

Canacol Energy Ltd. Reports Q4 2017 Results

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CALGARY, Alberta, March 26, 2018 (GLOBE NEWSWIRE) -- [Canacol Energy Ltd.](#) ("Canacol" or the "Corporation") (TSX:CNE) (OTCQX:CNNEF) (BVC:CNEC) is pleased to report its financial and operating results for the three months and year ended December 31, 2017. Dollar amounts are expressed in United States dollars, except as otherwise noted.

Charle Gamba, President and CEO of the Corporation, commented: "In 2017, the Corporation executed the construction of the Sabanas gas flowline which has increased gas sales to current levels of approximately 120 MMscfpd, executed a successful exploration drilling program which increased 2P reserves by 21%, refinanced our debt which lowered our average interest rate and extended the first amortization payment of the new loan into 2019, divested our non-core oil producing assets in Ecuador for \$36.4 million, and sold all of our shares in InterOil as of March 23, 2018 resulting in an overall realized cash gain of \$3.8 million on our original \$3.2 million investment.

Management's objectives for 2018 are to: 1) sell an average of 114 to 129 MMscfpd of gas and 1,700 barrels of oil per day ("bopd"), 2) execute the necessary investments in drilling, facilities, and flowlines to ensure that the productive capacity of the Corporation is greater than 230 MMscfpd by December 1, 2018, 3) execute a four well exploration and appraisal drilling program to build reserves and 4) divest our non-core Colombian conventional oil assets to focus on the exploration and commercialization of our significant Colombian gas reserves and resource base."

Highlights for the three months and year ended December 31, 2017
(Production is stated as working-interest before royalties)

Financial and operational highlights of the Corporation include:

- Realized contractual sales volumes increased 7% to 17,446 boepd for the year ended December 31, 2017 compared to 16,376 boepd for the same period in 2016. The increase is primarily due to increase in gas production in Esperanza and VIM-5 as a result of the additional sales related to the Promigas pipeline expansion, offset by production declines at LLA-23 and Ecuador. Despite a 10% and 27% decrease in Colombia and Ecuador sales volumes, respectively, realized contractual sales volume only decreased by 2% to 17,953 boepd for the three months ended December 31, 2017 compared to 18,310 boepd for the same period in 2016. The decrease is primarily due to production declines at LLA-23 and Ecuador, offset by an increase in gas production in Esperanza and VIM-5. The Corporation missed its sales guidance of between 18,000 and 19,000 boepd for 2017 due to the underperformance of certain of its oil producing assets in Ecuador and Colombia.
- Average production volumes increased 7% to 17,080 boepd for the year ended December 31, 2017 compared to 15,942 boepd for the same period in 2016. The increase is primarily due to increase in gas production in Esperanza and VIM-5 as a result of the additional sales related to the Promigas pipeline expansion, offset by production declines at LLA-23 and Ecuador. Despite a 17% decrease in oil production volumes, average production volumes only decreased 1% to 17,577 boepd for the three months ended December 31, 2017 compared to 17,728 boepd for the same period in 2016 as the decrease is largely offset by an increase in gas production in Esperanza and VIM-5.
- Total petroleum and natural gas revenues for the year ended December 31, 2017 increased 7% to \$158.9 million compared to \$148 million for same period in 2016. Total petroleum and natural gas revenues for the three months ended December 31, 2017 had no significant change at \$42.1 million compared to the same period in 2016. Adjusted petroleum and natural gas revenues, inclusive of revenues related to the Ecuador IPC, for the year ended December 31, 2017 increased 4% to \$179.5 million compared to \$173.2 million for the same period in 2016. Adjusted petroleum and natural gas revenues for the three months ended December 31, 2017 decreased 3% to \$46.3 million compared to \$47.9 million for the same period in 2016.
- Adjusted funds from operations for the three months and year ended December 31, 2017 was \$20.9 million and \$84.8 million, respectively. Adjusted funds from operations are inclusive of results from the Ecuador Incremental Production Contract (the "Ecuador IPC") (see full discussion in MD&A).

- The Corporation recorded a net loss of \$148 million for the year ended December 31, 2017 compared to a net income of \$23.6 million for the same period in 2016. The Corporation recorded a net loss of \$150.3 million for the three months ended December 31, 2017 compared to a net income of \$20.3 million for the same period in 2016. The net losses in the three months and year ended December 31, 2017 are mainly driven by non-cash impairment charges related to the Corporation's assets held for sale, non-cash impairment charges recorded as a result of relinquishment or planned relinquishment of certain exploration blocks, non-cash depletion and depreciation charges, non-cash stock based compensation expenses, and non-cash deferred income tax expenses.
- Net capital expenditures including acquisitions for the three months and year ended December 31, 2017 was \$41.7 million and \$121.2 million, respectively, while adjusted capital expenditures including acquisitions, inclusive of amounts related to the Ecuador IPC, was \$44.4 million and \$125.4 million, respectively.
- At December 31, 2017, the Corporation had \$39.1 million in cash and \$27.9 million in restricted cash and continues to be well within all of its banking covenants. As at March 23, 2018, having collected all of the Sabanas flowline funds from the private investors and the Ecuador sale proceeds, the Corporation has approximately \$70 million in unrestricted cash.

Outlook

Management's objectives for 2018 are to: 1) sell an average of 114 to 129 MMscfpd of gas and 1,700 barrels of oil per day ("bopd"), 2) execute the necessary investments in drilling, facilities, and flowlines to ensure that the productive capacity of the Corporation is greater than 230 MMscfpd by December 1, 2018, 3) execute a four well exploration and appraisal drilling program to build reserves and 4) divest our non-core Colombian conventional oil assets to focus on the exploration and commercialization of our significant Colombian gas reserves and resource base.

Highlights of the capital spending program aimed at ensuring that the Corporation achieves 230 MMscfpd of gas production capability by December of 2018 include: 1) the drilling of four exploration and appraisal wells and three development wells, 2) expansion of the Corporation's gas gathering and processing facilities at Jobo, and 3) various workovers of its existing gas wells. The Corporation also expects to acquire new 3D seismic data on its VIM-5 contract to continue building its gas exploration drilling portfolio. Approximately 97% of the \$80 million budget for 2018 is dedicated to spending on the Corporation's gas assets, with the remainder on its oil assets. The capital program will be fully funded from existing cash and cash flows. One of the planned appraisal wells, Pandereta-3, was spud on January 12, 2018. The Pandereta-3 appraisal well encountered 103 feet true vertical depth of net gas pay within the Cienago de Oro ("CDO") sandstone reservoir and flow tested at an absolute open flow rate of 168 MMscfpd from the upper part of the CDO in February 2018, confirming a significant new gas discovery on the VIM-5 block. As at March 23, 2018, having collected all of the Sabanas Flowline funds from the private investors and the Ecuador sale proceeds, the Corporation has approximately \$70 million in unrestricted cash.

As previously announced, forecast realized contractual gas and oil sales, which include contractual gas downtime for 2018, are anticipated to average between 21,700 and 24,300 boepd, which include 114 and 129 MMscfpd of gas, respectively, and approximately 1,700 bopd of annualized oil production. Upon a successful sale of the Colombian oil assets, this annualized oil production forecast would be revised accordingly. The base range for gas production assumes that the Promigas S.A. expansion, which will add 100 MMscfpd of transportation capacity between the Corporation's gas processing facilities located at Jobo and the markets of Cartagena and Barranquilla, is delayed and does not materialize as of December 1, 2018. The upper range for gas production assumes that the Promigas S.A. expansion is completed on December 1, 2018, as currently planned, and that the Corporation sells additional natural gas in the interruptible market throughout 2018. Based on the Corporation's current portfolio of 2018 gas contracts, the average sales price, net of transportation costs where applicable, is approximately \$4.75/Mcf.

The Corporation has contracted a single drilling rig which it intends to use to execute its exploration and development drilling program for the remainder of 2018. In the first quarter of 2018, the Corporation successfully completed and tested the Pandereta-2 and Pandereta-3 appraisal wells, both of which have confirmed a significant new gas discovery on its VIM-5 contract. The remaining gas exploration wells planned for 2018 include the Breva-1 exploration well on the VIM-21 contract, and the Borojo-1 and Canahuat-Este exploration wells on the Esperanza contract. The remaining development wells are the Chirimia-1 well located on the VIM-5 contract which spud in early March 2018, and one other infill development well yet to be determined to be spud prior to mid-year 2018. The Corporation anticipates that its exploration and development drilling programs will be completed by the third quarter of 2018. The objective

of the 2018 drilling program is to lift the productive potential of its existing and new well portfolio beyond the 230 MMscfpd required by December 1, 2018.

The Corporation expects to soon award a contract to build and install a new gas processing module at its Jobo gas facility to process an additional 100 MMscfpd of gas, which will raise the gas treating capability of the Jobo facility to 300 MMscfpd by December 2018. The Corporation will purchase and operate the new gas processing module.

Financial	Three months ended December 31, Year ended December 31			
	2017	2016	Change	2017
Total petroleum and natural gas revenues, net of royalties	42,092	41,967	158,908	14,000
Adjusted petroleum and natural gas revenues, net of royalties ⁽²⁾	46,285	47,943	(139,525)	17,000
Cash flow provided by operating activities	25,001	30,289	(65,946)	73,000
Per share – basic (\$) ⁽¹⁾	0.14	0.17	(0.18%)	0.4
Per share – diluted (\$) ⁽¹⁾	0.14	0.17	(0.18%)	0.4
Adjusted funds from operations ^{(1) (2)}	20,857	41,979	(60,864)	11,000
Per share – basic (\$) ⁽¹⁾	0.12	0.24	(50%)	0.6
Per share – diluted (\$) ⁽¹⁾	0.12	0.24	(50%)	0.6
Net income (loss) and comprehensive income (loss)	(150,343)	20,331	(148,029)	23,000
Per share – basic (\$) ⁽¹⁾	(0.85)	0.12	(0.85)	0.3
Per share – diluted (\$) ⁽¹⁾	(0.85)	0.12	(0.85)	0.3
Capital expenditures, net, including acquisitions	41,652	58,638	(29,202)	10,000
Adjusted capital expenditures, net, including acquisitions ⁽¹⁾⁽²⁾	44,373	59,691	(25,407)	11,000
			Dec 31, 2017	Dec 31, 2016
Cash			39,071	66,000
Restricted cash			27,919	62,000
Working capital surplus ⁽¹⁾			110,401	64,000
Bank debt			294,590	25,000
Total assets			696,443	78,000
Common shares, end of period (000's)			176,109	17,000
Operating	Three months ended December 31, Year ended December 31			
	2017	2016	Change	2017
Petroleum and natural gas production, before royalties (boepd)				
Petroleum ⁽³⁾	3,008	3,616	(316)	4,000
Natural gas	14,569	14,112	3,765	11,000
Total ⁽²⁾	17,577	17,728	(1,080)	15,000
Petroleum and natural gas sales, before royalties (boepd)				
Petroleum ⁽³⁾	3,003	3,657	(321)	4,000
Natural gas	14,379	13,986	3,648	11,000
Total ⁽²⁾	17,382	17,643	(1,069)	15,000
Realized contractual sales, before royalties (boepd)				
Natural gas	14,950	14,653	2,125	12,000
Colombia oil	1,820	2,026	(106)	2,000
Ecuador tariff oil ⁽²⁾	1,183	1,631	(240)	1,000
Total ⁽²⁾	17,953	18,310	(244)	16,000
Operating netbacks (\$/boe) ⁽¹⁾				
Total natural gas	20.24	24.50	(27.21)	25,000
LLA-23 (oil)	20.14	14.80	36.30	12,000
Ecuador (tariff oil) ⁽²⁾	38.54	38.54	38.54	38,000

Total (2)	21.84	24.00	23.15
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(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.

This press release should be read in conjunction with the Corporation’s audited consolidated financial statements and related Management’s Discussion and Analysis. The Corporation has filed its audited consolidated financial statements and related Management’s Discussion and Analysis as at and for the three months and year ended December 31, 2017 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. The Corporation’s shares are traded on the Toronto Stock Exchange under the symbol CNE, the OTCQX in the United States of America under the symbol CNNEF, the Bolsa de Valores de Colombia under the symbol CNEC and the Bolsa Mexicana de Valores under the symbol CNEN.

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”, “target”, “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”) and Annual Information Form, which are incorporated herein by reference and are 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, EBITDAX and operating netback measures. Working capital is calculated as current assets less current liabilities, excluding non-cash items, and is used to evaluate the Corporation's financial leverage. EBITDAX is defined as consolidated net income adjusted for interest, income taxes, depreciation, depletion, amortization, exploration expenses, share of joint venture profit/loss and other similar non-recurring or non-cash charges. Consolidated EBITDAX is further adjusted for the contribution to adjusted funds from operations, before taxes, of the results of the Ecuador IPC. 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 of oil equivalent 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, EBITDAX 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.

Operating netback is defined as revenues less royalties and production and transportation expenses.

Realized contractual gas sales is defined as gas produced and sold plus gas revenues received from nominated take or pay contracts.

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. As the value ratio between natural gas and crude oil based on the current prices of natural gas and crude oil is significantly different from the energy equivalency of 5.7:1, utilizing a conversion on a 5.7:1 basis may be misleading as an indication of value.

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