Canacol Energy Ltd. Reports 89% Increase in Production Year over Year During Fiscal Q2 2014

CALGARY, ALBERTA – (February 12, 2014) – Canacol Energy Ltd. ("Canacol" or the "Corporation") (TSX:CNE; BVC:CNEC) is pleased to report its financial results for the three and six months ended December 31, 2013. Fiscal Q2 2014 was a successful quarter for the Corporation as it increased production, revenues, adjusted funds from operations, and netbacks over the comparative prior year period.

Charle Gamba, President and CEO of the Corporation stated: "Canacol increased production for the most recent quarter by 11% compared to last quarter and by 89% over the comparative quarter as the Corporation continued to realize success from its recent exploration and production activities, maintaining a healthy netback of $38.44/boe, a 102% increase over the comparative quarter. Sales volumes, revenues, operating cash flows and netbacks were temporarily affected during the quarter by an unanticipated build-up of its crude oil inventory in the Colombian export pipeline system equivalent to 964 boepd. However, this is only a matter of timing and the Corporation expects the inventory build-up to decrease again in fiscal Q3 2014. Other losses were due to non-cash fair market value adjustments under IFRS on certain derivatives and financial instruments. During Q2 2014, these non-cash fair value adjustments were significant enough to drive a net loss for the quarter on otherwise profitable operations. Canacol has completed the drilling of the Leono 2 appraisal well with good results as recently reported, and the Mono Arana 2 and 5 appraisal wells, which the operator is preparing to test. Testing operations are also underway at the Mono Arana 1 exploration well within the La Luna shale reservoir."

Highlights for Fiscal Q2 2014

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

Financial and operating highlights of the Corporation include:

- Average daily production volumes increased 89% to 10,095 barrels of oil equivalent per day ("boepd") for fiscal Q2 2014 compared to 5,354 boepd for the comparable period. This increase in production volumes is primarily due to new production from the Labrador and Leono discovery on the LLA-23 block, production from the Esperanza block, and production increases from the Libertador and Atacapi fields in Ecuador. The Corporation did experience a considerable build-up of its Llanos Basin oil inventory at December 31, 2013 due to the timing of the export of its oil and this resulted in lower than anticipated sales volumes for the quarter. Most of the Corporation's Llanos Basin crude oil production is sold by pipeline for export and the Corporation recognizes sales for such oil on title transfer to customers, which is at the point of export in the case of such pipeline shipments. During fiscal Q2 2014, the Corporation's oil inventory increased to approximately 132,000 barrels due to its crude oil not being evacuated at the export shipping terminal on December 31, 2013. This build-up of inventory amounted to the equivalent of 964 boepd of production for the quarter and negatively affected petroleum revenues and adjusted funds from operations accordingly. The timing of oil exports and related recognition of sales revenues can vary due to the logistical issues of evacuating the oil at the export shipping terminal. However, this is only a matter of timing and the Corporation normally has been able to market its Llanos Basin crude oil production without any considerable issues.

- Petroleum and natural gas revenues for fiscal Q2 2014 increased 61% to $42.2 million compared to $26.2 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 Q2 2014 increased 68% to $46.0 million compared to $27.4 million for the comparable period. As described above, revenues were affected in fiscal Q2 2014 due to the build-up of Llanos Basin oil production inventories, which otherwise would have contributed to petroleum and natural gas revenues in the quarter.
- Average operating netback for fiscal Q2 2014 increased 102% to $38.44/boe compared to $19.01/boe for the comparable period. Operating netback is inclusive of results from the Ecuador IPC.
- Adjusted funds from operations for fiscal Q2 2014 increased 387% to $15.6 million compared to $3.2 million for the comparable period. Adjusted funds from operations is inclusive of results from the Ecuador IPC. As described above, adjusted funds from operations were affected in fiscal Q2 2014 due to the build-up of Llanos Basin oil production inventories, which otherwise would have contributed to operating cash flows in the quarter. The Corporation further accrued its annual employee bonuses in the quarter.
- The Corporation recorded a net loss of $10.4 million for fiscal Q2 2014 compared to net income of $1.8 million for the comparable period. The net loss was mainly driven by $14.1 million of non-cash fair value adjustments on derivatives and financial instruments related to share price appreciation during the quarter. The Corporation's share price appreciated from C$4.41 at September 30, 2013 to C$7.13 at December 31, 2013. This significant increase caused the carrying values of the Corporation's warrants, phantom warrants and restricted share units to increase, resulting in the recording of non-cash losses on derivatives and financial instruments. Further, during Q2 2014 the Corporation beneficially amended the terms of its trucking contract resulting in the one-off de-recognition of the $2.3 million non-cash embedded derivatives asset, which further contributed to the net loss for the period.
- Capital expenditures for fiscal Q2 2014 were $22.7 million while adjusted capital expenditures, inclusive of amounts related to the Ecuador IPC, were $32.7 million.
- At December 31, 2013, the Corporation had $56.5 million in cash and cash equivalents and $42.3 million in restricted cash.

Financial	Three months ended December 31, 2013	2012	Change	Six months ended December 31, 2013	2012	Change
Petroleum and natural gas revenues, net of royalties (6)	**42,168**	26,200	61%	**90,390**	67,792	33%
Adjusted petroleum and natural gas revenues, net of royalties, including revenues related to the Ecuador IPC (2) (6)	**45,987**	27,350	68%	**97,609**	69,145	41%
Cash provided by operating activities (4)	**36,406**	6,445	465%	**56,130**	12,836	337%
Per share – basic ($)	**0.42**	0.10	320%	**0.65**	0.20	225%
Per share – diluted ($)	**0.42**	0.10	320%	**0.64**	0.20	220%
Adjusted funds from operations (1) (2) (4) (6)	**15,599**	3,202	387%	**39,877**	17,274	131%
Per share – basic and diluted ($)	**0.18**	0.05	260%	**0.46**	0.27	70%
Net income (loss) (4)	**(10,412)**	1,820	n/a	**(7,431)**	(5,336)	39%
Per share – basic and diluted ($)	**(0.12)**	0.03	n/a	**(0.09)**	(0.08)	13%
Capital expenditures, net	**22,749**	19,431	17%	**40,157**	34,402	17%
Adjusted capital expenditures, net, including capital expenditures related to the Ecuador IPC (1)(2)	**32,679**	22,667	44%	**56,422**	41,598	36%
				December 31, 2013	June 30, 2013	Change
Cash and cash equivalents				**56,468**	52,290	8%
Restricted cash				**42,330**	26,394	60%
Working capital surplus, excluding the current portion of bank debt and non-cash items (1)				**37,622**	69,148	(46%)
Short-term and long-term bank debt				**135,201**	134,316	1%
Total assets				**512,800**	469,592	9%
Common shares, end of period (000s) (5)				**86,688**	86,506	-

Operating	Three months ended December 31, 2013	2012	Change	Six months ended December 31, 2013	2012	Change
Petroleum and natural gas production, before royalties (boepd) (3)						
Petroleum	**6,998**	5,035	39%	**6,555**	5,529	19%
Natural gas	**3,097**	319	871%	**3,060**	160	>999%
Total	**10,095**	5,354	89%	**9,615**	5,689	69%
Petroleum and natural gas sales, before royalties (boepd) (3) (6)						
Petroleum	**5,868**	4,815	22%	**6,088**	6,070	-
Natural gas	**2,953**	319	826%	**3,003**	160	>999%
Total	**8,821**	5,134	72%	**9,091**	6,230	46%
Realized sales prices ($/boe)						
LLA-23 (oil)	**86.86**	88.54	(2%)	**89.81**	88.54	1%
Esperanza (natural gas)	**29.45**	33.87	(13%)	**29.56**	33.87	(13%)
Rancho Hermoso (tariff and non-tariff oil and liquids)	**89.52**	64.91	38%	**91.85**	66.44	38%
Ecuador (tariff oil) (2)	**38.54**	38.54	-	**38.54**	38.54	-
Total (2)	**61.81**	62.43	(1%)	**63.64**	65.25	(2%)
Operating netbacks ($/boe) (1)						
LLA-23 (oil)	**64.68**	59.64	8%	**66.05**	59.64	11%
Esperanza (natural gas)	**24.56**	28.35	(13%)	**24.82**	28.35	(12%)
Rancho Hermoso (tariff and non-tariff oil and liquids)	**20.88**	16.54	26%	**18.90**	21.20	(11%)
Ecuador (tariff oil) (2)	**38.54**	38.54	-	**38.54**	38.54	-
Total (2)	**38.44**	19.01	102%	**38.89**	21.85	78%

(1) Non-IFRS measure – see "Non-IFRS Measures" section within MD&A as filed on SEDAR.
(2) Inclusive of amounts related to the Ecuador IPC – see "Non-IFRS Measures" section within MD&A as filed on SEDAR.
(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.
(5) On January 29, 2014, the Corporation issued an additional 2.5 million shares in connection with the acquisition of an 80% interest in each of the COR 4 and COR 12 blocks located in the Upper Magdalena Basin of Colombia – see "Subsequent Event" section within MD&A as filed on SEDAR.
(6) Sales volumes, revenues and adjusted funds from operations for the three months ended December 31, 2013 were negatively affected by the build-up of crude oil inventory at December 31, 2013 as further described under "Average Daily Petroleum and Natural Gas Production and Sales Volumes" in the MD&A as filed on SEDAR.

Outlook

In calendar 2014, the Corporation plans to spend approximately $150 million net capital expenditures on drilling, work overs, seismic, production facilities, and pipelines in Colombia and Ecuador, and anticipates net average production before royalties of between 11,500 and 12,500 boepd, which represents a 30% to 40% increase from average calendar 2013 production of 8,796 boepd. The production split for 2014 is expected to be approximately 70% crude oil and liquids, and 30% natural gas.

The Corporation plans to drill 36 gross development wells (8.0 net) and work over 13 existing producing wells in its oil fields located in Colombia and Ecuador in order to continue strong production growth. The focus for calendar 2014 oil production growth is on high netback oil primarily from the Corporation's Labrador, Leono, Mono Arana, and Libertador-Atacapi fields. Tariff oil production from the Libertador-Atacapi field is anticipated to yield net average production of approximately 1,600 bopd. Net before royalty gas production from the Esperanza field located in Colombia is anticipated to average approximately 3,000 boepd. The Corporation plans to drill 11 gross (7.2 net) exploration wells on its blocks in Colombia and Ecuador targeting a management estimate of 89 million net barrels unrisked oil equivalent (32 million barrels risked oil equivalent) of mean prospective oil and gas resource. Oil exploration drilling activities for 2014 will focus on the Corporation's LLA-23 block, where the Corporation has achieved recent exploration success with the Labrador and Leono oil discoveries, and the Cano Los Totumos block in the Llanos Basin, the VMM2 block, where the company made the Mono Arana oil discovery, the VMM3 and Santa Isabel blocks in the Middle Magdalena Basin, and the Ombu block in the Caguan Putumayo Basin. Conventional gas exploration will focus on the Corporation's Esperanza block in the Lower Magdalena Basin. Non-conventional oil exploration will focus on the VMM-2 and VMM-3 blocks located in the Middle Magdalena Basin, where the Corporation holds interests in 250,000 net acres of prospective shale oil acreage.

Funding for the 2014 capital program is expected to come from existing working capital, operating cash flows and debt facilities.

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

On July 1, 2013, 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. Fiscal Q2 2014 is the second quarter for which the Corporation has reported results under IFRS 11. 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 and six months ended December 31, 2013 as filed on SEDAR.

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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 and six months ended December 31, 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 ("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 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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