Canacol Energy Ltd. Reports Record Adjusted Funds from Operations in Fiscal Q3 2014 and 42% Increase in Production Quarter over Quarter

CALGARY, ALBERTA – (May 12, 2014) – Canacol Energy Ltd. ("Canacol" or the "Corporation") (TSX:CNE; BVC:CNEC) is pleased to report its financial results for the three and nine months ended March 31, 2014. Fiscal Q3 2014 was a successful quarter for the Corporation as it increased its production, revenues, adjusted funds from operations, and netbacks over the comparative prior year period. Significantly, fiscal Q3 2014 represents a record quarter for Canacol in terms of cash generation with reported adjusted funds from operations of $32.3 million for the quarter.

Charle Gamba, President and CEO of the Corporation stated: "Canacol increased production for the most recent quarter by 8% compared to last quarter and by 42% over the comparative quarter as the Corporation continued to realize success from its recent exploration and production activities. Our average corporate netback has increased steadily over recent quarters and now stands at $43.57/boe for the current quarter, a 23% increase over the comparative quarter and the highest corporate average netback in the history of Canacol. This increased netback reflects our focus on high netback production, which will remain our focus in the future. Increased production and higher netbacks have also improved our cash generation from operations with Canacol posting record adjusted funds from operations this quarter of $32.3 million. With expected net proceeds from our recently announced bought deal equity financing and due to our continued exploration success on our LLA-23 block, where we just tested another 1,038 bopd from the Mirador reservoir in the Pantro-1 light oil discovery, we plan to accelerate capital activities on LLA-23 with three additional exploration well (Tigro-1, Pointer-1, and Maltes-1), up to six additional development wells, and additional facilities in 2014. We further plan to conduct additional drilling activities on our Middle Magdelana blocks which have also seen positive exploration successes, with one exploration well, Morsa-1, and one appraisal well, Oso Pardo-2, going down by the end of July 2014. We also plan to drill three additional conventional shallow wells on our VMM-2 block following up our Mono Arana Lisama discovery. Finally, we're planning to spud the Palmer-1 well, the first of three gas exploration wells, on our Esperanza block prior to the end of June 2014. We're off to a great start in 2014, and with 11 more exploration wells and 28 development wells to come, Canacol's production and cash flow will continue to grow throughout the remainder of calendar 2014 and beyond. With that in mind, we are revising guidance for calendar 2014 up to 12,500-13,500 boepd and plan to exit the year at approximately 17,000 boepd via our drilling programs."

Highlights for Fiscal Q3 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 sales volumes increased 60% to 11,418 barrels of oil equivalent per day ("boepd") for fiscal Q3 2014 compared to 7,141 boepd for the comparable period. Sales volumes in fiscal Q3 2014 were positively affected by the sale of a significant build-up of crude oil inventories from December 31, 2013.
- Average daily production volumes increased 42% to 10,893 boepd for fiscal Q3 2014 compared to 7,659 boepd for the comparable period. This increase in production volumes is primarily due to new production from the Labrador and Leono discoveries on the LLA-23 block and production increases from the Libertador and Atacapi fields in Ecuador.
- Petroleum and natural gas revenues for fiscal Q3 2014 increased 61% to $55.7 million compared to $34.6 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 Q3 2014 increased 68% to $61.6 million compared to $36.7 million for the comparable period.
- Average operating netback for fiscal Q3 2014 increased 23% to $43.57/boe compared to $35.41/boe for the comparable period. Operating netback is inclusive of results from the Ecuador IPC.
- Adjusted funds from operations for fiscal Q3 2014 increased 118% to $32.3 million compared to $14.8 million for the comparable period. Adjusted funds from operations is inclusive of results from the Ecuador IPC.
- The Corporation recorded net income of $19.4 million for fiscal Q3 2014 compared to net loss of $3.4 million for the comparable period.

- Capital expenditures for fiscal Q3 2014 were $35.9 million while adjusted capital expenditures, inclusive of amounts related to the Ecuador IPC, were $44.1 million.
- At March 31, 2014, the Corporation had $35.7 million in cash and cash equivalents and $52.1 million in restricted cash. Subsequent to March 31, 2014, the Corporation upsized its existing senior term loan for an additional $80 million, before transaction costs.

Financial	Three months ended March 31,			Nine months ended March 31,		
	2014	2013	Change	2014	2013	Change
Petroleum and natural gas revenues, net of royalties	55,653	34,602	61%	146,043	102,394	43%
Adjusted petroleum and natural gas revenues, net of royalties, including revenues related to the Ecuador IPC [2]	61,550	36,726	68%	159,159	105,871	50%
Cash provided by (used in) operating activities	13,099	(8,520)	n/a	69,229	4,316	>999%
Per share – basic ($)	0.15	(0.10)	n/a	0.79	0.06	>999%
Per share – diluted ($)	0.14	(0.10)	n/a	0.78	0.06	>999%
Adjusted funds from operations [1] [2]	32,274	14,778	118%	72,151	32,052	125%
Per share – basic ($)	0.36	0.17	112%	0.83	0.45	84%
Per share – diluted ($)	0.35	0.17	106%	0.81	0.45	80%
Net income (loss)	19,438	(3,425)	n/a	12,007	(8,761)	n/a
Per share – basic ($)	0.22	(0.04)	n/a	0.14	(0.12)	n/a
Per share – diluted ($)	0.21	(0.04)	n/a	0.14	(0.12)	n/a
Capital expenditures, net [4]	35,915	3,021	>999%	76,072	37,444	103%
Adjusted capital expenditures, net, including capital expenditures related to the Ecuador IPC [1][2] [4]	44,103	10,434	323%	100,525	52,053	93%
				March 31, 2014	June 30, 2013	Change
Cash and cash equivalents				35,699	52,290	(32%)
Restricted cash				52,125	26,394	97%
Working capital surplus, excluding the current portion of bank debt and non-cash items [1]				33,328	69,148	(52%)
Short-term and long-term bank debt				135,675	134,316	1%
Total assets				548,501	469,592	17%
Common shares, end of period (000s)				90,220	86,506	4%

Operating	Three months ended March 31,			Nine months ended March 31,		
	2014	2013	Change	2014	2013	Change
Petroleum and natural gas production, before royalties (boepd)						
Petroleum	8,260	4,785	73%	7,115	5,285	35%
Natural gas	2,633	2,874	(8%)	2,919	1,051	178%
Total	10,893	7,659	42%	10,034	6,336	58%
Petroleum and natural gas sales, before royalties (boepd)						
Petroleum	8,792	4,267	106%	6,976	5,477	27%
Natural gas	2,626	2,874	(9%)	2,879	1,051	174%
Total	11,418	7,141	60%	9,855	6,528	51%
Realized sales prices ($/boe)						
LLA-23 (oil)	88.61	99.62	(11%)	89.26	97.95	(9%)
Esperanza (natural gas)	23.00	30.20	(24%)	27.60	30.58	(10%)
Rancho Hermoso (tariff and non-tariff oil and liquids)	85.25	88.03	(3%)	89.99	70.22	28%
Ecuador (tariff oil) [2]	38.54	38.54	-	38.54	38.54	-
Total [2]	65.49	61.97	6%	64.35	64.08	-
Operating netbacks ($/boe) [1]						
LLA-23 (oil)	62.26	66.22	(6%)	64.29	65.23	(1%)
Esperanza (natural gas)	19.36	25.61	(24%)	23.19	25.85	(10%)
Rancho Hermoso (tariff and non-tariff oil and liquids)	25.76	37.28	(31%)	20.84	24.48	(15%)
Ecuador (tariff oil) [2]	38.54	38.54	-	38.54	38.54	-
Total [2]	43.57	35.41	23%	40.68	26.73	52%

(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.
(4) Excludes business acquisition.

Outlook

The Corporation is pleased to announce that it has completed the second production test in the Pantro-1 well. The first production test was performed on the Gacheta reservoir which tested at a gross rate of 2,930 barrels of oil per day ("bopd") (2,344 bopd net). The second test was performed on the Mirador reservoir which tested at a final gross rate of 1,038 bopd (830 bopd net) of 36° API oil at 110° F with 2% water cut using an electro submersible pump set to a frequency of 42 Hz during a seven day flow period. This marks the first oil production from the Mirador reservoir from any well on the LLA-23 block and confirms its viability as a viable productive reservoir on the block.

For the remainder of calendar 2014, the Corporation plans to expand its capital program in Colombia and anticipates revised net average production before royalties of between 12,500 and 13,500 boepd for calendar 2014.

In light of its recent exploration successes on its LLA-23 and Middle Magdelena blocks, the Corporation plans to accelerate its exploration and development drilling program on the LLA-23 block. Aside from the programed Tigro and Pointer exploration wells, the Corporation plans to drill a third exploration well, Maltes-1, prior to the end of calendar 2014. In addition to its planned Labrador-4 and Leono-2 appraisal wells, the Corporation plans to also expand the program to drill up to six additional development wells at Leono, Pantro, and Tigro. The Corporation also plans to accelerate its water handling and power generation facilities on the LLA-23 block to more effectively manage operating costs. In other projects, the Corporation plans to accelerate it exploration and development drilling program on the Santa Isabel block (the Morsa-1 exploration well and the Oso Pardo-2 appraisal well), and expand its development drilling program at its Mono Arana shallow discovery on the VMM-2 block (three wells). The Corporation's revised 2014 capital exploration and development program includes plans to drill 13 gross exploration wells (versus the 11 originally planned), 43 gross development wells (versus the 36 originally planned), and work over 13 existing producing wells in its oil fields located in Colombia and Ecuador.

Exploration wells for the remainder of calendar 2014 will include the Tigro-1, Pointer-1, and Maltes-1 wells on the LLA-23 block, the Palmer-1, Corozo-1, and Canadonga-1 exploration wells on the Esperanza block, the Morsa-1 well on the Santa Isabel block, the Pico Plata-1 well on the VMM3 block, the Cejudo-1 well on the VMM2 block, the Chipo-1 well on the Ombu block, and the Secoya Oeste-1 well in Ecuador.

Funding for the expanded 2014 capital program is expected to come from existing working capital, operating cash flows, available debt facilities, and net proceeds from the bought deal equity offering expected to close by the end of May 2014.

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 Q3 2014 is the third 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 nine months ended March 31, 2014 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 nine months ended March 31, 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, CNNEF, and CNE.C, 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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