Canacol Energy Ltd. Reports Q1 2018 Results

CALGARY, ALBERTA – (May 15, 2018) – 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 ended March 31, 2018. Dollar amounts are expressed in United States dollars, except as otherwise noted.

Charle Gamba, President and CEO of the Corporation, commented: "The first quarter of 2018 was an important milestone for Canacol, as it represents the first full quarter where the Corporation had access to the newly completed Sabanas flowline, and hence yet another step change in our natural gas production levels. We continue to diligently work towards our next goal of 230 MMscfpd by December 1, 2018, for which the Corporation is fully funded to achieve."

Highlights for the three months ended March 31, 2018

(Production is stated as working-interest before royalties)

Financial and operational highlights of the Corporation include:

- Average production volumes increased 23% to 20,955 boepd for the three months ended March 31, 2018 compared to 16,992 boepd for the same period in 2017. The increase is primarily due to increase in gas production as a result of the additional sales related to the completion of the Sabanas pipeline, offset by production declines at LLA-23 and the sale of the Ecuador Incremental Production Contract (the "Ecuador IPC") (see full discussion in MD&A) in February 2018.
- Realized contractual sales volumes increased 17% to 21,115 boepd for the three months ended March 31, 2018 compared to 18,043 boepd for the same period in 2017. The increase is primarily due to increase in gas production as a result of the additional sales related to the completion of the Sabanas pipeline, offset by production declines at LLA-23 and the sale of the Ecuador IPC in February 2018.
- Total petroleum and natural gas revenues for the three months ended March 31, 2018 increased 24% to $51.8 million compared to $41.6 million for same period in 2017. Adjusted petroleum and natural gas revenues, inclusive of revenues related to the Ecuador IPC, for the three months ended March 31, 2018 increased 14% to $53.7 million compared to $47 million for the same period in 2017.
- Adjusted funds from operations increased 12% to $23.5 million for the three months ended March 31, 2018 compared to $20.9 million for the same period in 2017. Adjusted funds from operations are inclusive of results from the Ecuador IPC, which totalled $2 million during the three months ended March 31, 2018 and $5 million during the three months ended March 31, 2017.
- The Corporation recorded a net income of $8.3 million for the three months ended March 31, 2018 compared to a net loss of $7.9 million for the same period in 2017.
- Net capital expenditures including acquisitions for the three months ended March 31, 2018 was $40.2 million, while adjusted capital expenditures including acquisitions, inclusive of amounts related to the Ecuador IPC, was $42.6 million. Net capital expenditures and adjusted capital expenditures included non-cash costs of $14.1 million.
- At March 31, 2018, the Corporation had $61 million in cash and $13.3 million in restricted cash.

Outlook

Management's objectives for 2018 remain to: 1) sell an average of 114 to 129 MMscfpd of gas and 1,700 bopd ("barrels of oil per day"), 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 the Corporation's 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 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 originally announced $80 million budget for 2018 is dedicated to spending on the Corporation's gas assets, with the remainder on its oil assets, and will be fully funded from existing cash and cash flows.

Subsequent to March 31, 2018, the Corporation completed a private offering of senior unsecured notes in the aggregate principal amount of $320 million and has used the net proceeds to fully repay the outstanding amounts borrowed under its existing credit facility in the amount of $305 million plus accrued interest.

By replacing the credit facility of $305 million, the Corporation benefits from: (i) replacing the current term loan that bears an interest rate of fluctuating three month Libor +5.5% (which currently totals approximately 8%, as the three month Libor has been increasing materially during the last 14 months), to a fixed coupon of 7.25%, which provides both a reduction and certainty of debt expenses in an extremely volatile interest rate environment; (ii) deferring the quarterly $23.5 million amortization of the existing credit facility beginning in March 2019, for a bullet maturity in May 2025; (iii) an administratively less burdensome note indenture that will not require collateral or quarterly certification of maintenance covenants (only incurrence-based covenants); (iv) no cash required to be held in a debt service reserve account as is required under the current credit facility (these amounts are scheduled to total approximately $25 million later in 2018 under the existing credit facility); and (v) achieving certain other operational and financial flexibilities, including the ability for the Corporation to pay a dividend.

With respect to the drilling program, the Corporation successfully drilled and completed the Pandereta-3 and Chirimia-1 appraisal wells as gas producers, with the Gaiteros-1 exploration well resulting in a dry hole. The remainder of the drilling program includes three exploration wells and one development well. The first of the three remaining exploration wells, Breva-1, was spud in late April 2018 and is currently being cased and completed as a Porquero gas discovery. The remaining exploration wells include the Borojo-1 well, which will spud in early June 2018, followed immediately by the Canahuate-East well. The final development well in the 2018 drilling program is Canahuate-West, which will be drilled following the Canahuate-East well.

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 awarded 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 with funds sourced from existing cash and cash flows including the release of funds from the prior credit facility's debt service reserve account, which is no longer required under the new senior unsecured notes.

Financial	Three months ended March 31,		
	2018	2017	Change
Total petroleum and natural gas revenues, net of royalties	**51,756**	41,583	24%
Adjusted petroleum and natural gas revenues, net of royalties[2]	**53,712**	46,975	14%
Cash provided by operating activities	**19,868**	17,539	13%
Per share – basic ($)[1]	**0.11**	0.10	10%
Per share – diluted ($)[1]	**0.11**	0.10	10%
Adjusted funds from operations [1][2]	**23,537**	20,947	12%
Per share – basic ($)[1]	**0.13**	0.12	8%
Per share – diluted ($)[1]	**0.13**	0.12	8%
Net income (loss) and comprehensive income (loss)	**8,278**	(7,942)	n/a
Per share – basic ($)	**0.05**	(0.05)	n/a
Per share – diluted ($)	**0.05**	(0.05)	n/a
Capital expenditures, net, including acquisitions	**40,194**	24,000	67%
Adjusted capital expenditures, net, including acquisitions[1][2]	**42,571**	24,818	72%
	Mar 31, 2018	Dec 31, 2017	Change
Cash	**61,022**	39,071	56%
Restricted cash	**13,343**	27,919	(52%)
Working capital surplus	**94,472**	110,401	(14%)
Current and long-term bank debt	**295,564**	294,590	-
Total assets	**717,697**	696,443	3%
Common shares, end of period (000's)	**176,800**	176,109	-

Operating	Three months ended March 31,		
	2018	2017	Change
Petroleum and natural gas production, before royalties (boepd)			
Petroleum [3]	**2,488**	3,505	(29%)
Natural gas	**18,467**	13,487	37%
Total [2]	**20,955**	16,922	23%
Petroleum and natural gas sales, before royalties (boepd)			
Petroleum [3]	**2,460**	3,517	(30%)
Natural gas	**18,335**	13,409	37%
Total [2]	**20,795**	16,926	23%
Realized contractual sales, before royalties (boepd)			
Natural gas	**18,655**	14,526	28%
Colombia oil	**1,896**	2,014	(6%)
Ecuador tariff oil [2]	**564**	1,503	(62%)
Total [2]	**21,115**	18,043	17%
Operating netbacks ($/boe) [1]			
Total natural gas	**21.12**	24.11	(12%)
Colombia oil	**33.21**	17.16	94%
Ecuador (tariff oil) [2]	**38.54**	38.54	-
Total [2]	**22.68**	24.56	(8%)

(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.

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This press release should be read in conjunction with the Corporation's unaudited interim condensed consolidated financial statements and related Management's Discussion and Analysis. 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 March 31, 2018 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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