14,000,000 common shares of the Corporation at a price of $2.50 per common share. The C$35,000,000 related to the 14,000,000 common shares was released to the Corporation on September 3, 2015. The gross proceeds from the sale of the subscription receipts are being held in escrow by an escrow agent and invested in short term obligations issued or guaranteed by the Government of Canada (or other approved investments) pending satisfactory completion of the Release Condition. The Corporation engaged an exclusive advisor for this transaction, and will pay a fee of 3.5%, payable entirely in the common shares of the Corporation, for their services.

Under the terms of the investment agreement entered into as between Canacol and Cavengas, Cavengas has the right to appoint two (2) nominees to the board of directors of the Corporation (the "Director Nominees") subject to maintaining certain ownership thresholds. The subscription receipt agreement entered into as between Canacol, Cavengas and the escrow agent provides that the subscription receipts are convertible into common shares, on the basis of one (1) subscription receipt convertible into one (1) common share, upon the successful appointment of the Director Nominees to the board of directors of the Corporation, contingent upon the approval of the TSX (the "Release Condition").

Credit Facilities and Debt

Senior Secured Term Loan

On April 3, 2013, the Corporation entered into a credit agreement for a $140 million senior secured term loan with a syndicate of banks led by Credit Suisse ("CS Senior Secured Term Loan"). The CS Senior Secured Term Loan was for a five-year term, with interest payable quarterly and principal repayable in 15 equal quarterly installments starting in October 2014, following an initial 18 month grace period. The CS Senior Secured Term Loan carried interest at LIBOR plus 4.50% and was secured by all of the material assets of the Corporation.

On April 24, 2014, the Corporation completed an upsizing of its CS Senior Secured Term Loan, from $140 million to $220 million, with no changes to the terms of the CS Senior Secured Term Loan or the repayment schedule. The revised term loan carries interest at LIBOR plus 4.50-5.00%, depending on agreed leverage ratios, and is secured by all of the material assets of the Corporation.

On April 24, 2015, the CS Senior Secured Term Loan was settled for the principal amount outstanding on the settlement date of $176 million and was replaced with a new senior secured term loan with a syndicate of banks led by BNP Paribas for a principal amount of $200 million ("BNP Senior Secured Term Loan"). The carrying value of the CS Senior Secured Term Loan included $6.1 million of transaction costs netted against the principal amount and were fully expensed at the time of settlement. The BNP Senior Secured Term Loan is due September 30, 2019, with interest payable quarterly and principal repayable in eight equal quarterly installments starting on December 31, 2017, following an initial grace period. As such, the BNP Senior Secured Term Loan is classified as non-current as at June 30, 2015. The BNP Senior Secured Term Loan carries interest at LIBOR plus 4.75% and is secured by all of the material assets of the Corporation. The carry value of the BNP Senior Secured Term Loan included $4.6 million of transaction costs netted against the principal amount as at June 30, 2015.

The BNP Senior Secured Term Loan includes various non-financial covenants relating to future acquisitions, indebtedness, operations, investments, capital expenditures and other standard operating business covenants. The BNP Senior Secured Term Loan also includes various financial covenants, including a maximum consolidated leverage ratio ("Consolidated Leverage Ratio") of 3.50:1.00, a minimum consolidated interest coverage ratio ("Consolidated Interest Coverage Ratio") of 2.50:1.00 and a minimum consolidated current assets to consolidated current liabilities ratio ("Consolidated Current Assets to Consolidated Current Liabilities Ratio") of 1.00:1.00.

The Consolidated Leverage Ratio is calculated on a quarterly basis as consolidated total debt ("Consolidated Total Debt") divided by consolidated EBITDAX ("Consolidated EBITDAX"). The maximum allowable Consolidated Leverage Ratio is 3.50:1.00. As at June 30, 2015, the Consolidated Leverage Ratio was 2.72:1.00. Consolidated Total Debt includes the principal amount of all indebtedness, which currently includes bank debt; additionally, restricted cash maintained in the debt service reserve account related to the BNP Senior Secured Term Loan is deductible against Consolidated Total Debt. Consolidated EBITDAX is calculated on a rolling 12-month basis and is defined as consolidated net income adjusted for interest, income taxes, depreciation, depletion, amortization, exploration expenses, share of joint venture profit/loss and other similar non-recurring or non-cash charges. Consolidated EBITDAX is further adjusted for the contribution to adjusted funds from operations, before taxes, of the results of the Ecuador IPC. The purpose of including this last amount is to capture the funds from operations of the Corporation's joint venture in Ecuador into the calculation as it is accounted for on an equity consolidation basis in the Corporation's consolidated financial statements. Consolidated Total Debt and Consolidated EBITDAX are calculated as follows:

Consolidated Total Debt		**June 30, 2015**
Bank debt (current and long-term) – principal	$	275,000
Debt service reserve account balance		(3,000)
Consolidated Total Debt	$	272,000

Consolidated EBITDAX	**Q1 F2015**	**Q2 F2015**	**Q3 F2015**	**Q4 F2015**	**Rolling**
Consolidated net income (loss)	14,110	(45,970)	(15,638)	(58,524)	(106,022)
(+) Interest expense	4,336	6,137	5,672	14,122	30,267
(+/-) Income taxes (recovery)	(1,190)	3,477	7,116	(1,936)	7,467
(+) Wealth taxes	-	-	1,519	(18)	1,501
(+) Depletion and depreciation	19,493	16,818	12,289	12,662	61,262
(+) Exploration expenses	90	4,310	98	19	4,517
(-) Share of joint venture profit	(2,327)	(1,479)	(675)	(208)	(4,689)
(+/-) Other non-cash expenses (income) and non-recurring items	(358)	30,701	(1,129)	47,570	76,784
(+) Contribution of Ecuador IPC	8,439	7,474	6,382	6,595	28,890
Consolidated EBITDAX	42,593	21,468	15,634	20,282	99,977

Consolidated Leverage Ratio		June 30, 2015
Consolidated Total Debt	$	272,000
Consolidated EBITDAX		99,977
Consolidated Leverage Ratio		2.72

The Consolidated Interest Coverage Ratio is calculated on a quarterly basis as Consolidated EBITDAX divided by consolidated interest expense ("Consolidated Interest Expense"). The minimum Consolidated Interest Coverage Ratio required is 2.50:1.00. Consolidated EBITDAX is calculated on a rolling 12-month basis as described in the above paragraph. Consolidated Interest Expense is calculated on a rolling 12-month basis and includes interest expense and capitalized interest, net of interest income, and excludes any non-cash interest charges.

Consolidated Interest Coverage Ratio		June 30, 2015
Interest expense	$	19,898
Capitalized interest		1,694
Interest income		(3,139)
Consolidated Interest Expense	$	18,453
Consolidated EBITDAX	$	99,977
Consolidated Interest Coverage Ratio		5.42

The Consolidated Current Assets to Consolidated Current Liabilities Ratio is calculated on a quarterly basis as consolidated current assets divided by consolidated current liabilities, excluding the current portion of any long-term indebtedness and any non-cash current assets and non-cash current liabilities. The minimum Consolidated Current Assets to Consolidated Current Liabilities Ratio required is 1.00:1.00.

The Corporation was in compliance with its covenants as at June 30, 2015.

Senior Notes

On October 29, 2014, the Corporation entered into the $100 million unsecured floating rate senior note indenture agreement with Apollo Investment Corporation ("Senior Notes"), with $50 million drawn and funded on October 29, 2014, $25 million drawn and funded on April 2, 2015, and a further $25 million committed and available to be drawn at any time up to April 2016 at the sole discretion of the Corporation, subject to certain conditions. The Senior Notes are repayable in full on their maturity date of December 31, 2019 and carry interest at LIBOR plus 8.5% per annum (subject to a LIBOR floor of 1.00%), payable quarterly. The Senior Notes may be repaid at any time prior to maturity and are subject to customary financial, performance and legal covenants which are consistent with the covenants under the BNP Senior Secured Term Loan. Standby fees on the undrawn portion of the Senior Notes are calculated at 1% per annum. The carrying value of the Senior Notes included $3.4 million of transaction costs netted against the principal amount as at June 30, 2015.

Other Colombian Credit Facilities

The Corporation has revolving lines of credit in place in Colombia with an aggregate borrowing base of $41.4 million (COP$ 107.1 billion). These lines of credit have interest rates ranging from 6% to 9% and are unsecured. The facilities were undrawn as at June 30, 2015.

Letters of Credit

At June 30, 2015, the Corporation had letters of credit outstanding totaling $52.7 million to guarantee work commitments on exploration blocks and to guarantee other contractual commitments. The total of these letters of credit, net of amounts counter-guaranteed by other financial institutions, reduce the amounts available under the Colombian revolving lines of credit by $35.7 million.

Convertible Debentures

During the year ended June 30, 2015, the Corporation had convertible debentures outstanding with a principal value of C$25.5 million. The convertible debentures bore an annual coupon rate of 8%, payable semi-annually. On June 30, 2015, the maturity date, the Corporation redeemed the outstanding principal amount and accrued interest in common shares of the Corporation ("Common Shares"). Upon redemption of the convertible debentures, 9,757,263 Common Shares of the Corporation were issued based on a price of C$2.72 per Common Share (the "Redemption Price"). Pursuant to the terms of the convertible debentures, the Redemption Price was calculated based on 95% of the volume weighted average trading price of the Common Shares on the Toronto Stock Exchange ("TSX") for the 20 consecutive trading days ending on June 24, 2015. The convertible debentures were delisted from trading on the TSX at the close of trading on June 30, 2015.

Share Capital

At September 21, 2015, the Corporation had 158.0 million common shares, 0.3 million warrants, 12.2 million stock options, and 0.2 million cash-settled restricted share units outstanding.

Natural Gas Forward Contracts

The Corporation has committed contracts for once the pipeline expansion is completed, currently anticipated to be December 1, 2015, for an average of 62.5 MMscfpd during the first year. The Corporation is currently in negotiations with several other parties with respect to finalizing potential new contracts being committed to in this increasing demand environment. In addition to its long term contracts, the Corporation continues to see robust demand and pricing for its natural gas on intermittent sales contracts. The following table, used as the forecast prices in the independent reserves reports, represents the average blended price of firm contracts the Corporation currently has in place:

Year	Clarinete $/MMBTU	Esperanza $/MMBTU
2014 (July – December, Actual Weighted Average)	-	4.05
2015 (January – June, Actual Weighted Average)	-	4.70
2015 (6 months – Estimated)	-	5.19
2016	-	5.38
2017	5.69	6.54
2018	5.55	6.80
2019	5.62	6.95
2020	5.77	7.30
2021	5.57	7.96
2022	5.41	8.36
2023	5.52	8.87
2024	5.63	9.31
2025	5.74	9.49
2026+	**Escalate gas prices at 2% per year thereafter**	

Contractual Obligations

The following table provides a summary of the Corporation's cash requirements to meet its financial liabilities and contractual obligations existing at June 30, 2015:

	Less than 1 year	1-3 years	Thereafter	Total
Bank debt – principal	$ -	$ 75,000	$ 200,000	$ 275,000
Trade and other payables	15,929	-	-	15,929
Crude oil payable in kind	1,622	-	-	1,622
Taxes payable	5,926	-	-	5,926
Equity tax payable	630	-	-	630
Deferred income	-	-	3,731	3,731
Other long term obligations	-	-	3,701	3,701
Warrants	67	-	-	67
Restricted share units	340	10	-	350
Exploration and production contracts	20,968	56,452	-	77,420
Office leases	891	1,502	2,541	4,934

Exploration and Production Contracts

The Corporation has entered into a number of exploration contracts in Colombia and Peru which require the Corporation to fulfill work program commitments and issue financial guarantees related thereto. In aggregate, the Corporation has outstanding exploration commitments at June 30, 2015 of $77.4 million and has issued $52.7 million in financial guarantees related thereto. These commitments are planned to be satisfied by means of seismic work, exploration drilling and farm-outs.

Oleoducto Bicentenario de Colombia ("OBC") Pipeline

The Corporation owns a 0.5% interest in OBC, which owns a pipeline system that will link Llanos basin oil production to the Cano Limon oil pipeline system. Under the terms of the OBC agreement, the Corporation may be required to provide financial support or guarantees for its proportionate equity interest in any future debt financings undertaken by OBC. The Corporation has also entered into ship-or-pay arrangements with OBC to guarantee pipeline revenues.

Ecuador Incremental Production Contract

In addition to the contractual obligations described above, the Corporation has a non-operated 25% equity participation interest (27.9% capital participation interest) in a joint-venture consortium which in 2012 was awarded an incremental production contract for the Libertador and Atacapi mature oil fields in Ecuador. The consortium plans to incur project expenditures estimated for a total of $397 million ($107.6 million net to the Corporation) over the 15 year term of the contract. As at June 30, 2015, the Corporation had incurred a net $78.8 million of capital expenditures in connection with its Ecuador IPC commitment. It is anticipated that cash flows from the Ecuador IPC is sufficient to sustain envisioned future capital development.

OUTLOOK

Calendar 2015 has been a transformational year for Canacol on both a financial and operational front.

Financially, the Corporation entered the year with the CS Senior Secured Term Loan; a debt burden that the Corporation had already begun making quarterly installments of $14.7 million, which had the potential to stifle the growth of the Corporation especially given the world oil price environment. In April of 2015 a newly syndicated $200 million BNP Senior Secured Term Loan replaced the CS Senior Secured Term Loan with less restrictive covenants and the first of eight term out payments commencing on December 31, 2017, effectively freeing up funds which can be used to invest in growing our gas production business. At June 30, 2015, the Corporation had a working capital surplus of $62.9 million (with $45.8 million of that being in unrestricted cash), and a further $61.9 million in restricted cash. In addition, at June 30, 2015, the Corporation had available an additional $25 million in committed Apollo Senior Notes that it can draw down at any time up to April 2016 at the sole discretion of the Corporation, subject to certain conditions. In early September 2015, Canacol announced a strategic private placement with Cavengas for C$79 million (approximately US$60 million) which will allow for both a partial debt repayment and the ability to maintain a flexible capital expenditure program as the Corporation continues to focus on developing its substantial natural gas portfolio.

Operationally, like many of its peers, Canacol entered calendar 2015 heavily levered to world oil prices. By the quarter ended June 30, 2015, by continuing to market its growing gas production base and its success in Ecuador, the Corporation's revenues are now 57% insensitive to world oil prices. For the remainder of calendar 2015 and into 2016, Canacol is squarely focused on being in a position to further monetize its significant gas position in Colombia's Lower Magdalena basin. To this end:

- On July 13, 2015, the Corporation announced that the Autoridad Nacional de Licencias Ambientales has approved the environmental permit enabling Promigas S.A. E.S.P. to commence construction necessary to increase capacity of the existing Jobo to Cartagena natural gas pipeline. This expansion allows Canacol to increase net gas production by an additional 65 MMscfpd (11,400 boepd) commencing December 1, 2015. Upon completion of this pipeline expansion, anticipated to be prior to December 1, 2015, the Corporation's net natural gas shipping capacity will increase to approximately 83 MMscfpd (14,500 boepd).
- In June of 2015, the Corporation awarded a contract to Promisol to expand the capacity of Canacol's existing gas processing facility located at Jobo from the current capacity of 50 MMscfpd to 140 MMscfpd. This expansion is anticipated to be completed in early November 2015. The Corporation is also completing the tie-in of the Clarinete-1 well into the Jobo processing facility via a 12 km flow line, which is scheduled to be completed by the end of September 2015.
- As announced on August 10, 2015, the Corporation had begun the drilling of Clarinete-2 (VIM-5 E&P Contract, 100% operated by CNE Oil & Gas SAS), a 1.5 km step out from the original Clarinete-1 discovery well. After sidetracking the Clarinete-2 well in a shallow shale due to mechanical problems while drilling, the Clarinete-2 ST well has successfully reached total depth and has encountered 127 feet of net gas pay in two gas bearing zones.

Canacol is continuing its successful focus on cost reductions on its LLA-23 light oil block, where operating costs have been reduced from $19.17/bbl to $12.59/bbl in the three months ended June 30, 2015, and are expected to fall further as a result of the recently completed centralized processing facilities installed at LLA-23.

Given the relative volatility of world oil prices at the present time, the Corporation will closely monitor changes thereto and has the flexibility to adjust its capital spending accordingly, however, no oil exploration drilling is currently planned for calendar 2015, and no further material capital expenditures are currently planned on other Colombian oil blocks.

In light of the above mentioned natural gas projects continuing forward on their originally anticipated timelines, and the expectation of entering a new 2016 calendar year with an additional 65 MMscfpd of gas production (11,400 boepd), Canacol is pleased to confirm the changing of its fiscal year end to December 31.

SUMMARY OF QUARTERLY RESULTS

	2015				2014			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Financial								
Petroleum and natural gas revenues, net of royalties	**27,297**	26,429	36,404	58,917	61,744	55,653	42,168	48,222
Adjusted petroleum and natural gas revenues, net of royalties, including revenues relate to the Ecuador IPC (1)	**33,892**	32,811	43,878	67,356	68,975	62,437	47,101	52,391
Cash provided by (used in) operating activities	**(10,905)**	(2,011)	31,743	45,618	8,715	13,099	36,406	19,724
Per share – basic	**(0.09)**	(0.02)	0.29	0.42	0.09	0.15	0.42	0.23
Per share – diluted	**(0.09)**	(0.02)	0.29	0.42	0.09	0.15	0.41	0.23
Adjusted funds from operations (1)	**16,359**	10,922	22,952	37,162	23,995	33,161	16,713	25,047
Per share – basic (1)	**0.14**	0.10	0.21	0.34	0.25	0.37	0.19	0.29
Per share – diluted (1)	**0.14**	0.10	0.21	0.34	0.24	0.36	0.19	0.29
Net income (loss)	**(58,524)**	(15,638)	(45,970)	14,110	(2,070)	19,438	(10,412)	2,981
Per share – basic	**(0.50)**	(0.14)	(0.43)	0.13	(0.02)	0.22	(0.12)	0.03
Per share – diluted	**(0.50)**	(0.14)	(0.43)	0.13	(0.02)	0.21	(0.12)	0.03
Capital expenditures, net	**25,310**	62,482	78,403	47,522	77,093	35,915	22,749	17,408
Adjusted capital expenditures, net, including capital expenditures related to the Ecuador IPC (1)	**27,268**	68,778	87,228	56,209	87,584	44,103	32,679	23,743
Operations (boepd)								
Petroleum and natural gas **production**, before royalties								
Petroleum (2)	**6,007**	7,448	8,586	9,922	9,271	8,260	6,998	6,110
Natural gas	**3,954**	3,502	3,236	3,334	2,941	2,633	3,097	3,022
Total (2)	**9,961**	10,950	11,822	13,256	12,212	10,893	10,095	9,132
Petroleum and natural gas **sales**, before royalties								
Petroleum (2)	**6,192**	7,636	8,187	9,997	9,386	8,792	5,868	6,307
Natural gas	**4,064**	3,462	3,216	3,311	2,937	2,626	2,953	3,052
Total (2)	**10,256**	11,098	11,403	13,308	12,323	11,418	8,821	9,359

(1) Non-IFRS measure – inclusive of amounts related to the Ecuador IPC – see "Non-IFRS Measures" section above.
(2) Includes tariff oil production related to the Ecuador IPC.

SUPPLEMENTAL FINANCIAL INFORMATION

As at and for the year ended June 30		2015		2014		2013
Total assets	$	**669,742**	$	756,587	$	469,592
Total bank debt		**267,023**		210,688		134,316
Petroleum and natural gas revenues, net of royalties		**149,047**		207,787		141,354
Net income (loss)		**(106,022)**		9,937		(127,807)
Per share – basic ($)		**(0.96)**		0.11		(1.71)
Per share – diluted ($)		**(0.96)**		0.11		(1.71)

RISKS AND UNCERTAINTIES

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

The Corporation is exposed to foreign exchange and currency risk as a result of fluctuations in exchange rates through its cash deposits and investments denominated in the Colombian peso and the Canadian dollar.

Most of the Corporation's revenues and funds from financing activities are expected to be received in reference to United States dollar ("US dollar") denominated prices while a portion of its operating, capital, and general and administrative costs are denominated in Colombian Pesos and Canadian dollars. The Colombian Peso has seen significant variation against the US dollar in the past and it continues to have significant daily fluctuations. The Corporation has not entered into any currency derivatives in order to reduce its exposure to fluctuations that the US dollar may incur.

The Corporation is exposed to interest rate risk on certain variable interest rate debt instruments, to the extent they are drawn. The remainder of the Corporation's financial assets and liabilities are not exposed to interest rate risk. The Corporation had no interest rate swap or financial contracts in place as at or during the years ended June 30, 2015 and 2014.

Fluctuations in energy prices will not only impact revenues of the Corporation but may also impact the Corporation's ability to raise capital. Commodity prices for crude oil are impacted by world economic events that dictate the levels of supply and demand. From time to time the Corporation may attempt to mitigate commodity price risk through the use of financial derivatives. The Corporation's policy is to only enter into commodity contracts considered appropriate to a maximum of 50% of forecasted production volumes.

During the year ended June 30, 2015, the Corporation had one financial oil collars under the following terms:

Period	Volume	Type	Price Range
Jan 2014 – Dec 2014	500 bbls/day	Financial Brent Oil Collar	$75.00 – $123.50

The fair value of these transactions is based upon the estimated amounts that would have been paid to or received from counter parties in order to settle the transactions outstanding with reference to the forward prices as of the reporting date. The contracts have been transacted with a counter party with whom management has assessed credit risk and deemed no adjustment for credit risk is required in determining the estimated settlement price. In addition, the contracts are based on standard industry contracts and the Corporation does not feel that there is a liquidity risk associated with them and no adjustment has been recorded in computing their valuation. While commodity contract activities may have opportunity costs when realized prices exceed commodity contract pricing, such transactions are not meant to be speculative and are considered within the broader framework of financial stability and flexibility. Management continuously reviews the need to utilize such techniques.

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

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

A more comprehensive discussion of risks and uncertainties is contained in the Corporation's Annual Information Form for the year ended June 30, 2015 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 is currently reviewing a number of new and revised IFRSs that have been issued but are not yet effective. Detailed discussions of new accounting policies that may affect the Corporation are provided in the financial statements of the Corporation as at and for the year ended June 30, 2015.

REGULATORY POLICIES

Disclosure Controls and Procedures

Disclosure Controls and Procedures ("DC&P") are designed to provide reasonable assurance that all material information is gathered and reported on a timely basis to senior management so that appropriate decisions can be made regarding public disclosure and that information required to be disclosed by the issuer under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation. The Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), along with other members of management, have designed, or caused to be designed under the CEO and CFO's supervision, DC&P and have assessed the design and operating effectiveness of the Corporation's DC&P as at June 30, 2015. Based on this assessment, it was concluded that the design and operation of the Corporation's DC&P are effective as at June 30, 2015.

Internal Control 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 reporting and the preparation of the financial statements for external purposes in accordance with IFRS. The Corporation's CEO and CFO, with support of management have assessed the design and operating effectiveness of the Corporation's ICFR as at June 30, 2015 based on criteria described in "Internal Control – Integrated Framework" issued in 1992 by the Committee of Sponsoring Organization of the Treadway Commission. Based on this assessment, it was concluded that the design and operation of the Corporation's ICFR are effective as at June 30, 2015.

During the quarter ended June 30, 2015, 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.