

Canacol Energy Ltd. Reports Increased Production, Revenues, and Netbacks in Fiscal Q1 2014

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CALGARY, ALBERTA--(Marketwired - Nov 12, 2013) - [Canacol Energy Ltd.](#) ("Canacol" or the "Corporation") (TSX:CNE) (BVC:CNEC) is pleased to report its financial results for the three months ended September 30, 2013. Fiscal Q1 2014 was a successful quarter for the Corporation as it increased production, revenues, funds from operations, and netbacks over the previous quarter and the comparative prior year period.

"Canacol continues to successfully build production and revenues, and realize significantly increased netbacks, on the back of its exploration successes and acquisition activities" stated Charle Gamba, President and CEO of the Corporation. "Corporate net average production before royalties has increased steadily in the last four quarters from 5,354 boepd in fiscal Q2 2013, 7,659 boepd in fiscal Q3 2013, 8,269 boepd in fiscal Q4 2013, 9,132 boepd in fiscal Q1 2014, and now to 9,642 boepd for October 2013. As a result, we are increasing our corporate net average production guidance before royalties for calendar 2013 from between 7,500 and 8,500 to between 8,500 and 9,000 boepd. The higher production figures in fiscal Q1 2014 are also reflected in increased operating cash flows as the Corporation reported adjusted funds from operations of \$24.3 million in the quarter. Most importantly, average operating netback for fiscal Q1 2014 increased 65% to \$39.33/boe compared to \$23.85/boe for the comparable period, as the Corporation's production shifted towards its higher netback light oil production from the LLA-23 block in Colombia and the Libertador -Atacapi fields in Ecuador. On the subject of LLA-23, we recently spud the Leono-1 exploration well, the second exploration well we are drilling on the block following the Corporation's Labrador oil discovery late in 2012. The Leono prospect is located approximately 12 kilometres to the north of the Labrador oil field and is situated on the same fault trend that forms both the Rancho Hermoso and Labrador oil fields. Leono-1 is targeting all of the producing reservoirs the Corporation is familiar with at the Rancho Hermoso and Labrador fields located along trend to the south. With significantly increased reserves and deemed volumes reported last quarter, a sound financial footing, and diversified production and exploration bases, Canacol is positioned for continued strong production, cash flow, netback, and reserves growth throughout fiscal 2014 and beyond."

Highlights for Fiscal Q1 2014

(in thousands of United States dollars, except as otherwise noted; production and reserves are stated as working-interest before royalties)

Financial and operating highlights of the Corporation include:

- Average daily production volumes increased 52% to 9,132 barrels of oil equivalent per day ("boepd") for fiscal Q1 2014 compared to 6,021 boepd for the comparable period. This increase in production volumes is primarily due to new production from the Labrador discovery on the LLA-23 block, production from the Esperanza block which was acquired in December 2012, and production increases from the Libertador and Atacapi fields in Ecuador.
- Petroleum and natural gas revenues for fiscal Q1 2014 increased 16% to \$48.2 million compared to \$41.6 million for the comparable period. Adjusted petroleum and natural gas revenues, inclusive of the Ecuador IPC (see the definition of Ecuador IPC below), for fiscal Q1 2014 increased 24% to \$51.6 million compared to \$41.8 million for the comparable period.
- Average operating netback for fiscal Q1 2014 increased 65% to \$39.33/boe compared to \$23.85/boe for the comparable period. Operating netback is inclusive of results from the Ecuador IPC.
- Adjusted funds from operations for fiscal Q1 2014 increased 73% to \$24.3 million compared to \$14.1 million for the comparable period. Adjusted funds from operations is inclusive of results from the Ecuador IPC.
- The Corporation recorded net income of \$3.0 million for fiscal Q1 2014 compared to a net loss of \$7.2 million for the comparable period.

- Capital expenditures for fiscal Q1 2014 were \$17.4 million while adjusted capital expenditures, inclusive of amounts related to the Ecuador IPC, were \$23.7 million.
- At September 30, 2013, the Corporation had \$61.6 million in cash and cash equivalents and \$28.3 million in restricted cash.

Change in Accounting Policy for Ecuador Incremental Production Contract ("Ecuador IPC")

During the reporting period, the Corporation adopted International Financial Accounting Standard ("IFRS") 11 "Joint Arrangements", which became effective for the Corporation on July 1, 2013. 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 from the proportionate consolidation method to the equity method. Significantly, under the equity method the Corporation no longer reports its proportionate share of revenues and expenditures of the Ecuador IPC as would be typical in oil and gas joint interest arrangements. Therefore, within this news release, management has provided supplemental disclosures of adjusted revenues and expenditures, which are inclusive of the Ecuador IPC, to supplement the IFRS disclosures of the Corporation's operations. For a complete discussion of the change in accounting policy and the supplemental disclosures provided, refer to the unaudited interim condensed consolidated financial statements and related Management's Discussion and Analysis ("MD&A") as of and for the three months ended September 30, 2013 as filed on SEDAR.

Financial	Three months ended September 30,		
	2013	2012	Change
Petroleum and natural gas revenues, net of royalties	48,222	41,592	6,630
Adjusted petroleum and natural gas revenues, net of royalties, including revenues related to the Ecuador IPC ⁽²⁾	51,622	41,795	9,827
Adjusted funds from operations ^{(1) (2) (4)}	24,278	14,072	10,206
Per share - basic and diluted (\$)	0.28	0.23	0.05
Net income (loss) ⁽⁴⁾	2,981	(7,156)	10,137
Per share - basic and diluted (\$)	0.03	(0.12)	0.15
Capital expenditures, net	17,408	14,971	2,437
Adjusted capital expenditures, net, including capital expenditures related to the Ecuador IPC ⁽¹⁾⁽²⁾	23,743	18,931	4,812
	September 30, 2013	June 30, 2013	Change
Cash and cash equivalents	61,623	52,290	9,333
Restricted cash	28,297	26,394	1,903
Working capital surplus, excluding the current portion of bank debt and non-cash items ⁽¹⁾	67,509	69,148	(1,639)
Short-term and long-term bank debt	134,730	134,316	414
Total assets	503,581	469,592	33,989
Common shares, end of period (000s)	86,615	86,506	109
Operating	Three months ended September 30,		
	2013	2012	Change
Petroleum and natural gas production, before royalties (boepd) ⁽³⁾			
Petroleum	6,110	6,021	89
Natural gas	3,022	-	3,022
Total	9,132	6,021	3,111
Petroleum and natural gas sales, before royalties (boepd) ⁽³⁾			
Petroleum	6,307	7,322	(1,015)
Natural gas	3,052	-	3,052
Total	9,359	7,322	2,037
Realized sales prices (\$/boe)			
LLA-23 (oil)	92.40	-	92.40
Esperanza (natural gas)	29.67	-	29.67
Rancho Hermoso (tariff and non-tariff oil and liquids)	94.18	67.33	26.85
Ecuador (tariff oil) ⁽²⁾	38.54	38.54	0.00
Total ⁽²⁾	65.38	67.25	(1.87)
Operating netbacks (\$/boe) ⁽¹⁾			
LLA-23 (oil)	67.27	-	67.27
Esperanza (natural gas)	25.07	-	25.07
Rancho Hermoso (tariff and non-tariff oil and liquids)	16.92	25.24	(8.32)
Ecuador (tariff oil) ⁽²⁾	38.54	38.54	0.00
Total ⁽²⁾	39.33	23.85	15.48

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. Effective December 20, 2012, the Corporation completed a 10:1 consolidation of its common shares. Consequently, per share information presented above was restated to a post-consolidation basis for comparability.

Outlook

The Corporation is increasing net average production guidance before royalties for calendar 2013 from 7,500 to 8,500 boepd to between 8,500 and 9,000 boepd. The Corporation plans to spend capital expenditures of up to \$72 million, net of dispositions and inclusive of amounts related to the Ecuador IPC, in calendar 2013 on drilling, work overs, seismic, production facilities and pipelines in Colombia and Ecuador. The timing of several planned capital projects is expected to overlap into calendar 2014.

For the remainder of calendar 2013, the Corporation will focus on: 1) building out production and reserves from recent oil discoveries on LLA-23 and VMM-2 and increasing production levels from the Esperanza block in Colombia via new gas sales contracts; 2) continuing to increase production and reserves from the Libertador and Atacapi oil fields in Ecuador; and 3) executing a significant oil-focused exploration program in Colombia targeting management estimated 48 million barrels of net risked prospective conventional light and heavy oil, and unconventional light oil resources. Development drilling for the remainder of calendar 2013 is expected to include one new well in the Libertador-Atacapi fields in Ecuador. Exploration projects of significance for the remainder of calendar 2013 include the first of two additional exploration wells on LLA-23, Leono-1 and Leono Sur, targeting light oil, testing of the Mono Arana deep shale oil exploration discovery on VMM-2, up to two new wells on the Corporation's Middle Magdalena blocks (VMM-2 and VMM-3) targeting both shallow conventional light oil and deeper unconventional shale oil, and the continuation of the heavy oil exploration program on assets in the Putumayo-Caguan Basin. Funding for the remaining calendar 2013 capital program is expected to come from working capital, operating cash flows and debt facilities.

The Corporation's has filed its unaudited interim condensed consolidated financial statements and related Management's Discussion and Analysis as of and for the three months ended September 30, 2013 with Canadian securities regulatory authorities. These filings are available for review on SEDAR at www.sedar.com.

Canacol is an exploration and production corporation with operations focused in Colombia and Ecuador. The Corporation's common stock trades on the Toronto Stock Exchange and the Colombia Stock Exchange under ticker symbols CNE and CNEC, respectively.

This press release contains certain forward-looking statements within the meaning of applicable securities law. Forward-looking statements are frequently characterized by words such as "plan", "expect", "project", "intend", "believe", "anticipate", "estimate" and other similar words, or statements that certain events or conditions "may" or "will" occur, including without limitation statements relating to estimated production rates from the Corporation's properties and intended work programs and associated timelines. Forward-looking statements are based on the opinions and estimates of management at the date the statements are made and are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements. The Corporation cannot assure that actual results will be consistent with these forward looking statements. They are made as of the date hereof and are subject to change and the Corporation assumes no obligation to revise or update them to reflect new circumstances, except as required by law. Information and guidance provided herein supersedes and replaces any forward looking information provided in prior disclosures. Prospective investors should not place undue reliance on forward looking statements. These factors include the inherent risks involved in the exploration for and development of crude oil and natural gas properties, the uncertainties involved in interpreting drilling results and other geological and geophysical data, fluctuating energy prices, the possibility of cost overruns or unanticipated costs or delays and other uncertainties associated with the oil and gas industry. Other risk factors could include risks associated with negotiating with foreign governments as well as country risk associated with conducting international activities, and other factors, many of which are beyond the control of the Corporation. Other risks are more fully described in the Corporation's most recent Management Discussion and Analysis, which is incorporated herein by reference and is filed on SEDAR at www.sedar.com. Average production figures for a given period are derived using arithmetic averaging of fluctuating historical production data for the entire period indicated and, accordingly, do not represent a constant rate of production for such period and are not an indicator of future production

performance. Detailed information in respect of monthly production in the fields operated by the Corporation in Colombia is provided by the Corporation to the Ministry of Mines and Energy of Colombia and is published by the Ministry on its website; a direct link to this information is provided on the Corporation's website. References to "net" production refer to the Corporation's working-interest production before royalties.

Use of Non-IFRS Financial 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. 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 in this press release. 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. This press release also provides information on 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. For more details on how the Corporation reconciles its cash provided by operating activities to adjusted funds from operations, please refer to the "Non-IFRS Measures" section of the Corporation's MD&A. Additionally, this press release references 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.

Boe Conversion - The term "boe" is used in this news release. Boe may be misleading, particularly if used in isolation. A boe conversion ratio of cubic feet of natural gas to barrels 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 news release, 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.

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