Canacol Energy Ltd. Reports Q3 2018 Results

CALGARY, ALBERTA – (November 13, 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 and nine months ended September 30, 2018. Dollar amounts are expressed in United States dollars, except as otherwise noted.

Charle Gamba, President and CEO of the Corporation, commented: "Q3 2018 was another successful quarter for Canacol as we increased the Corporation's realized contractual gas sales by 52% to 115 MMscfpd, up from 76 MMscfpd during the same period in 2017. Additionally, our average gas sales price (net of transportation expenses) remained strong at $4.80/Mcf for Q3 2018, which was higher than our prior guidance, and we also achieved a strong natural gas netback of $3.80/Mcf for Q3 2018. Our strong realized contractual gas sales and natural gas netback during Q3 2018 generated $36.8 million of cash flow from operations (compared to $11.8 million, a 212% increase from Q3 2017), resulting in a $12.1 net income during the quarter (compared to a $1.5 million net loss in Q3 2017).

For the remainder of 2018, Management remains focused on completing the work necessary to raise production to 230 MMscfpd upon completion of the new 100 MMscfpd Promigas pipeline, which includes completing the expansion of the gas processing facility at Jobo, and tying in the various discoveries that we have made over the past 12 months. The Corporation will also spud the first of a planned nine well gas exploration and development drilling program in mid-December, with the Nelson-13 development well. Promigas anticipates that all of the additional 100 MMscfpd of capacity will be available in March 2019, with the first 20 MMscfpd available on December 1, 2018."

Highlights for the three and nine months ended September 30, 2018

(Production is stated as working-interest before royalties)

Financial and operational highlights of the Corporation include:

- Average production volumes increased 33% and 27% to 21,978 boepd and 21,488 boepd for the three and nine months ended September 30, 2018, respectively, compared to 16,587 boepd and 16,913 boepd for the same periods in 2017, respectively. The increase is primarily due to an increase in gas production as a result of the additional sales related to the completion of the Sabanas pipeline, offset by a decrease in oil sale resulting from the sale of the Ecuador Incremental Production Contract (the "Ecuador IPC") (see full discussion in MD&A) on February 15, 2018.
- Realized contractual sales volumes increased 34% and 25% to 22,176 boepd and 21,615 boepd for the three and nine months ended September 30, 2018, respectively, compared to 16,606 boepd and 17,276 boepd for the same periods in 2017, respectively. 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 a decrease in oil sale resulting from the sale of the Ecuador IPC on February 15, 2018.
- Total petroleum and natural gas revenues for the three and nine months ended September 30, 2018 increased 56% and 44% to $59.1 million and $168.1 million, respectively, compared to $38 million and $116.8 million for same periods in 2017, respectively. Adjusted petroleum and natural gas revenues, inclusive of revenues related to the Ecuador IPC until February 15, 2018, for the three and nine months ended September 30, 2018 increased 37% and 28% to $59.1 million and $170 million, respectively, compared to $43.3 million and $133.2 million for same periods in 2017, respectively.
- Cash flow from operations increased 212% and 90% to $36.8 million and $76.5 million for the three and nine months ended September 30, 2018, respectively, compared to $11.8 million and $40.3 million for the same periods in 2017, respectively.

- Adjusted funds from operations increased 40% and 23% to $26.5 million and $78.8 million for the three and nine months ended September 30, 2018, respectively, compared to $18.9 million and $63.9 million for the same periods in 2017, respectively. Adjusted funds from operations are inclusive of results from the Ecuador IPC until February 15, 2018.
- The Corporation recorded a net income of $12.1 million for the three months ended September 30, 2018, compared to a net loss of $1.5 million for the same period in 2017. The Corporation recorded a net loss of $5.6 million for the nine months ended September 30, 2018, compared to a net income of $2.3 million for the same period in 2017. The net loss for the nine months ended September 30, 2018 was mainly attributable to a) a one-time non-cash exploration impairment expense of $9.9 million and b) a one-time loss on settlement of the prior credit facility of $14.4 million ($9.4 million non-cash), both of which were recorded in Q2 2018.
- Net capital expenditures including acquisitions for the three and nine months ended September 30, 2018 were $18.6 million and $89.9 million, respectively, while adjusted capital expenditures including acquisitions, inclusive of amounts related to the Ecuador IPC until February 15, 2018, were $18.6 million and $92.3 million, respectively. Net capital expenditures and adjusted capital expenditures included non-cash costs of $0.5 million and $20.5 million for the three and nine months ended September 30, 2018, respectively.
- During the three months ended September 30, 2018, the Corporation declared a return of capital in the amount of $20 million via the distribution of 22,598,870 of common shares of Arrow Exploration Corp. ("Arrow's Shares"). Arrow's Shares were held in trust as at September 30, 2018. Each common share of Canacol is entitled to a distribution of 0.127 Arrow's Shares. The distribution was completed on November 6, 2018.
- At September 30, 2018, the Corporation had $53.5 million in cash and $5.4 million in restricted cash.

Outlook

For the remainder of 2018, the Corporation remains focused on achieving 230 MMscfpd of productive capacity via the expansion of the gas processing facilities at Jobo and the tying in of the Pandereta-1, 2, 3, Canahuate-1 and Canahuate-3 wells by December 2018. The Corporation completed the de-bottlenecking of the Betania-to-Jobo flowline in October 2018, and is currently completing the Pandereta-to-Jobo flowline. The expansion of the Jobo gas processing facility is progressing as planned, and will add another 130 MMscfpd of capacity to the facility bring total processing capacity to 330 MMscfpd. Promigas anticipates that all of the additional 100 MMscfpd of capacity will be available in March 2019, with the first 20 MMscfpd available on December 1, 2018.

The Corporation has contracted a drilling rig and will spud the first of a planned nine well gas exploration and development drilling program in mid-December 2018, with the Nelson-13 development well.

Financial	Three months ended September 30, 2018	2017	Change	Nine months ended September 30, 2018	2017	Change
Total petroleum and natural gas revenues, net of royalties	**59,133**	37,950	56%	**168,090**	116,816	44%
Adjusted petroleum and natural gas revenues, net of royalties[2]	**59,133**	43,258	37%	**170,046**	133,240	28%
Cash flow provided by operating activities	**36,810**	11,783	212%	**76,504**	40,345	90%
Per share – basic ($) [1]	**0.21**	0.07	200%	**0.43**	0.23	87%
Per share – diluted ($) [1]	**0.21**	0.07	200%	**0.43**	0.23	87%
Adjusted funds from operations [1][2]	**26,482**	18,871	40%	**78,845**	63,947	23%
Per share – basic ($) [1]	**0.15**	0.11	36%	**0.45**	0.37	22%
Per share –diluted ($) [1]	**0.15**	0.11	36%	**0.44**	0.36	22%
Net income (loss) and comprehensive income (loss)	**12,138**	(1,514)	n/a	**(5,563)**	2,314	n/a
Per share – basic ($)	**0.07**	(0.01)	n/a	**(0.03)**	0.01	n/a
Per share – diluted ($)	**0.07**	(0.01)	n/a	**(0.03)**	0.01	n/a
Capital expenditures, net, including acquisitions	**18,585**	24,978	(26%)	**89,890**	79,550	13%
Adjusted capital expenditures, net, including acquisitions [1][2]	**18,585**	25,568	(27%)	**92,267**	81,034	14%
				Sep 30, 2018	Dec 31, 2017	Change
Cash				**53,470**	39,071	37%
Restricted cash				**5,427**	27,919	(81%)
Working capital surplus [1]				**65,678**	110,401	(41%)
Long-term debt				**310,705**	294,590	5%
Total assets				**725,932**	696,443	4%
Common shares, end of period (000's)				**177,623**	176,109	-

Operating	Three months ended September 30, 2018	2017	Change	Nine months ended September 30, 2018	2017	Change
Petroleum and natural gas production, before royalties (boepd)						
Petroleum [3]	**1,816**	3,263	(44%)	**2,088**	3,418	(39%)
Natural gas	**20,162**	13,324	51%	**19,400**	13,495	44%
Total [2]	**21,978**	16,587	33%	**21,488**	16,913	27%
Petroleum and natural gas sales, before royalties (boepd)						
Petroleum [3]	**1,945**	3,268	(40%)	**2,101**	3,428	(39%)
Natural gas	**19,972**	13,239	51%	**19,222**	13,403	43%
Total [2]	**21,917**	16,507	33%	**21,323**	16,831	27%
Realized contractual sales, before royalties (boepd)						
Natural gas	**20,231**	13,338	52%	**19,514**	13,848	41%
Colombia oil	**1,945**	1,895	3%	**1,915**	1,947	(2%)
Ecuador tariff oil [3]	**-**	1,373	(100%)	**186**	1,481	(87%)
Total [3]	**22,176**	16,606	34%	**21,615**	17,276	25%
Operating netbacks ($/boe) [1]						
Natural gas	**21.62**	21.81	(1%)	**21.48**	22.82	(6%)
Colombia oil	**26.27**	20.28	30%	**31.52**	17.65	79%
Ecuador (tariff oil) [2]	**-**	38.54	(100%)	**38.54**	38.54	-
Total [2]	**22.04**	23.02	(4%)	**22.53**	23.60	(5%)

(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 and nine months ended September 30, 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.

For further information please contact:
Investor Relations
+1 (214) 235-4798
Email: IR@canacolenergy.com
http://www.canacolenergy.com