Management Discussion and Analysis

This management discussion and analysis ("MD&A") of the financial condition and results of operations of SierraCol Energy Limited and its subsidiaries ("we," "our" or the "Company") should be read in conjunction with the unaudited condensed consolidated financial statements for the interim period ended 30 June 2022 and the notes thereto. Please read the full cautionary statements on page 10.

2Q22 Performance Highlights

Operational

- **Resilient operations**
  - 2Q22 gross production of 78.4 kboed; 6M22 gross production was 82.1 kboed, down 2% vs 6M21
  - Net production of 31.2 kboed, down 12% vs 1Q22 mainly due to the effect of high-price clauses, higher water cut in some of the Caño Limón area new wells and impact from the events that took place in April (labour union blockades in Caño Limón area from 4 to 12 April, and community strike at La Cira Infantas from early April until 29 April).
  - 30 June 2022 exit rate was 32.5 kboed, demonstrating a strong recovery from April's blockades.
  - 3 active rigs during the quarter drilled 4 wells in the Caño Limón area and 10 wells in La Cira Infantas. 11 workovers completed in 2Q22.
  - Stable operation in the Caño Limón-Coveñas ("CLC") pipeline. Only one batch evacuated through Bicentenario ("OBC") pipeline on 1 April.
  - Subsequent to the quarter-end, an agreement was reached on 8 August to extend the Bolivar contract to 2035 or to its economic limit, whichever occurs first.

- **Committed to ESG goals**
  - On track to deliver a 50% reduction in emissions by 2023.

- **Credit Ratings**
  - Fitch and Moody's affirmed credit ratings at B+ and B1, respectively, both with stable outlook.

Financial

- **Robust results**
  - Average realised price of $103.8/boe vs Brent of $112.0/bbl for 2Q22.
  - Revenue from oil sales was $291.4 million, up 2% vs 1Q22 due to higher realisations ($36.9 million) partly offset by lower sales volumes ($30.7 million).
  - Best-in-class netbacks with Adjusted operating netback of $89.0/boe and Operating netback of $76.5/boe, up 16% and 10% respectively vs 1Q22 due to rising commodity prices partly offset by lower production.
  - Adjusted EBITDAX of $215.0 million for 2Q22 and $434.7 million for 6M22.
  - Free Cash Flow of $27.4 million for 2Q22 and $154.7 million for 6M22[1].

- **Ample liquidity and low net leverage**
  - Net debt of $414.4 million with cash and cash equivalents of $189.8 million.
  - Net leverage of 0.6x.
  - Total available liquidity is $251.6 million as a result of cash and cash equivalents plus $61.8 million unused RCF.
  - Coupon payment of $18.0 million in June.
  - Considering available liquidity, we may distribute dividends later in the year, while maintaining a prudent net leverage.

- **Risk management**
  - We are actively managing Brent price hedging programme.
  - For the twelve-month period of 3Q22-2Q23 we have hedged 39% of our production, with a weighted average long put strike price of $59/bbl.
  - Weighted average call strike price of $81/bbl over 18% and 5% of hedgeable volumes for 3Q22 and 4Q22, respectively, and 0% thereafter.

[1] Free Cash Flow for 6M22 presented before $55.0 million contingent payment to Oxy in 1Q22.

Financial and Operational Results

Key Figures

	2Q21[2]	1Q22	2Q22	Δ q/q	Δ y/y	6M21[1]	6M22	Δ y/y
Production & Sales (kboed)								
Gross production	84.3	85.8	78.4	-9%	-7%	83.5	82.1	-2%
Net production	34.7	35.3	31.2	-12%	-10%	34.9	33.2	-5%
Net sales	36.7	35.0	30.9	-12%	-16%	34.1	33.0	-3%
Operating netback per barrel ($/boe)								
Realised price	65.0	90.7	103.8	14%	60%	62.5	96.9	55%
Lifting cost	(12.1)	(12.8)	(13.9)	8%	15%	(13.4)	(13.3)	-1%
Transport cost	(0.6)	(0.8)	(0.9)	11%	60%	(0.7)	(0.9)	27%
Adjusted operating netback[3]	52.3	77.0	89.0	16%	70%	48.3	82.7	71%
Administrative expenses	(4.6)	(3.3)	(3.3)	1%	-28%	(4.3)	(3.3)	-24%
Realised fair value loss on derivatives	(0.7)	(5.6)	(10.0)	80%	>1000%	(0.9)	(7.7)	752%
Other[4]	5.6	1.4	0.8	-46%	-86%	3.4	1.1	-67%
Operating netback[2]	52.7	69.7	76.5	10%	45%	46.5	72.9	57%
Financial Results ($ million)								
Revenue	216.9	286.0	291.8	2%	35%	385.7	577.8	50%
Lifting cost	(40.3)	(40.4)	(38.9)	-4%	-3%	(83.0)	(79.3)	-4%
Transport cost	(1.9)	(2.6)	(2.6)	-1%	35%	(4.3)	(5.3)	23%
Adjusted operating netback[2]	174.7	242.9	250.3	3%	43%	298.4	493.2	65%
Administrative expenses	(15.3)	(10.2)	(9.2)	-10%	-40%	(26.7)	(19.5)	-27%
Realised fair value loss on derivatives	(2.4)	(17.5)	(28.2)	61%	>1000%	(5.6)	(45.8)	723%
Other[3]	18.8	4.6	2.2	-52%	-88%	21.1	6.8	-68%
Adjusted EBITDAX[2]	175.9	219.7	215.0	-2%	22%	287.3	434.7	51%
Capex and exploration expenditures[2]	40.4	38.5	33.0	-14%	-18%	59.9	71.4	19%
Free Cash Flow[2]	94.8	127.3	27.4	-78%	-71%	99.1	154.7	56%
Cash & cash equivalents	233.0	178.4	189.8	6%	-19%	233.0	189.8	-19%
Net debt[2]	372.2	426.7	414.4	-3%	11%	372.2	414.4	11%

[2] The consolidated financial statements for 2Q21 and 6M21 include the results of COG from the date of acquisition, 4 May 2021; i.e. 2 months in 2Q21 and 6M21.

[3] See "Non-IFRS Measures" section on page 8

[4] Other include inventory fluctuation, Teca, prepayment amortisation, other expenses (net) & realised foreign exchange loss

From 1Q22 onwards, all financial information is based on the Consolidated Financial Statements of the Company. 1Q22 is the first reporting period with comparative Consolidated Financial Statements. The Company finalised its IFRS 3 Business Combination assessment in connection with the Oxy assets acquisition at the end of 2021. This process resulted in revisions to the previously disclosed fair value of Property, Plant and Equipment acquired, the deferred tax liability associated with the fair value uplift, the valuation of the acquired non-controlling interest and a reassessment of the acquisition date fair value of contingent consideration. As a consequence, the Income Statement line items Production and Operating expenses (as a consequence of a revised Depletion, Depreciation and Amortisation charge), Fair value remeasurement contingent consideration and Finance costs have also been revised.

2022 Guidance

	2022E[5]
Net production (kboed)	32 – 34
Capital and exploration expenditures[6] ($m)	185 – 205

We expect FY22 net production and capital and exploration expenditures to be within the stated guidance range.

Production

kboed	**2Q21[1]**	**1Q22**	**2Q22**	**Δ q/q**	**Δ y/y**	**6M21[1]**	**6M22**	**Δ y/y**
Gross production	84.3	85.8	78.4	-9%	-7%	83.5	82.1	-2%
Net production								
Caño Limón area	21.2	22.5	19.8	-12%	-6%	21.7	21.2	-3%
Middle Magdalena	11.8	10.2	8.8	-13%	-26%	12.3	9.5	-23%
Central Llanos	1.6	2.6	2.5	-4%	52%	0.8	2.6	210%
Net production	34.7	35.3	31.2	-12%	-10%	34.9	33.2	-5%
Light and medium oil	33.9	34.7	30.7	-11%	-9%	34.3	32.7	-5%
Heavy oil	0.4	0.4	0.3	-20%	-18%	0.3	0.3	2%
Gas	0.4	0.2	0.1	-31%	-68%	0.3	0.1	-47%

Net production decreased 12% q/q mainly as a result of -1.4 kboed from the impact of the Price Premium Adjustments ("PPA") from the high-price clauses, which led to a lower share of production, -1.2 kboed from higher water cut in some of the Caño Limón area new wells, and -1.1 kboed from the events that took place in April (labour union blockades in Caño Limón area from 4 to 12 April, and community strike at La Cira Infantas from early April until 29 April). The remaining is explained by lower performance in the Middle Magdalena, -0.3 kboed, and Central Llanos, -0.1 kboed.

[5] This guidance assumes $85/bbl Brent price for the full year of 2022

[6] The guidance includes development and exploration capex plus exploration expenses

Net production in 2Q22 was down 10% when compared to 2Q21 mainly due to: i) production in the Caño Limón area was 6% lower as a result of -2.8 kboed impact from high-price clauses partially offset by 1.5 kboed from strong performance in the new REX-NE wells; ii) La Cira Infantas was down 26% as a result of -1.2 kboed impact from high-price clauses and -1.8 kboed due to the impact of the April events and lower performance in base production and new wells; iii) Central Llanos added 0.9 kboed in 2Q22 vs 2Q21 (2Q21 includes 2 months of Central Llanos production as COG was acquired in May 2021).

Compared to 6M21, net production in 6M22 decreased 5% mainly explained by -4.4 kboed due to high-price clauses and -1.1 kboed due to lower-than-expected production in Middle Magdalena, partly offset by a better performance of 2.1 kboed in Caño Limón area and 1.7 kboed from the acquisition of COG assets.

Revenue

	2Q21[1]	1Q22	2Q22	Δ q/q	Δ y/y	6M21[1]	6M22	Δ y/y
Revenue ($ million)								
Oil sales	215.7	285.1	291.4	2%	35%	384.1	576.5	50%
Natural gas sales	0.9	0.4	0.3	-35%	-68%	1.2	0.7	-43%
Services	0.3	0.4	0.2	-52%	-46%	0.3	0.6	65%
Revenue	216.9	286.0	291.8	2%	35%	385.7	577.8	50%
Net sales (mboe)								
Oil sales	3.3	3.1	2.8	-11%	-15%	6.1	5.9	-3%
Natural gas sales	0.0	0.0	0.0	-31%	-68%	0.0	0.0	-47%
Net sales	3.3	3.2	2.8	-11%	-16%	6.2	6.0	-3%
Prices								
Brent ($/bbl)	69.1	97.9	112.0	14%	62%	65.2	104.9	61%
Vasconia differential ($/bbl)	2.9	3.6	5.1	41%	76%	2.7	4.4	64%
Average realised price ($/boe)	65.0	90.7	103.8	14%	60%	62.5	96.9	55%

Revenue from oil sales increased 2% q/q, $6.2 million, mainly due to a higher average realised price of $103.8/bbl vs $90.7, with a positive price impact of $36.9 million, partially offset by -$30.7 million from the decrease of 11% in sales volumes as a result of lower production.

Average realised price increased 14% q/q, due to the increase in Brent. The Vasconia differential had an increase of $1.5/bbl, reducing the realised price by that amount.

Compared to 2Q21 and 6M21, revenue from oil sales increased by 35% and 50% respectively, mainly due to rising commodity prices ($108.6 million and $204.2 million, respectively), partially offset by lower sales volumes (-$32.9 million and -$11.8 million, respectively).

Operating Expenses

$ million (unless otherwise stated)	2Q21[1]	1Q22	2Q22	Δ q/q	Δ y/y	6M21[1]	6M22	Δ y/y
Lifting cost	40.3	40.4	38.9	-4%	-3%	83.0	79.3	-4%
Transportation cost	1.9	2.6	2.6	-1%	35%	4.3	5.3	23%
Operating expenses	42.2	43.0	41.6	-3%	-2%	87.3	84.6	-3%
Per barrel ($/boe)	12.6	13.6	14.8	8%	17%	14.1	14.2	0%

Lifting cost decreased 4% q/q mainly due to lower share in operating expenses due to PPA and foreign exchange savings. These decreases were partially offset by an increase in maintenance activities and expenditures related to the Company's social programme.

Compared to 2Q21 and 6M21, lifting cost was 3% and 4% lower, respectively. This is mainly as a result of lower share in operating expenses due to PPA and foreign exchange savings, partially offset by differences in the number of months included of Central Llanos' lifting cost (only 2 months in 2Q21 and 6M21)[1], an increase in purchased energy given the replacement of crude-based power generation with electricity from the national grid, an increase in energy tariffs, and higher social responsibility costs.

Transportation cost remained essentially flat q/q. Compared to 2Q21 and 6M21 transportation cost increased 35% and 23%, respectively, mainly due to higher volumes pumped through CLC pipeline.

Absolute operating expenses decreased slightly vs 1Q22 (-3%) and vs 2Q21 (-2%), but the cost per barrel increased 8% and 17%, respectively, as a result of lower production.

Comparing 6M22 vs 6M21 cost per barrel remained flat, as both operating expenses and sales contracted by 3%.

Adjusted Operating Netback

$/boe	2Q21[1]	1Q22	2Q22	Δ q/q	Δ y/y	6M21[1]	6M22	Δ y/y
Realised price	65.0	90.7	103.8	14%	60%	62.5	96.9	55%
Operating expenses	(12.6)	(13.6)	(14.8)	8%	17%	(14.1)	(14.2)	0%
Adjusted operating netback	52.3	77.0	89.0	16%	70%	48.3	82.7	71%

Adjusted operating netback increased 16% q/q, despite the decrease in production, due to higher realised prices and continued cost discipline.

Compared to 1Q22 and 6M21, Adjusted operating netback per barrel increased 70% and 71%, respectively, also mainly as a result of higher realised prices and cost discipline.

Administrative Expenses

$ million	2Q21[1]	1Q22	2Q22	Δ q/q	Δ y/y	6M21[1]	6M22	Δ y/y
Administrative expenses	15.3	10.2	9.2	-10%	-40%	26.7	19.5	-27%

Compared to 2Q21 and 6M21, administrative expenses decreased 40% and 27%, respectively mainly as a result of one-off expenses associated with the separation from Oxy in 2021.

Capital Expenditures

$ million	2Q21[1]	1Q22	2Q22	Δ q/q	Δ y/y	6M21[1]	6M22	Δ y/y
Caño Limón area	21.8	14.1	12.7	-10%	-42%	35.4	26.8	-24%
Middle Magdalena	13.4	12.9	8.2	-36%	-38%	16.0	21.1	32%
Central Llanos	2.1	1.0	2.3	134%	10%	2.1	3.3	57%
Development capex	37.2	27.9	23.2	-17%	-38%	53.4	51.1	-4%
Less: Teca	(0.1)	0.2	0.2	nm	nm	0.0	0.3	-860%
Adjusted Capex	37.2	28.1	23.4	-17%	-37%	53.4	51.5	-3%
of which development	24.8	26.0	20.3	-22%	-18%	37.4	46.3	24%
of which maintenance	12.3	2.1	3.1	43%	-75%	16.0	5.2	-67%
Exploratory drilling	0.3	9.6	8.8	-8%	>1000%	0.6	18.4	>1000%
Total capex	37.4	37.7	32.2	-15%	-14%	54.0	69.9	29%
Exploration expenses*	3.0	0.8	0.8	-2%	-75%	6.0	1.5	-74%
Capex and exploration expenditures	40.4	38.5	33.0	-14%	-18%	59.9	71.4	19%

*Exploratory expenses are presented net of dry hole costs of $18.1 million for 1Q22 and of $8.3 million for 2Q22

Adjusted Capex decreased 17% q/q, mainly due to lower drilling and facilities activity in La Cira Infantas in Middle Magdalena in connection with April blockades, partially offset by higher activity in Central Llanos related to civil work and material purchasing in preparation for the 2H22 drilling campaign.

Adjusted Capex decreased 37% vs 2Q21 mainly due to lower drilling and workover activity and IT one-off investments incurred as a result of separation from Oxy in 2021.

Exploratory drilling increased vs 2Q21 and 6M21 as a result of the Caño Caranal project execution in 2022. Caño Caranal DT exploratory well was declared as dry hole in 1Q22, Caño Caranal ST ("sidetrack") and Batea exploratory wells were declared as a dry hole in 2Q22. Dry hole cost totalled $26.4 million in 6M22.

Adjusted EBITDAX and Free Cash Flow

$ million	6M22
Net income for the period	**172.2**
Financial income and financial expenses	17.7
Depreciation, depletion and amortisation	59.4
Income tax expense	139.8
Exploration and seismic expenses and dry hole cost	27.9
Foreign exchange (income) / loss	2.8
Accretion of decommissioning liability	2.8
Prepayment and bond cost amortisation	6.3
Property, plant and equipment retirement	0.1
Inventory impairment	(0.1)
Unrealised fair value gain on derivates	4.8
Fair value remeasurement contingent consideration	3.9
Teca	(2.7)
Adjusted EBITDAX	**434.7**
Exploration drilling[5]	(18.4)
Exploration and seismic expense	(1.6)
Tax payments	(132.1)
Cash capital expenditures[5]	(51.1)
Acquisition of PUT-36	(10.0)
Inventory of capitalizable parts/components	(2.8)
Change in working capital[5]	(60.8)
Realised foreign exchange rate	(1.0)
Lease payments	(2.2)
Free Cash Flow	**154.7**

Adjusted EBITDAX for 6M22 was $434.7 million, resulting in an Operating netback of $76.5/boe. Free Cash Flow totalled $154.7 million before the Oxy contingent payment of $55.0 million in 1Q22.

Cash Flows

The table presents our primary sources and uses of cash and cash equivalents for 6M22:

$ million	6M22
Net cash flows from operating activities	165.6
Net cash flows used in investing activities	(52.0)
Net cash flows from financing activities	(41.4)
Increase in cash and cash equivalents during the period	**72.2**
Cash and cash equivalents at the beginning of the period	119.3
Effect of foreign exchange on cash and cash equivalents held in foreign currencies	(1.7)
Cash and cash equivalents at the end of the period	**189.8**

[5]Figures before accruals adjustments

Cash flows from operating activities for 6M22 of $165.6 million is presented net of cash taxes paid of $132.1 million and the contingent payment to Oxy of $55.0 million. Cash flows used in investing activities include cash additions of $38.5 million to PPE and $12.5 million to exploration and evaluation assets, the closing of the PUT-36 acquisition for $10 million and the proceeds from assets sold for $8.0 million. Cash flows from financing activities include dividends paid to non-controlling interest of $20.0 million, interest and financial expenses paid of $19.2 million and lease payments of $2.2 million.

Cash and cash equivalents for 6M22 were $189.8 million increasing 60% from the beginning of the period.

Liquidity and Capital Resources

$ million (unless stated)	**6M22**
2028 senior notes @ 6%	600.0
Capital lease obligations	4.1
Total indebtedness	604.1
Net debt	414.4
LTM Adjusted EBITDAX	723.7
Net leverage (x)	0.6x
Cash and cash equivalents	189.8
RCF (available amount)	61.8
Total liquidity	251.6

We ended 2Q22 with an ample liquidity, closing at $251.6 million, and a prudent leverage of 0.6x.

Risk Management Contracts

Our commodity hedging program seeks to protect the oil price downside risk on a significant portion of our underlying cash flows, while avoiding speculative positions and leaving room for potential upside.

As of the date of this document, for the twelve-month period of 3Q22-2Q23 we have hedged 39% of our production, with a weighted average long put strike price of $59.4/bbl. The following table shows the hedged production and weighted average long put strike price per quarter:

	3Q22	**4Q22**	**1Q23**	**2Q23**	**3Q22-2Q23**
Hedged volumes (%)	53%	41%	30%	30%	39%
Weighted average strike ($/bbl)	58.4	59.9	60.0	60.0	59.4

We will continue to monitor the market and exercise our judgement to enter into new hedging positions when we consider appropriate.

Some of our short call positions remain open, with a weighted average short call strike price of $81/bbl over 18% and 5% of hedgeable volumes for 3Q22 and 4Q22, respectively, and 0% thereafter.

Some of our long put positions include short puts, with a weighted average short put strike price of $47.6/bbl over 34% of hedgeable volumes for 3Q22-2Q23.

Subsequent events

On 8 August 2022 we reached an agreement with Ecopetrol to extend the Bolivar contract to 2035 or to its economic limit, whichever occurs first, for a cash consideration of $2 million and a 2% to 5% over-riding royalty interest. The commitments include drilling of one development well, one exploration well and 78 km^2 of 3D seismic to be executed within 3 years of signature. We hold 100% working interest in the block.

Non-IFRS Measures

This MD&A contains non-IFRS financial measures and ratios, including Adjusted EBITDAX, Free Cash Flow and Adjusted Capex that are not required by, or presented in accordance with, IFRS. Management uses these measures to evaluate operating performance of the Company and as a basis for strategic planning and forecasting, as well as monitoring certain aspects of our cash flow and liquidity. We also believe they provide useful information to investors, securities analysts and other interested parties as supplemental measures of performance.

These non-IFRS measures and ratios may not be comparable to other similarly titled measures of other companies and have limitations as analytical tools and should not be considered in isolation or as a substitute for analysis of our operating results as reported under IFRS.

Adjusted EBITDAX: calculated as comprehensive income or loss adjusted for financial income and financial expenses, depreciation, depletion and amortisation, impairment of property, plant and equipment and inventory, income tax expense, exploration and seismic expenses and dry hole cost, foreign exchange income or loss and other non-cash items including excluding other comprehensive income and other adjustments relating to differences in the recognition of revenues and costs which are excluded in order to represent the earnings on a cash basis.

Adjusted operating netback: calculated as average realised price minus operating expenses per barrel

Operating netback: calculated as Adjusted EBITDAX divided by net sales.

Adjusted Capex: consists of net cash used in investing activities adjusted to remove the impact of exploration drilling and dry hole expenses and certain other items, and excluding the contribution from the Teca license to net cash used in investing activities.

Capex and exploration expenditures: calculated as Adjusted Capex plus exploratory drilling plus exploration expenses (net of dry hole costs).

Net debt: calculated as total financial indebtedness minus cash and cash equivalents. Total financial indebtedness includes the nominal value of the 2028 senior notes plus capital lease obligations.

Net leverage: calculated as net debt divided by last twelve months (''LTM") Adjusted EBITDAX.

Free Cash Flow ("FCF"): consists of Adjusted EBITDAX further adjusted for exploration expenses and tax payments, cash capital expenditures, decommissioning funding, changes in working capital, realised foreign exchange income or loss, lease payments and non-recurring costs.

Vasconia differential: Vasconia FOB Colombia vs Latin America Brent Futures strip (close) reported by Platts, code AAXCB00.

Cautionary Statements

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Sales volumes can differ from our net entitlement to production of saleable hydrocarbons due to over- or under-lifting of our production entitlement in any single accounting period. The quantities of over- and under-lifted production entitlement are not considered material to the overall production figures in any period. Where gross amounts are indicated, they are presented on a total basis—i.e., the actual interest of the relevant license holder in the relevant fields and license areas without deduction for the economic interest of commercial partners, government production shares, taxes or royalty interests or other deductions. Our legal interest and effective working interest in the relevant fields and license areas are disclosed separately. Unless otherwise indicated, our production, reserves and resources figures are presented on a basis including our ownership share of volumes of companies that we account for under the equity accounting method.

Certain amounts and percentages included in this document have been rounded for ease of presentation. Accordingly, figures shown as totals or percentage changes between periods may not be the arithmetic result of their inputs as presented in this document.

The best-in-class netback statement is based on our own calculations employing information from Company filings for peers. “Peers” are Latin American oil and gas companies that are focused on Colombia and are listed and/or rated by credit rating agencies.