

Canacol Energy Ltd. Reports Record Adjusted Funds from Operations of US \$37 Million in Fiscal Q1 2015

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CALGARY, ALBERTA--(Marketwired - Nov 12, 2014) - [Canacol Energy Ltd.](#) ("Canacol" or the "Corporation") (TSX:CNE)(OTCQX:CNNEF)(BVC:CNEC) is pleased to report its financial results for the three months ended September 30, 2014.

Charle Gamba, President and CEO of the Corporation, commented: "Fiscal Q1 2015 reflects continued production and revenue growth for the Corporation as we increased production 9% from the previous quarter, realized an increase of 57% in adjusted funds from operations from the previous quarter to \$36.8 million, and realized an average operating netback of \$37.70/boe despite weakening benchmark crude oil prices. Significantly, we signed a new gas contract during the quarter for an additional 30 MMcfd, starting in December 2015 for a period of 5 years, at \$8.00/MMbtu escalated at approximately 3% per year. Together with already signed contracts, this positions Canacol to increase gas production from approximately 20 MMcfd (3,509 boepd) currently to 83 MMcfd (14,561 boepd) in late calendar 2015, all at very favorable prices.

In light of recent weakness in benchmark crude oil prices, the Corporation will focus its efforts for the remainder of calendar 2014, and all of calendar 2015, on production and exploration activities on 1) high netback light oil from its LLA-23 contract, 2) development drilling on its Esperanza gas contract to bring total production up to 83 MMcfd (14,561 boepd) from the current 20 MMcfd (3,509 boepd) by calendar year end 2015, and 3) tariff oil production operations in Ecuador. Both gas sales from Esperanza (currently sold based on the Guajira price index of \$5.08/MMbtu or \$28.96/boe) and tariff oil from Ecuador (\$38.54/bbl), together comprising approximately 42% of production in Q1 2015, are completely insensitive to world oil prices, offering the Corporation a significant degree of protection from the potential effects of weak benchmark oil prices in the near to mid-term.

From a financial standpoint, Canacol continues to maintain a strong cash position with cash and cash equivalents of \$137.4 million available at September 30, 2014, and a further \$103.7 million of restricted cash as of the same date. In October, we also announced a significant strategic financing with Apollo Investment Corporation for an additional \$100 million, \$50 million of which was drawn in October and the remaining \$50 million remains committed and available to be drawn within 18 months.

Canacol is well positioned to continue to realize growth through development of our extensive and diversified oil and gas asset base, reduced exposure to benchmark oil prices, our strong management and technical teams, and our strong balance sheet and access to financial partners."

Highlights for Fiscal Q1 2015

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

Financial and operational highlights of the Corporation include:

- Average sales volumes increased 42% to 13,308 barrels of oil equivalent per day ("boepd") for fiscal Q1 2015 compared to 9,359 boepd for the comparable period.

- Average daily production volumes increased 45% to 13,256 boepd for fiscal Q1 2015 compared to 9,132 boepd for the comparable period. The increases in production volumes are primarily due to new production from the Labrador, Leono and Pantro discoveries on the LLA-23 block and production increases from the Libertador and Atacapi fields in Ecuador. The Corporation has steadily increased its production over the past four quarters as outlined below and expects to continue building its productive base into the future.

Production (boepd)	Q2 2014	Q3 2014	Q4 2014	Q1 2015
Petroleum	6,998	8,260	9,271	9,922
Natural gas	3,097	2,633	2,941	3,334
Total	10,095	10,893	12,212	13,256
% change		8 %	12 %	9 %

- Petroleum and natural gas revenues for fiscal Q1 2015 increased 22% to \$58.9 million compared to \$48.2 million for the comparable period. Adjusted petroleum and natural gas revenues, inclusive of revenues related to the Ecuador Incremental Production Contract (the "Ecuador IPC") (see full discussion in MD&A), for fiscal Q1 2015 increased 30% to \$67.0 million compared to \$51.6 million for the comparable period.
- Average operating netback for fiscal Q1 2015 decreased 4% to \$37.69/boe compared to \$39.33/boe for the comparable period. The decrease of average operating netback is mainly attributable to decreases in benchmark crude oil prices, offset by decreases in production expenses. Average operating netback is inclusive of results from the Ecuador IPC.
- Adjusted funds from operations for fiscal Q1 2015 increased 52% to \$36.8 million compared to \$24.3 million for the comparable period, the highest in Canacol's history. Adjusted funds from operations is inclusive of results from the Ecuador IPC.
- Net income for fiscal Q1 2015 increased 373% to \$14.1 million compared to \$3.0 million for the comparable period.
- Capital expenditures for fiscal Q1 2015 were \$47.5 million, while adjusted capital expenditures, inclusive of amounts related to the Ecuador IPC, were \$56.2 million.
- At September 30, 2014, the Corporation had \$137.4 million in cash and cash equivalents and \$103.7 million in restricted cash. Subsequent to September 30, 2014, the Corporation added further liquidity by entering into a \$100 million unsecured floating rate senior note indenture agreement with Apollo Investment Corporation, with \$50 million drawn and funded on October 29, 2014, and a further \$50 million committed and available to be drawn at any time within 18 months at the sole discretion of Canacol, subject only to customary closing conditions.

Financial	Three months ended September 30,		
	2014	2013	Change
Petroleum and natural gas revenues, net of royalties	58,917	48,222	22 %
Adjusted petroleum and natural gas revenues, net of royalties, including revenues related to the Ecuador IPC ⁽²⁾	66,978	51,622	30 %
Cash provided by operating activities	45,618	19,724	131 %
Per share - basic (\$)	0.42	0.23	83 %
Per share - diluted (\$)	0.42	0.23	83 %
Adjusted funds from operations ⁽¹⁾⁽²⁾	36,784	24,278	52 %
Per share - basic (\$)	0.34	0.28	21 %
Per share - diluted (\$)	0.34	0.28	21 %
Net income (loss)	14,110	2,981	373 %
Per share - basic (\$)	0.13	0.03	333 %
Per share - diluted (\$)	0.13	0.03	333 %
Capital expenditures, net	47,522	17,408	173 %
Adjusted capital expenditures, net, including capital expenditures related to the Ecuador IPC ⁽¹⁾⁽²⁾	56,209	23,743	137 %
	September 30, 2014	June 30, 2014	Change
Cash and cash equivalents	137,426	163,729	(16 %)

Restricted cash	103,718	66,827	55 %
Working capital surplus, excluding the current portion of bank debt and non-cash items ⁽¹⁾	124,508	159,117	(22 %)
Short-term and long-term bank debt	211,812	210,688	1 %
Total assets	773,701	756,587	2 %
Common shares, end of period (000s)	107,814	107,736	-
Operating	Three months ended September 30,		
	2014	2013	Change
Petroleum and natural gas production, before royalties (boepd)			
Petroleum ⁽³⁾	9,922	6,110	62 %
Natural gas	3,334	3,022	10 %
Total ⁽²⁾	13,256	9,132	45 %
Petroleum and natural gas sales, before royalties (boepd)			
Petroleum ⁽³⁾	9,997	6,307	59 %
Natural gas	3,311	3,052	8 %
Total ⁽²⁾	13,308	9,359	42 %
Realized sales prices (\$/boe)			
LLA-23 (oil)	83.97	92.40	(9 %)
Esperanza (natural gas)	21.48	29.67	(28 %)
Rancho Hermoso (oil and liquids)	84.72	94.18	(10 %)
Ecuador (tariff oil) ⁽²⁾	38.54	38.54	-
Total ⁽²⁾	60.15	65.38	(8 %)
Operating netbacks (\$/boe) ⁽¹⁾			
LLA-23 (oil)	54.03	67.27	(20 %)
Esperanza (natural gas)	16.84	25.07	(33 %)
Rancho Hermoso (oil and liquids)	20.18	16.92	19 %
Ecuador (tariff oil) ⁽²⁾	38.54	38.54	-
Total ⁽²⁾	37.70	39.33	(4 %)

⁽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.

Outlook

Despite recently declining crude oil prices, production from the LLA-23 block remains highly profitable due to the high deliverability of the reservoirs and the effective cost structure. The Corporation will continue with its capital program on LLA-23 and plans to drill two additional development wells and two exploration wells (Maltes-1 and Pastor-1) throughout the remainder of calendar 2014 and into early 2015, subject to the approval of the ANH. The Corporation also commenced the acquisition of 400 square kilometer 3D seismic in August 2014. The objective of the 3D seismic program is to firm up the portfolio of 12 currently identified exploration leads into prospects for drilling in calendar 2015 and 2016.

The Corporation has completed the drilling of the second of three planned gas exploration wells on the Esperanza contract, Corozo-1, in early October 2014, which has been cased and is awaiting production testing with a work over rig. The Corporation plans to drill the third exploration well, Canandonga-1, followed by the drilling of up to five appraisal and development wells on the block thereafter in order to deliver the 83 MMcfpd of contracted gas by the end of calendar 2015, subject to the approval of the ANH. The Corporation has already executed three new gas sales contracts for a combined 65 MMcfpd which is expected to take Canacol's current daily gas production of approximately 20 MMcfpd (3,509 boepd) to 83 MMcfpd (14,561 boepd) in late calendar 2015. The new contracts each have a five year term, with pricing of \$ 5.40/MMbtu escalated at 2% per year for two of the contracts totalling 35 MMcfpd, and \$8.00/MMbtu escalated at approximately 3% per year for the third contract of 30 MMcfpd. Canacol currently sells approximately 18 MMcfpd (3,158 barrels of oil equivalent per day) of gas from the Nelson Field to a local ferronickel producer under a 10 year contract that expires in 2021. That contract was linked to the Guajira price index, which changed effective October 29, 2014 from \$3.97/MMbtu (\$22.63/boe) to \$5.08/MMbtu (\$28.96/boe). Nevertheless, as mentioned above, the Corporation has diversified its future gas sales with the addition of three new fixed-price gas contracts commencing in December 2015.

In Ecuador, the consortium plans to drill two additional new development wells and work over one existing producing well in the remainder of calendar 2014.

In other areas of Colombia, the Corporation and its partner expect to drill an additional appraisal well into the shallow Lisama discovery on the VMM-2 block prior to the end of 2014. The operator of the Capella property is expected to continue its extensive development program for the field through calendar 2014. The operator of the VMM-3 block spudded the Pico Plata-1 exploration well in early October 2014 targeting the shale of the Cretaceous La Luna formation.

In light of recent weakness in benchmark crude oil prices, the Corporation will focus its efforts for the remainder of calendar 2014, and all of calendar 2015, on production and exploration activities on 1) high netback light oil from its LLA-23 contract, 2) development drilling on its Esperanza gas contract to bring total production up to 83 MMcfd (14,561 boepd) from the current 20 MMcfd (3,509 boepd) by calendar year end 2015, and 3) tariff oil production operations in Ecuador. As a result of this refocus, the Corporation will decrease its capital program for calendar 2014 by approximately \$20 million due to the suspension of certain planned activities for the period September through December 2014 associated with lower netback projects and facilities deferrals. As a result of this capex reduction, and as a result of the temporary shut-in of certain operated and non-operated oil production that is currently marginally economic or uneconomic due to low benchmark crude oil prices, the Corporation revises its calendar 2014 production guidance downward slightly to 12,500 to 13,000 boepd. The Corporation plans on releasing its calendar 2015 capital program and production guidance in December 2014.

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, 2014 with Canadian securities regulatory authorities. These filings are available for review on SEDAR at www.sedar.com.

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

This news 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 ("MD&A"), 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

news 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 news 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 news 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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