CANACOL ENERGY LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS
THREE AND NINE MONTHS ENDED MARCH 31, 2014

FINANCIAL & OPERATING HIGHLIGHTS

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

Financial	Three months ended March 31,			Nine months ended March 31,		
	2014	2013	Change	**2014**	2013	Change
Petroleum and natural gas revenues, net of royalties	**55,653**	34,602	61%	**146,043**	102,394	43%
Adjusted petroleum and natural gas revenues, net of royalties, including revenues related to the Ecuador IPC [2]	**61,550**	36,726	68%	**159,159**	105,871	50%
Cash provided by (used in) operating activities	**13,099**	(8,520)	n/a	**69,229**	4,316	>999%
Per share – basic ($)	**0.15**	(0.10)	n/a	**0.79**	0.06	>999%
Per share – diluted ($)	**0.14**	(0.10)	n/a	**0.78**	0.06	>999%
Adjusted funds from operations [1] [2]	**32,274**	14,778	118%	**72,151**	32,052	125%
Per share – basic ($)	**0.36**	0.17	112%	**0.83**	0.45	84%
Per share – diluted ($)	**0.35**	0.17	106%	**0.81**	0.45	80%
Net income (loss)	**19,438**	(3,425)	n/a	**12,007**	(8,761)	n/a
Per share – basic ($)	**0.22**	(0.04)	n/a	**0.14**	(0.12)	n/a
Per share – diluted ($)	**0.21**	(0.04)	n/a	**0.14**	(0.12)	n/a
Capital expenditures, net [4]	**35,915**	3,021	>999%	**76,072**	37,444	103%
Adjusted capital expenditures, net, including capital expenditures related to the Ecuador IPC [1][2][4]	**44,103**	10,434	323%	**100,525**	52,053	93%
				March 31, 2014	June 30, 2013	Change
Cash and cash equivalents				**35,699**	52,290	(32%)
Restricted cash				**52,125**	26,394	97%
Working capital surplus, excluding the current portion of bank debt and non-cash items [1]				**33,328**	69,148	(52%)
Short-term and long-term bank debt				**135,675**	134,316	1%
Total assets				**548,501**	469,592	17%
Common shares, end of period (000s)				**90,220**	86,506	4%

Operating	Three months ended March 31,			Nine months ended March 31,		
	2014	2013	Change	**2014**	2013	Change
Petroleum and natural gas **production**, before royalties (boepd)						
Petroleum	**8,260**	4,785	73%	**7,115**	5,285	35%
Natural gas	**2,633**	2,874	(8%)	**2,919**	1,051	178%
Total	**10,893**	7,659	42%	**10,034**	6,336	58%
Petroleum and natural gas **sales**, before royalties (boepd)						
Petroleum	**8,792**	4,267	106%	**6,976**	5,477	27%
Natural gas	**2,626**	2,874	(9%)	**2,879**	1,051	174%
Total	**11,418**	7,141	60%	**9,855**	6,528	51%
Realized sales prices ($/boe)						
LLA-23 (oil)	**88.61**	99.62	(11%)	**89.26**	97.95	(9%)
Esperanza (natural gas)	**23.00**	30.20	(24%)	**27.60**	30.58	(10%)
Rancho Hermoso (tariff and non-tariff oil and liquids)	**85.25**	88.03	(3%)	**89.99**	70.22	28%
Ecuador (tariff oil) [2]	**38.54**	38.54	-	**38.54**	38.54	-
Total [2]	**65.49**	61.97	6%	**64.35**	64.08	-
Operating netbacks ($/boe) [1]						
LLA-23 (oil)	**62.26**	66.22	(6%)	**64.29**	65.23	(1%)
Esperanza (natural gas)	**19.36**	25.61	(24%)	**23.19**	25.85	(10%)
Rancho Hermoso (tariff and non-tariff oil and liquids)	**25.76**	37.28	(31%)	**20.84**	24.48	(15%)
Ecuador (tariff oil) [2]	**38.54**	38.54	-	**38.54**	38.54	-
Total [2]	**43.57**	35.41	23%	**40.68**	26.73	52%

(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.
(4) Excludes business acquisition.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Canacol Energy Ltd. ("Canacol" or the "Corporation") and its subsidiaries are primarily engaged in petroleum and natural gas exploration and development activities in Colombia and Ecuador, with non-core activities in Brazil and 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 and the Bolsa de Valores de Colombia under the symbol CNEC.

Advisories

The following management's discussion and analysis ("MD&A") is dated May 12, 2014 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 and nine months ended March 31, 2014 and 2013 (the "financial statements"), and the audited consolidated financial statements and management's discussion and analysis for the year ended June 30, 2013. 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 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.

Change in Accounting Policy – International Financial Accounting Standard ("IFRS") 11 "Joint Arrangements", which became effective for the Corporation on July 1, 2013, divides joint arrangements into two types, joint operations and joint ventures, each with their own accounting model. All joint arrangements are required to be reassessed on transition to IFRS 11 to determine their type to apply the appropriate accounting.

Upon the adoption of IFRS 11, the Corporation reviewed and assessed the legal form and terms of the contractual arrangements in relation to the Corporation's investments in joint arrangements. The adoption of IFRS 11 resulted in a change in the method of accounting for the Corporation's interest in the incremental production contract for the Libertador and Atacapi fields in Ecuador (the "Ecuador IPC") from a jointly-controlled entity, using the proportionate consolidation method, to being accounted for using the equity method. This change in accounting for the Corporation's investment in the Ecuador IPC has been applied in accordance with the relevant IFRS transitional provisions. The initial investment in the Ecuador IPC as at July 1, 2012 for the purposes of applying the equity method was measured as the aggregate of the carrying amounts of the assets and liabilities that the Corporation had previously proportionately consolidated. The change in accounting method has affected the amounts previously reported in the Corporation's financial statements.

As further described in the next section, the Corporation has provided supplemental disclosures related to revenues, expenditures and funds flows from the Ecuador IPC.

Non-IFRS Measures – *Due to the nature of the equity method of accounting the Corporation applies under IFRS 11 to its interest in the 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 March 31,		Nine months ended March 31,	
	2014	2013	**2014**	2013
Cash provided by operating activities	**$ 13,099**	$ (8,520)	**$ 69,229**	$ 4,316
Changes in non-cash working capital	**13,278**	21,174	**(10,194)**	24,259
Ecuador IPC revenue, net of current income tax	**5,897**	2,124	**13,116**	3,477
Adjusted funds from operations	**$ 32,274**	$ 14,778	**$ 72,151**	$ 32,052

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 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

Producing Field Overview

For the three months ended March 31, 2014, the Corporation's production primarily consisted of crude oil and natural gas liquids from its Leono, Labrador and Rancho Hermoso fields in the Llanos Basin in Colombia, natural gas from its Esperanza block in the Lower Magdalena Basin in Colombia, crude oil from the Ecuador IPC, and, to a lesser extent, crude oil from its Capella and Santa Isabel properties in Colombia.

Over the past 18 months the Corporation has made three key light oil discoveries on its LLA-23 block located in the Llanos basin. These three discoveries are currently producing approximately half of the Corporation's current production, and the Corporation is focused on developing the existing discoveries to their full productive potential, and at the same time continuing the exploration drilling of the remaining portfolio throughout the remainder of calendar 2014 and throughout 2015 and 2016. The first discovery, Labrador, was made in December 2012, and the Corporation is currently drilling its fourth development well, Labrador-4, into the field. The Leono discovery was made in December 2013, and the Corporation is about to spud the third well, Leono-3, into the field later in May 2014. The third discovery, Pantro, was made in April 2014, with two reservoirs, the Gacheta and the Mirador, testing 2,930 and 1,038 bopd of gross light oil respectively from the Pantro-1 well.

Based on its exploration successes on the LLA-23 block, the Corporation has recently added a second drilling rig to its program in order to accelerate the drilling of three additional exploration wells (Tigro-1, Pointer-1, and Maltes-1), and up to six development wells at Leono, Pantro, and Tigro throughout the remainder of calendar 2014 and into early 2015. The Corporation also anticipates to commence the shooting of a 400 square kilometer 3D seismic program which will encompass the entire LLA-23 block. The objective of the 3D seismic program is to firm up the portfolio of 12 currently identified exploration leads into prospects for drilling in 2015 and 2016. The seismic program is anticipated to commence in June 2014 and end in August 2014.

The Esperanza block, located in the Lower Magdalena Basin in Colombia, produces dry natural gas for sale to local customers under long-term contracts. During the quarter ended March 31, 2014, the Corporation executed two new natural gas sales contracts. Under the terms of the two new contracts, the Corporation will provide 35 million standard cubic feet per day ("MMscfpd") (6,140 barrels of oil equivalent per day ("boepd")) for a five year period commencing in December 2015 at a fixed price of $5.40/MMbtu. The Corporation's proved plus probable ("2P") gas reserves at its Nelson field located on the Esperanza block increased by 44% as a result of the execution of these new contracts. The Nelson field contains sufficient reserves to satisfy both the existing and the new sales contracts for the life of the contracts. The Corporation plans to drill three natural gas exploration wells in the Esperanza block in calendar 2014, each of the wells targeting large gas prospects situated close to the Nelson field and existing pipeline and processing infrastructure. The first exploration well, Palmer-1, is anticipated to spud in the middle of June 2014, and will be followed consecutively by the Corozo-1 and Canadonga-1 exploration wells.

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, the Corporation changed its accounting policy with respect to the Ecuador IPC as required under IFRS 11, which became effective to the Corporation on July 1, 2013. This resulted in the Ecuador IPC being accounted for under the equity method of accounting versus the proportionate consolidation method of accounting, which was previously applied. 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.

Ecuador tariff production has steadily increased since the year ended June 30, 2013 and is expected to continue to increase into calendar 2016, when it is expected to reach peak production. During the quarter ended March 31, 2014, the Corporation participated in the drilling of three new development wells and the work over of two existing wells to add new production. The consortium plans to drill six additional new development wells and work over five existing producing wells in the remainder of calendar 2014.

Crude oil production from Rancho Hermoso falls under either: i) "non-tariff", which represents crude oil produced under a production sharing contract with Ecopetrol S.A. ("Ecopetrol"), the state oil company of Colombia; or ii) "tariff" production, which represents crude oil produced under a risk service contract with Ecopetrol whereby the Corporation receives a set tariff price per barrel of oil produced. Tariff production is limited to one specific formation, the Mirador formation, while non-tariff production is derived from the remaining formations, including the Ubaque, Guadalupe, Barco Los Cuervos, Carbonera and Gacheta. Natural gas liquids production includes naphtha and LPGs from the processing of associated gas from the Rancho Hermoso field. Under its contracts with Ecopetrol, the Corporation is responsible for 100% of the production expenses of the field, while it recognizes 100% of gross tariff production and only 24-25% of gross non-tariff production before royalties. Consequently, average production expenses per barrel are higher due to this additional cost burden under the non-tariff production sharing contract. Similarly, the price received for tariff oil (currently established at $17.36.bbl to the end of the contract) is significantly below benchmark oil prices and, therefore, reduces average sales prices in the field, depending on the level of tariff oil production. Rancho Hermoso is a mature field and the Corporation plans to undertake certain additional work over activities with the objective to maintain profitable operations and maximize free cash flows until it reaches its economic limit.

For the three months ended March 31, 2014, the Corporation also had other crude oil production from its Capella and Santa Isabel properties in Colombia. The operator of the Capella property (10% WI) is expected to continue its extensive development program for the field through calendar 2014. At Santa Isabel, the Corporation plans to drill one exploration well (Morsa-1) and one appraisal of its Oso Pardo discovery (Oso Pardo-2) made in 2013. On the neighboring VMM-2 block, the Corporation along with its partner is completing the production testing of the Lisama discovery at the MA-2 and MA-5 wells, and continues to test naturally fractured shales and carbonates of the La Luna in its MA-1 discovery well. The Corporation and its partner plan to drill an additional three appraisal wells into the shallow Lisama discovery prior to the end of 2014.

In addition to its producing fields, the Corporation has interests in a number of exploration blocks in Colombia, Brazil 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 March 31,			Nine months ended March 31,		
	2014	2013	Change	**2014**	2013	Change
Production (boepd)						
LLA-23 (oil)	**4,685**	1,157	305%	**3,798**	526	622%
Esperanza (gas)	**2,633**	2,874	(8%)	**2,919**	1,051	178%
Rancho Hermoso (tariff and non-tariff oil and liquids)	**1,431**	2,763	(48%)	**1,726**	4,244	(59%)
Ecuador (tariff oil)	**1,700**	622	173%	**1,242**	329	278%
Other (oil)	**444**	243	83%	**349**	186	87%
Total production	**10,893**	7,659	42%	**10,034**	6,336	58%
Inventory movements, power generation and other	**525**	(518)	n/a	**(179)**	192	n/a
Total sales	**11,418**	7,141	60%	**9,855**	6,528	51%
Sales (boepd)						
LLA-23 (oil)	**5,505**	1,094	403%	**3,882**	426	811%
Esperanza (gas)	**2,626**	2,874	(9%)	**2,879**	1,051	174%
Rancho Hermoso (tariff and non-tariff oil and liquids)	**1,286**	2,441	(47%)	**1,503**	4,577	(67%)
Ecuador (tariff oil)	**1,700**	622	173%	**1,242**	329	278%
Other (oil)	**301**	110	174%	**349**	145	141%
Total sales	**11,418**	7,141	60%	**9,855**	6,528	51%

The overall increase in production volumes in the three and nine months ended March 31, 2014 compared to the same periods in 2013 is primarily due to new production from the Labrador and Leono discoveries on the LLA-23 block and production increases from the Libertador and Atacapi fields in Ecuador.

Sales volume in the three months ended March 31, 2014 were positively affected by the sale of a significant build-up of crude oil inventories from December 31, 2013.

Petroleum and Natural Gas Revenues

	Three months ended March 31,			Nine months ended March 31,		
	2014	2013	Change	**2014**	2013	Change
LLA-23	**$ 43,900**	$ 9,809	348%	**$ 94,945**	$ 11,433	730%
Esperanza	**5,437**	7,812	(30%)	**21,769**	8,806	147%
Rancho Hermoso	**9,867**	19,338	(49%)	**37,059**	88,064	(58%)
Other	**2,195**	746	194%	**6,861**	2,842	141%
Petroleum and natural gas revenues, before royalties	**61,399**	37,705	63%	**160,634**	111,145	45%
Royalties	**(5,746)**	(3,103)	85%	**(14,591)**	(8,751)	67%
Petroleum and natural gas revenues, after royalties, as reported	**55,653**	34,602	61%	**146,043**	102,394	43%
Ecuador	**5,897**	2,124	178%	**13,116**	3,477	277%
Adjusted petroleum and natural gas revenues, after royalties (1)	**$ 61,550**	$ 36,726	68%	**$ 159,159**	$ 105,871	50%

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

Adjusted petroleum and natural gas revenues include tariff revenues from the Ecuador IPC.

The increase in adjusted petroleum and natural gas revenues in the three and nine months ended March 31, 2014 compared to the same periods in 2013 is primarily the result of the increased overall sales of 60% and 51% by volume, respectively. Adjusted petroleum and natural gas revenues in the three months ended March 31, 2014 were also positively affected by the sale of a significant build-up of crude oil inventories from December 31, 2013.

Average Benchmark and Realized Sales Prices

	Three months ended March 31,			Nine months ended March 31,		
	2014	2013	Change	**2014**	2013	Change
Brent ($/bbl)	**$ 108.14**	$ 112.37	(4%)	**$ 109.21**	$ 110.68	(1%)
West Texas Intermediate ($/bbl)	**$ 98.68**	$ 94.33	5%	**$ 100.70**	$ 91.44	10%
LLA-23 ($/bbl)	**$ 88.61**	$ 99.62	(11%)	**$ 89.26**	$ 97.95	(9%)
Esperanza ($/boe)	**23.00**	30.20	(24%)	**27.60**	30.58	(10%)
Rancho Hermoso ($/bbl)	**85.25**	88.03	(3%)	**89.99**	70.22	28%
Ecuador ($/bbl)	**38.54**	38.54	-	**38.54**	38.54	-
Other ($/bbl)	**81.03**	75.25	8%	**71.75**	71.53	-
Average realized sales price ($/boe) (1)	**$ 65.49**	$ 61.97	6%	**$ 64.35**	$ 64.08	-

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

In January 2014, the Guajira Index, the natural gas reference price used as a basis for the calculation of the Corporation's current Esperanza sales contracts, was reduced to $3.97/MMbtu ($22.63/boe) by decree of the "Comision de Regulacion de Energia y Gas" ("CREG") of Colombia. The decree was made by the CREG as part of temporary measures involved in bridging the time from January 1, 2014, when certain amendments to the applicable legislation in Colombia came into force, and the establishment of a "market regulator" that will be in charge of calculating publishing a Guarjira average price as mandated by such legislation. The Corporation expects this process to be completed within the next three to six months and, given that the current Guajira price does not represent neither current market prices nor anticipated future market prices, it is currently anticipated that the revised index price will at such time normalize. As described above, the Corporation has entered into two new gas contracts at Esperanza commencing in December 2015 for 35 MMscfpd (6,140 boepd) for a five year period at a fixed price of $5.40/MMbtu.

Royalties

	Three months ended March 31,		Nine months ended March 31,	
	2014	2013	**2014**	2013
LLA-23	**$ 4,333**	$ 895	**$ 9,296**	$ 1,062
Esperanza	**444**	650	**1,815**	727
Rancho Hermoso	**834**	1,506	**3,028**	6,748
Other	**135**	52	**452**	214
Total royalties	**$ 5,746**	$ 3,103	**$ 14,591**	$ 8,751

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 Rancho Hermoso are taken in kind. The Corporation's LLA-23 block is subject to an additional x-factor royalty of 3% (effectively 2.76%). Crude oil royalties in LLA-23 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 March 31,			Nine months ended March 31,		
	2014	2013	Change	**2014**	2013	Change
Production expenses	**$ 12,494**	$ 10,973	14%	**$ 36,802**	$ 48,254	(24%)
Transportation expenses	**4,292**	2,997	43%	**12,535**	9,812	28%
Total production and transportation expenses	**$ 16,786**	$ 13,970	20%	**$ 49,337**	$ 58,066	(15%)
$/boe	**$ 16.33**	$ 21.74	(25%)	**$ 18.27**	$ 32.46	(44%)

An analysis of production expenses is provided below:

	Three months ended March 31,			Nine months ended March 31,		
	2014	2013	Change	**2014**	2013	Change
LLA-23	**$ 5,808**	$ 1,086	435%	**$ 10,835**	$ 1,230	781%
Esperanza	**415**	538	(23%)	**1,664**	623	167%
Rancho Hermoso	**4,962**	8,190	(39%)	**20,214**	42,759	(53%)
Other	**1,309**	1,159	13%	**4,089**	3,642	12%
Total production expenses	**$ 12,494**	$ 10,973	14%	**$ 36,802**	$ 48,254	(24%)
$/boe						
LLA-23	**$ 11.72**	$ 11.03	6%	**$ 10.19**	$ 10.54	(3%)
Esperanza	**$ 1.76**	$ 2.08	(15%)	**$ 2.11**	$ 2.16	(2%)
Rancho Hermoso	**$ 42.87**	$ 37.28	15%	**$ 49.08**	$ 34.10	44%
Total	**$ 12.16**	$ 17.07	(29%)	**$ 13.63**	$ 26.98	(49%)

Production expenses at LLA-23 increased 435% and 781% in the three and nine months ended March 31, 2014, respectively, compared to the same periods in 2013. The increase is primarily due to new production from the Labrador and Leono discoveries.

Production expenses at Esperanza decreased 23% in the three months ended March 31, 2014 compared to the same period in 2013, primarily due to a decrease in maintenance costs. The Corporation acquired the Esperanza block in December 2012 and, as a result, such block only had four months of operations during the nine months ended March 31, 2013. Consequently, production expenses at Esperanza increased 167% in the nine months ended March 31, 2014 compared to the same period in 2013.

Production expenses at Rancho Hermoso decreased 39% and 53% in the three and nine months ended March 31, 2014, respectively, compared to the same periods in 2013. The decrease is the result of decreased production in the field. However, since much of the costs of the field are not directly variable with production volumes, per barrel production expenses have increased from the three and nine months ended March 31, 2013 to the same periods in 2014, respectively. 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 per barrel 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. As Rancho Hermoso is a mature field, the Corporation intends to manage the operation with the objective to maintain profitable operations and maximize free cash flows until it reaches its economic limit.

The Corporation does not pay production costs in Ecuador.

An analysis of transportation expenses is provided below:

	Three months ended March 31,			Nine months ended March 31,		
	2014	2013	Change	**2014**	2013	Change
LLA-23	**$ 2,914**	$ 1,308	123%	**$ 6,429**	$ 1,527	321%
Rancho Hermoso	**1,113**	1,453	(23%)	**5,265**	7,564	(30%)
Other	**265**	236	12%	**841**	721	17%
Total transportation expenses	**$ 4,292**	$ 2,997	43%	**$ 12,535**	$ 9,812	28%
$/boe						
LLA-23	**$ 5.88**	$ 13.28	(56%)	**$ 6.04**	$ 13.08	(54%)
Rancho Hermoso	**$ 9.62**	$ 6.61	45%	**$ 12.78**	$ 6.03	112%
Total	**$ 4.18**	$ 4.66	(10%)	**$ 4.64**	$ 5.49	(15%)

Total transportation expenses have increased in the three and nine months ended March 31, 2014 compared to the same periods in 2013 mainly due to increased sales volumes. The Corporation does not pay transportation costs at Esperanza or in Ecuador.

Operating Netbacks

	Three months ended March 31,			Nine months ended March 31,		
$/boe	**2014**	2013	Change	**2014**	2013	Change
Petroleum and natural gas revenues	**$ 65.49**	$ 61.97	6%	**$ 64.35**	$ 64.08	-
Royalties	**(5.59)**	(4.82)	16%	**(5.40)**	(4.89)	10%
Production and transportation expenses	**(16.33)**	(21.74)	(25%)	**(18.27)**	(32.46)	(44%)
Operating netback [(1)]	**$ 43.57**	$ 35.41	23%	**$ 40.68**	$ 26.73	52%

(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 March 31,			Nine months ended March 31,		
$/boe	**2014**	2013	Change	**2014**	2013	Change
LLA-23						
Crude oil revenues	**$ 88.61**	$ 99.62	(11%)	**$ 89.26**	$ 97.95	(9%)
Royalties	**(8.75)**	(9.09)	(4%)	**(8.74)**	(9.10)	(4%)
Production and transportation expenses	**(17.60)**	(24.31)	(28%)	**(16.23)**	(23.62)	(31%)
Operating netback	**$ 62.26**	$ 66.22	(6%)	**$ 64.29**	$ 65.23	(1%)
Esperanza						
Natural gas revenues	**$ 23.00**	$ 30.20	(24%)	**$ 27.60**	$ 30.58	(10%)
Royalties	**(1.88)**	(2.51)	(25%)	**(2.30)**	(2.57)	(10%)
Production expenses	**(1.76)**	(2.08)	(15%)	**(2.11)**	(2.16)	(2%)
Operating netback	**$ 19.36**	$ 25.61	(24%)	**$ 23.19**	$ 25.85	(10%)
Rancho Hermoso						
Petroleum and tariff revenues	**$ 85.25**	$ 88.03	(3%)	**$ 89.99**	$ 70.22	28%
Royalties	**(7.00)**	(6.86)	2%	**(7.29)**	(5.61)	30%
Production and transportation expenses	**(52.49)**	(43.89)	20%	**(61.86)**	(40.13)	54%
Operating netback	**$ 25.76**	$ 37.28	(31%)	**$ 20.84**	$ 24.48	(15%)
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.

Other fields in Colombia contributed only a minor amount to total revenues (<5%) in the three months and nine months ended March 31, 2014 and 2013 and, therefore, a separate operating netback analysis is not provided.

General and Administrative Expenses

	Three months ended March 31,			Nine months ended March 31,		
	2014	2013	Change	**2014**	2013	Change
Gross costs	**$ 6,539**	$ 6,481	1%	**$ 22,593**	$ 18,093	25%
Less: capitalized amounts / reversal	**(865)**	(436)	98%	**(2,528)**	(1,415)	79%
General and administrative expenses	**$ 5,674**	$ 6,045	(6%)	**$ 20,065**	$ 16,678	20%
$/boe	**$ 5.52**	$ 9.40	(41%)	**$ 7.43**	$ 9.32	(20%)

Gross general and administrative expenses increased 1% and 25% in the three and nine months ended March 31, 2014, respectively, compared to the same periods in 2013 primarily due to a general increase in costs required to support expanded operations. General and administrative expenses have decreased on a per boe basis in the three and nine months ended March 31, 2014 compared to the same periods in 2013 primarily as a result of increased production period over period.

Net Finance Income and Expense

	Three months ended March 31,			Nine months ended March 31,		
	2014	2013	Change	**2014**	2013	Change
Net financing expense paid	**$ 1,804**	$ 1,670	8%	**$ 4,709**	$ 1,848	155%
Non-cash financing costs	**612**	937	(35%)	**1,856**	3,379	(45%)
Net finance expense	**$ 2,416**	$ 2,607	(7%)	**$ 6,565**	$ 5,227	26%

Net finance expense paid increased in the three and nine months ended March 31, 2014 compared the same periods in 2013 due to additional interest and financing costs incurred on bank debt.

Commodity Contracts

At March 31, 2014, 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 March 31,		Nine months ended March 31,	
	2014	2013	**2014**	2013
Unrealized change in fair value	**$ (52)**	$ (1,158)	**$ (247)**	$ 990
Realized cash settlement	**-**	723	**432**	1,634
Total loss (gain)	**$ (52)**	$ (435)	**$ 185**	$ 2,624

Stock-Based Compensation Expense

	Three months ended March 31,			Nine months ended March 31,		
	2014	2013	Change	**2014**	2013	Change
Gross costs	**$ 3,441**	$ 2,533	36%	**$ 4,824**	$ 6,124	(21%)
Less: capitalized amounts	**(987)**	(1,098)	(10%)	**(1,620)**	(2,649)	(39%)
Stock-based compensation expense	**$ 2,454**	$ 1,435	71%	**$ 3,204**	$ 3,475	(8%)

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. The Corporation granted 1.7 million stock options to its employees, officers and directors during the three months ended March 31, 2014 as part of its annual compensation review.

Restricted Share Units

	Number (000s)		Amount
Balance at June 30, 2013	1,404	$	3,914
Granted	42		233
Settled	(468)		(1,321)
Unrealized loss	-		3,653
Foreign exchange gain	-		(302)
Balance at March 31, 2014	**978**	$	**6,177**

Subsequent to March 31, 2014, 936,095 restricted share units vested and were settled in cash.

Depletion and Depreciation Expense

	Three months ended March 31,			Nine months ended March 31,		
	2014	2013	Change	**2014**	2013	Change
Depletion and depreciation expense	**$ 9,015**	$ 11,446	(21%)	**$ 23,843**	$ 34,585	(31%)
$/boe	**$ 8.77**	$ 17.81	(51%)	**$ 8.83**	$ 19.34	(54%)

Depletion and depreciation expense decreased 21% and 31% in the three and nine months ended March 31, 2014, respectively, compared to same periods in 2013 primarily as a result of the lower depletable base at Rancho Hermoso after a one-time impairment charge was recognized in the three months ended June 30, 2013.

Income Tax Expense

	Three months ended March 31,		Nine months ended March 31,	
	2014	2013	**2014**	2013
Current income tax expense	**$ 6,623**	$ 2,470	**$ 13,793**	$ 827
Deferred income tax expense (recovery)	**6,259**	(1,992)	**3,308**	(853)
Income tax expense (recovery)	**$ 12,882**	$ 478	**$ 17,101**	$ (26)

The Corporation's pre-tax income is subject to the Colombian statutory income tax rate of 34%.

Cash and Funds from Operations and Net Income (Loss)

	Three months ended March 31,			Nine months ended March 31,		
	2014	2013	Change	**2014**	2013	Change
Cash provided by (used in) operating activities	**$ 13,099**	$ (8,520)	n/a	**$ 69,229**	$ 4,316	>999%
Per share – basic ($)	**$ 0.15**	$ (0.10)	n/a	**$ 0.79**	$ 0.06	>999%
Per share – diluted ($)	**$ 0.14**	$ (0.10)	n/a	**$ 0.78**	$ 0.06	>999%
Adjusted funds from operations [(1)]	**$ 32,274**	$ 14,778	118%	**$ 72,151**	$ 32,052	125%
Per share – basic ($)	**$ 0.36**	$ 0.17	112%	**$ 0.83**	$ 0.45	84%
Per share – diluted ($)	**$ 0.35**	$ 0.17	106%	**$ 0.81**	$ 0.45	80%
Net income (loss)	**$ 19,438**	$ (3,425)	n/a	**$ 12,007**	$ (8,761)	n/a
Per share – basic ($)	**$ 0.22**	$ (0.04)	n/a	**$ 0.14**	$ (0.12)	n/a
Per share – diluted ($)	**$ 0.21**	$ (0.04)	n/a	**$ 0.14**	$ (0.12)	n/a

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

Capital Expenditures

	Three months ended March 31,		Nine months ended March 31,	
	2014	2013	**2014**	2013
Drilling and completions	**$ 12,309**	$ 3,610	**$ 40,481**	$ 15,534
Facilities, work overs and infrastructure	**4,057**	1,621	**8,986**	8,721
Property acquisition (divestitures)	**15,000**	(5,391)	**15,000**	(5,391)
Seismic, capitalized general and administrative expenses, capitalized borrowing costs and other	**4,549**	3,181	**11,605**	18,580
Net capital expenditures	**35,915**	3,021	**76,072**	37,444
Ecuador	**8,188**	7,413	**24,453**	14,609
Adjusted net capital expenditures [1] [2]	**$ 44,103**	$ 10,434	**$ 100,525**	$ 52,053
Net capital expenditures recorded as:				
Expenditures on exploration and evaluation assets	**$ 18,263**	$ (3,968)	**$ 29,376**	$ 13,667
Expenditures on property, plant and equipment	**17,652**	6,989	**46,696**	23,777
Net capital expenditures [2]	**$ 35,915**	$ 3,021	**$ 76,072**	$ 37,444

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

Capital expenditures in fiscal Q3 2014 primarily related to:

- Drilling and completion costs at LLA-23 related to the Leono discovery;
- Drilling and completion costs at VMM-2 (non-operated);
- Drilling, completion and facilities costs at Capella (non-operated);
- Facilities costs at LLA-23;
- Acquisition of COR-4 and COR-12 blocks; and
- Drilling, completion and recompletion costs related to the Ecuador IPC (accounted for under the equity method of accounting)

On January 31, 2014, the Corporation acquired a right to an 80% interest in each of the COR-4 and COR-12 exploration and production contracts located in the Upper Magdalena Basin of Colombia in consideration for: (i) a total payment of $15 million ($7.5 million for each block) payable entirely in newly issued common shares of the Corporation, (ii) agreeing to fund the vendors' remaining 20% share of exploration commitments in the first two phases (unified into a single phase in the case of COR-12) of each of the contracts, (iii) granting a 3% overriding royalty to the applicable vendor for each block, and (iv) agreeing to the payment of a one-time bonus totalling $5 million in the event that any one of the two blocks is subsequently successfully farmed out by Canacol to a third party. The share consideration is payable at a deemed price of C$6.79 per common share, equal to the volume weighted-average trading price of common shares for the twenty trading day period ending on January 29, 2014. The Corporation issued 2,454,590 common shares in satisfaction of the share consideration. All of the common shares issued pursuant to the transaction are subject to a four month statutory hold period from closing which expires on May 31, 2014 as well as to a contractually imposed escrow period providing for progressive release of the share consideration over a period ending 90 days from the date on which the approval of the ANH for the transactions is obtained.

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 common share capital, convertible debentures, bank debt and working capital, defined as current assets less current liabilities, excluding non-cash items such as the current portion of commodity contracts, warrants and any embedded derivatives asset/liability. 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 outstanding bank debt plus the principal amount of its convertible debentures, unless the debentures are in-the-money or may otherwise be settled in common shares at the option of the Corporation, less working capital, as defined above and less the current portion of bank debt and convertible debentures included above, divided by annualized 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.

		March 31, 2014
Bank debt (current and long-term) – principal	$	140,000
Working capital surplus, excluding the current portion of bank debt and derivatives		(33,328)
Net debt	$	106,672
Annualized adjusted funds from operations (1)	$	96,201
Net debt to adjusted funds from operations		1.1

(1) Non-IFRS measure – inclusive of amounts related to the Ecuador IPC – see "Non-IFRS Measures" section above. Calculated as adjusted funds from operations for the nine months ended March 31, 2014, annualized.

Credit Facilities and Debt

Senior Secured Term Loan

At March 31, 2014, the Corporation had in place a credit agreement for a $140 million senior secured term loan with a syndicate of banks. The Senior Secured Term Loan was for a five-year term, with interest payable quarterly and principal repayable in 15 equal quarterly instalments starting in October 2014, following an initial 18 month grace period. The Senior Secured Term Loan carried interest at LIBOR plus 4.50% and was secured by all of the material assets of the Corporation. The carrying value of the Senior Secured Term Loan included $4.3 million of transaction costs netted against the principal amount as at March 31, 2014. The Corporation was in compliance with its covenants as at March 31, 2014.

On April 24, 2014, the Corporation completed an upsizing of its existing Senior Secured Term Loan, from $140 million to $220 million, with no changes to the terms of the 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.

Other Colombian Credit Facilities

The Corporation has revolving lines of credit in place in Colombia with an aggregate borrowing base of $40.6 million (COP$ 79.9 billion). These lines of credit have interest rates ranging from 6% to 9% and are unsecured. The facilities were undrawn as at March 31, 2014.

Letters of Credit

At March 31, 2014, the Corporation had letters of credit outstanding totaling $33.2 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 $16.2 million.

Convertible Debentures

The Corporation has convertible debentures outstanding with a face value of $23.1 million (fair value – $24.2 million) that mature on July 15, 2015, and bear an annual coupon rate of 8%, payable semi-annually. The debentures are convertible into common shares of the Corporation at the option of the holder at a conversion price of C$10.526 per share, being the ratio of 95 common shares per C$1,000 principal amount of the debentures. On the maturity date, the Corporation has a right to repay the outstanding principal amount and any accrued interest in common shares of the Corporation, subject to certain conditions, including customary regulatory approvals.

Share Capital

At May 12, 2014, the Corporation had 91.5 million common shares, 1.1 million warrants, 7.8 million stock options, 0.1 million restricted share units and 2.7 million cash-settled phantom warrants 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, 2014:

	Less than 1 year	1-3 years	Thereafter	Total
Bank debt – principal	$ 18,667	$ 74,666	$ 46,667	$ 140,000
Trade and other payables	52,124	-	-	52,124
Deferred income	-	3,731	-	3,731
Commodity contracts	33	-	-	33
Equity tax payable – undiscounted	1,119	-	-	1,119
Other long term obligations	-	-	219	219
Convertible debentures – principal	-	23,087	-	23,087
Phantom warrants	-	7,930	-	7,930
Warrants	3,522	4,217	-	7,739
Restricted share units	6,044	133	-	6,177
Exploration and production contracts	21,065	25,608	-	46,673
Office leases	1,007	1,679	4,136	6,822

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 March 31, 2014 of $46.7 million and has issued $24 million in financial guarantees related thereto. These commitments are planned to be satisfied by means of seismic work, exploration drilling and farm-outs.

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 is committed to incur project expenditures for a total of $334 million ($93.3 million net to the Corporation) over the 15 year term of the contract. As at March 31, 2014, the Corporation had incurred $45.1 million of expenditures in connection with its Ecuador IPC commitment.

Provisions

There is an ongoing disagreement between the Corporation and another Colombian entity (the "Counterparty") over the payment of certain operating costs relating to crude oil production. The Counterparty has asserted that Canacol is liable for certain operating costs incurred by the Counterparty. Canacol disagrees with this assertion because it believes the Counterparty has not met the terms of the contract governing these operating costs. The ultimate result of this disagreement cannot be determined at March 31, 2014.

At June 30, 2013, the Corporation believed that the disagreement may result in a cash settlement and had recorded a provision of $10.5 million based on management's estimate. At March 31, 2014, the Corporation believes that the possibility of an outflow of resources embodying economic benefits to settle this disagreement is remote and has consequently reversed the provision during the three months ended March 31, 2014 in accordance with IAS 37.

Detailed information of the estimated provision and the reversal thereof was not disclosed as it may prejudice seriously the position of the Corporation in the disagreement with the Counterparty.

SUBSEQUENT EVENTS

On April 24, 2014, the Corporation completed the upsizing of its existing Senior Secured Term Loan, from $140 million to $220 million, with no changes to the terms of the Senior Secured Term Loan or the repayment schedule. Interest is payable quarterly and principal repayable in 15 equal quarterly instalments starting in October 2014. The revised term loan carries interest at LIBOR plus 4.50-5.00% and is secured by all of the material assets of the Corporation.

On May 6, 2014, the Corporation announced that it has entered into an agreement with a syndicate of underwriters, which have agreed to purchase, on a bought deal basis, 15,823,000 common shares of Canacol at a price of C$7.90 per Common Share for gross proceeds of C$125,001,700 (the "Offering"). The Corporation will grant the Underwriters an option to purchase up to 15% additional common shares, exercisable for a period of 30 days following the date of closing to cover over-allotments ("Over-Allotment Option"), if any. The Offering is expected to close on or about May 27, 2014.

Subsequent to March 31, 2014, 936,095 restricted share units vested and were settled in cash.

1,145,818 warrants were exercised subsequent to March 31, 2014 up to and including May 12, 2014.

OUTLOOK

For the remainder of calendar 2014, the Corporation plans to expand its capital program in Colombia and anticipates revised net average production before royalties of between 12,500 and 13,500 boepd for calendar 2014.

In light of its recent exploration successes on its LLA-23 and Middle Magdelena blocks, the Corporation plans to accelerate its exploration and development drilling program on the LLA-23 block. Aside from the programed Tigro and Pointer exploration wells, the Corporation plans to drill a third exploration well, Maltes-1, prior to the end of calendar 2014. In addition to its planned Labrador-4 and Leono-2 appraisal wells, the Corporation plans to also expand the program to drill up to six additional development wells at Leono, Pantro, and Tigro. The Corporation also plans to accelerate its water handling and power generation facilities on the LLA-23 block to more effectively manage operating costs. In other projects, the Corporation plans to accelerate it exploration and development drilling program on the Santa Isabel block (the Morsa-1 exploration well and the Oso Pardo-2 appraisal well), and expand its development drilling program at its Mono Arana shallow discovery on the VMM-2 block (three wells). The Corporation's revised 2014 capital exploration and development program includes plans to drill 13 gross exploration wells (versus the 11 originally planned), 43 gross development wells (versus the 36 originally planned), and work over 13 existing producing wells in its oil fields located in Colombia and Ecuador.

Exploration wells for the remainder of calendar 2014 will include the Tigro-1, Pointer-1, and Maltes-1 wells on the LLA-23 block, the Palmer-1, Corozo-1, and Canadonga-1 exploration wells on the Esperanza block, the Morsa-1 well on the Santa Isabel block, the Pico Plata-1 well on the VMM3 block, the Cejudo-1 well on the VMM2 block, the Chipo-1 well on the Ombu block, and the Secoya Oeste-1 well in Ecuador.

Funding for the expanded 2014 capital program is expected to come from existing working capital, operating cash flows, available debt facilities, and net proceeds from the bought deal equity offering described above.

SUMMARY OF QUARTERLY RESULTS

	2014			2013				2012
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Financial								
Petroleum and natural gas revenues, net of royalties	**55,653**	42,168	48,222	38,960	34,602	26,200	41,592	45,702
Adjusted petroleum and natural gas revenues, net of royalties, including revenues relate to the Ecuador IPC (1)	**61,550**	45,987	51,622	41,796	36,725	27,350	41,795	45,702
Cash provided by operating activities	**13,099**	36,406	19,724	13,829	(8,520)	6,445	6,391	(43,055)
Per share – basic	**0.15**	0.42	0.23	0.16	(0.10)	0.10	0.10	(0.69)
Per share – diluted	**0.14**	0.41	0.23	0.16	(0.10)	0.10	0.10	(0.69)
Adjusted funds from operations (1)	**32,274**	15,599	24,278	19,102	15,578	3,202	14,072	9,656
Per share – basic (1)	**0.36**	0.18	0.28	0.22	0.18	0.05	0.23	0.15
Per share – diluted (1)	**0.35**	0.18	0.28	0.22	0.18	0.05	0.23	0.15
Net income (loss)	**19,438**	(10,412)	2,981	(119,046)	(3,425)	1,820	(7,156)	3,830
Per share – basic	**0.22**	(0.12)	0.03	(1.38)	(0.04)	0.03	(0.12)	0.06
Per share – diluted	**0.21**	(0.12)	0.03	(1.38)	(0.04)	0.03	(0.12)	0.06
Capital expenditures, net	**35,915**	22,749	17,408	13,099	3,021	19,431	14,971	39,927
Adjusted capital expenditures, net, including capital expenditures related to the Ecuador IPC (1)	**44,103**	32,679	23,743	15,758	10,434	22,667	18,931	39,927
Operations (boepd)								
Petroleum and natural gas **production**, before royalties								
Petroleum (2)	**8,260**	6,998	6,110	5,390	4,785	5,035	6,021	10,670
Natural gas	**2,633**	3,097	3,022	2,879	2,874	319	-	-
Total (2)	**10,893**	10,095	9,132	8,269	7,659	5,354	6,021	10,670
Petroleum and natural gas **sales**, before royalties								
Petroleum (2)	**8,792**	5,868	6,307	5,372	4,267	4,815	7,322	11,188
Natural gas	**2,626**	2,953	3,052	2,914	2,874	319	-	-
Total (2)	**11,418**	8,821	9,359	8,286	7,141	5,134	7,322	11,188

(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.

RISKS AND UNCERTAINTIES

There have been no significant changes in the three months and nine months ended March 31, 2014 to the risks and uncertainties as identified in the MD&A for the year ended June 30, 2013.

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

A detailed discussion of new accounting policies that affect the Corporation is provided in the notes to financial statements.

REGULATORY POLICIES

Disclosure Controls and Procedures

Disclosure Controls and Procedures ("DC&P") are designed to provide reasonable assurance that all relevant information is gathered and reported on a timely basis to senior management so that appropriate decisions can be made regarding public disclosure. 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, disclosure controls and procedures 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. In addition to the processes that specifically fall into the category of DC&P, the Corporation has also adopted a company-wide Corporate Disclosure Policy and has additional procedures in place to provide reasonable assurance that any material information required to be disclosed by the Corporation in its interim filings is recorded, processed, summarized and reported within the time periods specified in securities legislation. With the assistance of expert advisors and other members of management, the Corporation's CEO and CFO have assessed the design effectiveness of the Corporation's DC&P as at March 31, 2014 and have not identified any material weaknesses relating to the design effectiveness of the Corporation's DC&P framework.

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. With the assistance of expert advisors and other members of management, the Corporation's CEO and CFO have assessed the design effectiveness of the Corporation's ICFR as at March 31, 2014, using the framework and criteria established in Internal Control – Integrated Framework ("1992 COSO Framework") published by The Committee of Sponsoring Organizations of the Treadway Commission ("COSO") and have not identified any material weaknesses relating to the design effectiveness of the Corporation's ICFR framework.

During the quarter ended March 31, 2014, 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.