Canacol Energy Ltd. Reports Q2 2017 Results

CALGARY, ALBERTA – (August 10, 2017) – 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 six months ended June 30, 2017. Dollar amounts are expressed in United States dollars, except as otherwise noted.

Charle Gamba, President and CEO of the Corporation, commented: "During the second quarter of 2017, we made solid progress on all aspects related to our gas business in Colombia. This included 1) making two new gas discoveries at Canahuate-1 and Toronja-1 which tested 28 MMscfpd and 46 MMscfpd of gas respectively, 2) having our auditors Gaffney, Cline & Associates prepare an independent prospective resource audit for 47 individual prospects and leads which aggregates to an unrisked mean of 2 trillion standard cubic feet or a risked mean of 482 billion standard cubic feet of conventional natural gas prospective resource on our gas exploration blocks, and 3) continued to consolidate our exploration position with the acquisition of a 50% operated working interest in the SSJN 7 E&P contract, all in the Lower Magdalena Valley Basin. The management team is particularly excited about the implications of the Toronja-1 gas discovery, which open up an entirely new prospective gas exploration fairway across our 1.1 million net acres on our five gas blocks in the Lower Magdalena Valley Basin. As we announced on Wednesday August 9, 2017, we also confirmed the financing of the Sabanas gas flowline project which will add 40 MMscfpd of new production capacity in December 2017. We are also pleased to report a net income of $11.8 million for the three months ended June 30, 2017, a 5% increase from $11.2 million in 2016, which contributed to a strong adjusted funds from operations of $45.2 million for the six months ended June 30, 2017, a 12% increase compared to the same period in 2016.

For the remainder of 2017, the management team is focused on 1) completing the Sabanas gas flowline project on time to lift gas production to 130 MMscfpd in December of 2017, and 2) adding more gas reserves via our exploration drilling program which will include the Pandereta-1 and Gaitero-1 exploration wells, thus allowing the Corporation to move closer to its target of lifting gas production to 230 MMscfpd in December 2018. Canacol also reiterates production guidance of 18,000 to 19,000 boepd for 2017."

Highlights for the three and six months ended June 30, 2017

(Production is stated as working-interest before royalties)

Financial and operational highlights of the Corporation include:

- Realized contractual sales volumes increased 1% and 25% to 17,195 boepd and 17,616 boepd for the three and six months ended June 30, 2017, respectively, compared to 17,017 boepd and 14,120 boepd for the same periods in 2016, respectively. The increase for the six month ended June 30, 2017 is primarily due to increase in gas production in Esperanza and VIM-5 as a result of the additional sales related to the Promigas pipeline expansion.
- Average production volumes increased 4% and 25% to 17,162 boepd and 17,077 boepd for the three and six months ended June 30, 2017, respectively, compared to 16,423 boepd and 13,680 boepd for the same periods in 2016, respectively. The increase for the six month ended June 30, 2017 is primarily due to increase in gas production in Esperanza and VIM-5 as a result of the additional sales related to the Promigas pipeline expansion.
- Adjusted funds from operations for the six months ended June 30, 2017 increased 12% to $45.2 million compared to $40.3 million for the same period in 2016. Adjusted funds from operations for the three months ended June 30, 2017 decreased 10% to $24.2 million compared to $26.9 million for the same period in 2016. Adjusted funds from operations are inclusive of results from the Ecuador Incremental Production Contract (the "Ecuador IPC") (see full discussion in MD&A).
- Total petroleum and natural gas revenues for the six months ended June 30, 2017 increased 28% to $78.9 million compared to $61.6 million for same period in 2016. Total petroleum and natural gas revenues for the three months ended June 30, 2017 decreased 4% to $37.3 million compared to $38.9 million for same period in 2016. Adjusted petroleum and natural gas revenues, inclusive of revenues related to the Ecuador IPC, for the six months ended June 30, 2017 increased 21% to $90 million compared to $74.4 million for the same period in 2016. Adjusted petroleum and natural gas revenues for the three months ended June 30, 2017 decreased 5% to $43 million compared to $45.4 million for the same period in 2016.
- Net income increased 5% to $11.8 million for the three months ended June 30, 2017 compared to $11.2 million for the same period in 2016. Net income decreased 67% to $3.8 million for the six months ended June 30, 2017 compared to $11.7 million for the same period in 2016.
- On March 24, 2017, the Canahuate-1 exploration well was spud. The Canahuate-1 well is located three kilometers ("kms") north of the Corporation's Jobo gas processing facility and is targeting gas-bearing sandstones within the Cienaga de Oro reservoir ("CDO"). The well encountered 124 ft. md (86 feet true vertical depth) of net gas pay with average porosity of 18% within the primary CDO reservoir target. Two different zones were completed and flow tested at a combined rate of 28 MMscfpd of dry gas. Work is underway to tie the Canahuate-1 well into the Corporation's gas processing facility at Jobo.
- During the three months ended June 30, 2017, the Toronja-1 exploration well was spud at the Corporation's VIM-21 block. The well reached a total depth of 7,200 feet measured depth ("ft. md.") in six days. The well encountered gas between 4,875 to 6,256 ft. md. with average porosity of 20% within the primary Porquero sandstone resevoir target. Two different zones were completed and flow tested within the Porquero resevoir. The first zone test was perforated between 4,865 to 4,884 ft. md. and flowed at a stabilized rate of 24.4 MMscfpd of dry gas. The second zone tested was perforated between 6,249 to 6,257 ft. md. and flowed at a final stabilized rate of 21.9 MMscfpd of dry gas. Work is currently underway to tie the Toronja-1 exploration well into the Corporation's gas processing facility at Jobo.
- Net capital expenditures including acquisitions for the three and six months ended June 30, 2017 was $30.6 million and $54.6 million, respectively, while adjusted capital expenditures including acquisitions, inclusive of amounts related to the Ecuador IPC, was $30.6 million and $55.5 million, respectively.
- At June 30, 2017, the Corporation had $25.6 million in cash and $62.9 million in restricted cash and continues to be well within all of its banking covenants.

Outlook

For the remainder of 2017, the Corporation will focus on: 1) the drilling of the Pandereta and Gaitero gas exploration wells on its VIM-5 E&P contract located in the Lower Magdalena Basin, and 2) the construction of the gas flowline connecting the Corporation's gas processing facility at Jobo to the Promigas connection point at Bremen, which will add 40 MMscfpd of additional transportation capacity and lift Corporation gas production to 130 MMscfpd on December 1, 2017.

The Corporation plans to spud the Pandereta-1 exploration well during the first week of October 2017. The well is targeting prospective gas resources within the proven CDO sandstone reservoir, and is anticipated to take five weeks to drill and test. Upon completion of the Pandereta-1 well, the rig will be mobilized to drill the Gaitero-1 exploration well, location approximately three kms to the north. The well is targeting prospective gas resources within the CDO sandstone reservoir and is anticipated to take approximately five weeks to drill and test.

On August 9, 2017, the Corporation signed an agreement for the construction, operation and ownership of the 82 kms long Sabanas gas flowline from its Jobo gas plant to the connection point with the Promigas S.A. gas pipeline at Bremen. Pursuant to the agreement, the $41 million Sabanas gas flowline project will be financed through a $30.5 million investment by a group of private investors and a $10.5 million contribution from Canacol (the investors and Canacol, collectively the "Owners"), with each holding its interest in the Sabanas gas flowline in separate companies. Canacol's financial contribution to the project will be almost entirely satisfied by costs incurred to date, and as such will not involve the issuance of new equity or affect its current cash position. The tariff for the Sabanas gas flowline is similar to other regulated tariffs in the region and, as customary, the tariff will be borne by the offtakers of the gas. Under the terms of the agreement, Canacol is not required to either sign a ship or pay commitment to the benefit of the Owners, or place a corporate guarantee in favour of the Owners. The Owners engaged Horizon Capital Management Inc. ("Horizon") as advisor for this transaction, and will pay a fee of 3.5% on the $30.5 million of private funds raised. Two members of Canacol's board of directors have participated in the private investor financing for an aggregate amount of $10.5 million. Under the terms of the agreement with Horizon, Canacol has the option, valid until the commissioning of the pipeline, to divest up to an additional $3 million of its share of the project, thus lowering its investment to approximately $7.5 million plus the leasing of the compression as previously announced.

Construction of the Sabanas gas flowline connecting Jobo to the Promigas connection point at Bremen is proceeding on schedule, with first gas transportation anticipated on December 1, 2017. Approximately 55% of the tubulars have arrived on location, with the remainder expected on location in September. The compression stations are anticipated to arrive in the third week of August from the Port of Houston. All forestry, archeological, and environmental permits have been obtained and 100% of the right of way has been negotiated and purchased. Civil works at the two compression station locations commenced the first week of August 2017, and digging and laying of the tubulars is anticipated to commence the last week of August 2017. Flowline laying will occur simultaneously at both Jobo and Bremen at either end of the 82 kms route, with flowline laying anticipated to be completed the first week of November 2017. Commissioning of the compression stations and pressure testing of the flowline is anticipated to be completed by the third week of November 2017.

The productive capacity of the Corporation's current gas wells is approximately 195 MMscfpd, and that of the Corporation's gas processing facilities located at Jobo approximately 200 MMscfpd, more than adequate to lift production to 130 MMscfpd in December 2017 when construction of the Sabanas gas flowline is complete. As previously announced, Canacol executed a ten year take-or-pay contract for 40 MMscfpd of gas at contractual terms comparable to the Corporation's current US dollar denominated gas sale contracts, which is expected to be transported by the Sabanas gas flowline commencing in December 2017.

Financial	Three months ended June 30, 2017	2016	Change	Six months ended June 30, 2017	2016	Change
Total petroleum and natural gas revenues, net of royalties	**37,283**	38,926	(4%)	**78,866**	61,626	28%
Adjusted petroleum and natural gas revenues, net of royalties[2]	**43,007**	45,390	(5%)	**89,982**	74,390	21%
Cash flow provided by operating activities	**11,130**	13,764	(19%)	**28,669**	21,013	36%
Per share – basic ($)	**0.06**	0.09	(33%)	**0.16**	0.13	23%
Per share – diluted ($)	**0.06**	0.08	(25%)	**0.16**	0.13	23%
Adjusted funds from operations [1] [2]	**24,236**	26,870	(10%)	**45,183**	40,321	12%
Per share – basic ($)	**0.14**	0.17	(18%)	**0.26**	0.25	4%
Per share –diluted ($)	**0.14**	0.16	(13%)	**0.26**	0.25	4%
Net income and comprehensive income	**11,770**	11,245	5%	**3,828**	11,706	(67%)
Per share – basic ($)	**0.07**	0.07	-	**0.02**	0.07	(71%)
Per share – diluted ($)	**0.07**	0.07	-	**0.02**	0.07	(71%)
Capital expenditures, net, including acquisitions	**30,572**	5,046	506%	**54,572**	20,594	165%
Adjusted capital expenditures, net, including acquisitions [1][2]	**30,648**	5,376	470%	**55,466**	21,325	160%
				Jun 30, 2017	Dec 31, 2016	Change
Cash				**25,582**	66,283	(61%)
Restricted cash				**62,891**	62,073	1%
Working capital surplus [1]				**54,719**	64,899	(16%)
Bank debt				**273,940**	250,638	9%
Total assets				**795,067**	787,508	1%
Common shares, end of period (000's)				**174,932**	174,359	-

Operating	Three months ended June 30, 2017	2016	Change	Six months ended June 30, 2017	2016	Change
Petroleum and natural gas production, before royalties (boepd)						
Petroleum [3]	**3,487**	4,018	(13%)	**3,496**	4,273	(18%)
Natural gas	**13,675**	12,405	10%	**13,581**	9,407	44%
Total [2]	**17,162**	16,423	4%	**17,077**	13,680	25%
Petroleum and natural gas sales, before royalties (boepd)						
Petroleum [3]	**3,500**	4,045	(13%)	**3,508**	4,312	(19%)
Natural gas	**13,563**	12,331	10%	**13,487**	9,331	45%
Total [2]	**17,063**	16,376	4%	**16,995**	13,643	25%
Realized contractual sales, before royalties (boepd)						
Natural gas	**13,695**	12,972	6%	**14,108**	9,808	44%
Colombia oil	**1,933**	2,294	(16%)	**1,973**	2,575	(23%)
Ecuador tariff oil [2]	**1,567**	1,751	(11%)	**1,535**	1,737	(12%)
Total [2]	**17,195**	17,017	1%	**17,616**	14,120	25%
Operating netbacks ($/boe) [1]						
Esperanza (natural gas)	**24.35**	27.24	(11%)	**25.06**	27.37	(8%)
VIM-5 (natural gas)	**19.24**	24.57	(22%)	**19.44**	24.35	(20%)
LLA-23 (oil)	**19.31**	12.45	55%	**20.32**	10.39	96%
Ecuador (tariff oil) [2]	**38.54**	38.54	-	**38.54**	38.54	-
Total [2]	**23.25**	25.58	(9%)	**23.91**	24.90	(4%)

(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 six months ended June 30, 2017 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 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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