Canacol Energy Ltd. Reports a 65% Increase in Realized Gas Sales and a 48% Increase in EBITDAX in Q1 2020

CALGARY, ALBERTA - (May 13, 2020) - 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, 2020. 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 2020 marked a milestone for the Corporation as we achieved record natural gas sales of 202 MMscfpd, up 65% from the same first quarter of 2019 and up 12% from the last quarter of 2019. We also closed the first quarter of 2020 with $49 million in cash, and remain well funded to execute the remainder of the 2020 capital program.

In the first quarter of 2020, we announced our December 31, 2019 year end reserves, with a proved plus probable ("2P") reserves replacement ratio of 224%, along with a 12% increase in 2P reserves year over year as a result of our continued exploration and development success. The before tax net present value of our 2P reserves, discounted at 10%, increased 40% to $2.15 billion. A new third party engineering resource report was released containing gross prospective resources of 4.7 trillion cubic feet ("TCF") in over 160 identified exploration prospects and leads as at December 31, 2019, up 79% since the previous report issued as at December 31, 2017.

The Corporation also drilled two successful natural gas wells in the quarter, Nelson-14 and Clarinete-5. The Clarinete-5 development well finished drilling in March 2020 and encountered 309 feet true vertical depth of net gas pay within the primary Cienaga de Oro sandstone reservoir, which represents the thickest gas pay section of any well drilled in the history of Canacol. The well will be completed and tied in late May 2020 when drilling operations resume in the field.

The first quarter of 2020 also saw us announce our second consecutive quarterly dividend, which is approximately 6% annually at current share prices, as Canacol remains committed to maintaining our ongoing quarterly distribution.

The Corporation posted record EBITDAX of $59 million in the first quarter of 2020, resulting from its record natural gas sales. Net income during the first quarter of 2020 was negatively impacted by the depreciation of the Colombian Peso ("COP"). The 24% depreciation of the COP effectively incurred a $41 million non-cash deferred tax expense. Without such non-cash expense, net income would have been a robust $15 million for the quarter. Should the COP normalize in the coming periods, as it has strengthened by approximately 5% since March 31, a portion of this expense would effectively be reversed adding to net income realized in future periods."

Highlights for the three months ended March 31, 2020

(Production is stated as working-interest before royalties)

Financial and operational highlights of the Corporation include:

- Realized contractual natural gas and liquefied natural gas ("LNG") sales increased 65% to 201.5 MMscfpd for the three months ended March 31, 2020, compared to 122 MMscfpd for the same period in 2019. Average natural gas and LNG production volumes increased 63% to 201.4 MMscfpd for the three months ended March 31, 2020, compared to 123.3 MMscfpd for the same period in 2019. The increase is primarily due to the completion of the 100 MMscfpd pipeline expansion in late Q3 2019; in addition, the LNG plant commenced operation during the three months ended March 31, 2020.
- Total natural gas and LNG revenue, net of royalties and transportation expenses for the three months ended March 31, 2020 increased 48% to $69.9 million, compared to $47.4 million for same period in 2019, mainly attributable to the increase of natural gas production.
- Adjusted funds from operations increased 51% to $45.3 million for the three months ended March 31, 2020, compared to $29.9 million for the same period in 2019. Adjusted funds from operations per basic share increased 47% to $0.25 per basic share from $0.17 per basic share.

- EBITDAX increased 48% to $58.9 million for the three months ended March 31, 2020, compared to $39.8 million for the same period in 2019.
- The Corporation realized a net loss of $26 million for the three months ended March 31, 2020, compared to a net income of $6.3 million for the same period in 2019. The net loss is solely due to the non-cash deferred tax expense of $41.1 million, which is primarily due to the effect of the reduction in the Colombian Peso exchange rate on the value of unused tax losses and cost pools as further explained in the "Income Tax" section of the MD&A. The Corporation also realized a foreign exchange loss of $4.3 million during the three months ended March 31, 2020 as a result of the 24% devaluation of COP during the period.
- The Corporation's natural gas and LNG operating netback decreased 11% to $3.60 per Mcf in the three months ended March 31, 2020, compared to $4.03 per Mcf for the same period in 2019. The decrease is due to: i) to lower spot market gas sales prices, net transportation costs and ii) an increase in royalties per unit of $0.08 per Mcf due to increased natural gas volumes being produced at the Corporation's VIM-5 block, which is subject to a higher royalty rate. The decrease is offset by a 27% reduction of operating expenses per Mcf to $0.22 per Mcf for the three months ended March 31, 2020, compared to $0.30 per Mcf for the same period in 2019.
- Net capital expenditures for the three months ended March 31, 2020 were $19.9 million. Net capital expenditures included non-cash adjustments related to decommissioning obligations of $1.3 million and right-of-use leased assets recognized of $1.3 million.
- As at March 31, 2020, the Corporation had $49.2 million in cash and cash equivalents, $3.7 million in restricted cash and $54.5 million in working capital surplus.

Outlook

Most energy companies worldwide have been heavily impacted by both the drastic drop in world oil price and demand related to the measures taken to limit the COVID-19 pandemic. Canacol has largely been insulated from the effects of low oil prices given our focus on gas production, with the blend of our gas sales being weighted towards 80% fixed volume and price take-or-pay contracts priced in USD at the wellhead.

Canacol's take-or-pay natural gas contracts have seen no instances of force majeure, with payments for deliveries being up to date with no events of default. For the months of April, May and June 2020, Canacol has allowed take-or-pay off-takers to defer a maximum of 20% of their contracted volumes to be delivered in the last six months of 2020, with cash collections either occurring in April, May or June or at the time of delivery. Additionally, all parties have agreed that the annual contractual downtime of these contracts shall be taken during the months of April and May, if not already taken earlier in the year. These concessions impacted the month of April 2020 in the following manner: April 2020 nominated volumes totaled 147 MMscfpd, less than 10% of which are allowed to be taken in the latter half of 2020 (up to 20% deferral), and take-or-pay income received, of which the off-taker has lost the right to take its gas, totaled 3 MMscfpd. These amounts totaled 150 MMscfpd of cash and nominated natural gas sales. An additional average of 13 MMscfpd for the month of April was deemed contractual downtime by seven off-takers, which will have the effect of increasing sales in the latter half of 2020.

As a result of the country wide shutdown imposed in Colombia on March 26, 2020, which remained largely in effect until April 27, 2020, we saw industrial, construction, and commercial demand for gas decrease significantly as workers in these industries remained at home. As a result, there were virtually no interruptible gas sales for the month of April 2020. With the return of manufacturing and construction activities in most of Colombia on April 27, 2020, and the country wide shutdown scheduled to be lifted completely for all sectors on May 26, 2020, the Corporation expects interruptible demand to continue to increase and stabilize through the summer months of July and August 2020. Should this interruptible demand not return to the Colombian gas market, the period of July forward (once the offtaker deferral period expires, as described above) are anticipated to have contracts of approximately 162 MMscfpd, with 2020 annual sales thus being approximately 170 MMscfpd.

The Corporation's best estimate is that demand will begin to increase once the quarantine measures are lifted, and under that scenario our full year 2020 guidance remains relatively intact. Full year 2020 production guidance would be 197 MMscfpd, with the assumption that that interruptible sales return by August 2020. It is management's belief that average sales volumes for 2020 will be closer to this level than a low case sales of 170 MMscfpd implied by only selling into the take or pay contracts for the remainder of 2020.

Canacol remains very well capitalized, with a Net Debt to EBITDAX (12 month trailing) ratio of 1.8x, and is still anticipated to exit 2020 with a significant increase to its existing cash balance which was $49 million at March 31, 2020. The Corporation expects to exit 2020 with a Net Debt to EBITDAX ratio of approximately 1.3x.

Canacol's production operations at the Jobo facility were uninterrupted during the quarantine. Our Jobo gas processing facility continues to operate with several shifts of workers quarantined at the facility. As a result of the quarantine, the Corporation has experienced approximately a two month delay in the rig move from the last drilled well of Clarinete-5 to its next scheduled location of Pandereta-8. This delay, and a small delay of the commencement of the Corporation's planned second rig, now anticipated to be operational in July 2020, has led to Canacol now expecting to drill nine wells in 2020, down from its original twelve well guidance. Capital expenditures have been revised to $108 million, down from $114 million, as the Corporation has shifted its near term focus to facilities and flow line construction in preparation of increased gas production.

The Corporation expects Colombian demand for its natural gas to increase in the near term related to the current 20-year low level of the hydroelectric reservoirs due to an unusually dry winter in Colombia, and in the medium to long term related to the continued decline of Colombia's main gas producing fields. Colombia's hydroelectric reservoirs are currently at a 20-year low due to the unusually dry winter. In May of 2016, during the last El Niño Phenomenon, the level of the reservoirs was 41%. Currently, the aggregate level of electric power generation reservoirs is 32%. The months of June and July are forecasted to have rainfall well below the historical averages, and there is further uncertainty with respect to the levels of rainfall in the following months. This will result in the need for a higher than normal usage of gas to power the thermoelectric plants to ensure that adequate electricity is supplied to the country, most particularly to the Caribbean coast.

Meanwhile, Colombia's total gas production continues to decline. In April of 2020, the Ministry of Mines and Energy reported that proven gas reserves in Colombia decreased by approximately 18%, from 3.8 Tcf at the end of 2018, to 3.1 Tcf at the end of 2019. This decrease in reserves was partially related to production of approximately 0.4 Tcf during 2019. Conversely, Canacol's gas reserves and production increased significantly.

Given these natural gas market fundamentals of declining gas supply, excluding Canacol, and stressed and uncertain hydroelectric production, Canacol remains very well positioned to capture any increasing demand once the Colombian economy begins to normalize post the lifting of quarantine.

COVID-19 Response

In accordance with the World Health Organization, along with the federal, provincial, and municipal government agencies in the jurisdictions in which we operate in Colombia and Canada, the Corporation has implemented strict protocols to support the safety and health of our employees, contractors and the communities in which we operate. Actions which have been taken to prevent the spread of the virus include the introduction of flexible work hours and arrangements for office employees, modified shift strategies to support physical distancing in the field, medical monitoring of all staff, and increased cleaning and sanitization in all locations.

Non-essential office employees in both Bogota and Calgary have been working remotely from home since late March. On May 11, 2020, executive management and key personnel returned to the office to work, with the remainder of employees working from home for the foreseeable future. In the Corporation's Jobo production station, two crew rotations have been lodged permanently on location for a period of 28 days, with access to and from the facilities being strictly forbidden. Production operations have not been impacted as a result. The Corporation's drilling rig was idled on March 26, 2020 upon the completion of the Clarinete-5 drilling operation in response to Colombian federal quarantine measures, and is anticipated that it will be mobilized to the Pandereta-8 development drilling location commencing on May 27, 2020.

During April and May of 2020, approximately US$ 65,000 was donated by the Colombian and Canadian employees of Canacol to support at-risk communities in the five neighboring municipalities of our field operations as well as in Bogota. The Entretejiendo, Project Union, and CES Waldorf foundations converted the donations into an ongoing distribution of market baskets comprised of food staples, hygiene products, and basic medical supplies for more than 10,500 families, senior citizens, and orphans. More details can be found on the Canacol and Entretejiendo websites.

Financial		**Three months ended March 31,**	
	2020	2019	Change
Total natural gas, LNG and crude oil revenues, net of royalties and transportation expense	**$ 70,994**	$ 49,404	44%
Adjusted Funds from operations[1]	**$ 45,281**	$ 29,907	51%
Per share – basic ($)[1]	**0.25**	0.17	47%
Per share – diluted ($)[1]	**0.25**	0.17	47%
Net income (loss) and comprehensive income (loss)[2]	**$ (25,988)**	$ 6,274	n/a
Per share – basic ($)	**(0.14)**	0.03	n/a
Per share – diluted ($)	**(0.14)**	0.03	n/a
Cash flow provided by operating activities	**$ 38,018**	$ 25,255	51%
Per share – basic ($)	**0.21**	0.14	50%
Per share – diluted ($)	**0.21**	0.14	50%
EBITDAX[1]	**$ 58,870**	$ 39,822	48%
Weighted average shares outstanding – basic	**180,931**	177,547	2%
Weighted average shares outstanding – diluted	**181,811**	179,637	1%
Capital expenditures, net dispositions	**$ 19,892**	$ 34,725	(43%)
	Mar 31, 2020	Dec 31, 2019	Change
Cash and cash equivalents	**$ 49,156**	$ 41,239	19%
Restricted cash	**$ 3,697**	$ 4,524	(18%)
Working capital surplus	**$ 54,501**	$ 50,676	8%
Total debt	**$ 388,483**	$ 392,946	(1%)
Total assets	**$ 745,799**	$ 754,062	(1%)
Common shares, end of period (000's)	**180,855**	180,075	—

Operating		**Three months ended March 31,**	
	2020	2019	Change
Natural gas, LNG and crude oil production, before royalties[1]			
Natural gas and LNG (Mcfpd)	**201,398**	123,291	63%
Colombia oil (bopd)	**315**	433	(27%)
Total (boepd)	**35,648**	22,063	62%
Realized contractual sales, before royalties[1]			
Natural gas and LNG (Mcfpd)	**201,524**	122,025	65%
Colombia oil (bopd)	**298**	440	(32%)
Total (boepd)	**35,653**	21,848	63%
Operating netbacks[1]			
Natural gas and LNG ($/Mcf)	**3.60**	4.03	(11%)
Colombia oil ($/bopd)	**20.13**	23.64	(15%)
Corporate ($/boe)	**20.49**	23.00	(11%)

(1) Non-IFRS measures – see "Non-IFRS Measures" section within the MD&A.
(2) The net loss realized during the three months ended March 31, 2020 is solely due to the non-cash deferred tax expense of $41.1 million, which is primarily due to the effect of the reduction in the Colombian Peso ("COP") exchange rate on the value of unused tax losses and cost pools. In the event that the COP strengthens in the future, the Corporation would realize a deferred income tax recovery for the period.

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This press release should be read in conjunction with the Corporation's interim condensed consolidated financial statements and related Management's Discussion and Analysis. The Corporation's has filed its interim condensed consolidated financial statements and related Management's Discussion and Analysis as at and for the three months ended March 31, 2020 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 and the Bolsa de Valores de Colombia under the symbol CNEC.

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 -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. The Corporation considers 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. 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 the current portion of long-term obligations, 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 and other similar non-recurring or non-cash charges. Operating netback is a benchmark common in the oil and gas industry and is calculated as total natural gas, LNG and petroleum sales, net transportation expenses, less royalties and operating 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, net transportation expenses less royalties and operating expenses.

Realized contractual sales is defined as natural gas and LNG produced and sold plus income received from nominated take-or-pay contracts without the actual delivery of natural gas or LNG and the expiry of the customers' rights to take the deliveries.

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 Mcf:1, utilizing a conversion on a 5.7 Mcf:1 basis may be misleading as an indication of value.

The reserves evaluation, effective December 31, 2019, was conducted by the Corporation's independent reserves evaluator Boury Global Energy Consultants Ltd. ("BGEC") and are in accordance with National Instrument 51-101 - Standards of Disclosure for Oil and Gas Activities. The reserves are provided on a Canacol Gross basis in units of Bcf and barrels of oil equivalent using a forecast price deck in US dollars. The estimated values may or may not represent the fair market value of the reserve estimates.

The resources evaluation, effective December 31, 2019, was conducted by the Corporation's independent reserves evaluator Gaffney, Cline & Associates ("GCA"), and are in accordance with National Instrument 51-101 - Standards of Disclosure for Oil and Gas Activities. The Corporation press released the results of the resources evaluation on April 8, 2020.

"Proved reserves" are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves;

"Probable reserves" are those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves;

2P Reserves replacement ratio: Ratio of reserve additions to production, as reported in the MD&A during the year ended December 31, 2019, excluding acquisitions and dispositions on a Total Proved + Probable basis.

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