Canacol Energy Ltd. Tests 15.5 MMSCFPD at Palmer 1 Gas Discovery, Lower Magdalena Valley, Colombia

27.08.2014 | Marketwired

CALGARY, ALBERTA--(Marketwired - Aug 27, 2014) - Canacol Energy Ltd. ("Canacol" or the "Corporation") (TSX:CNE)(OTCQX:CNNEF)(BVC:CNEC) is pleased to announce that the first well of its three well gas exploration program, Palmer 1, has tested 15.5 million standard cubic feet per day ("mmscfpd") (2,730 barrels of oil equivalent "boepd") of dry gas. Canacol holds a 100% operated interest in the Esperanza Exploration and Production contract via its 100% owned operating subsidiary Geoproduction Oil and Gas Company which it acquired in 2012. The Corporation's reserve auditor has been engaged to prepare a formal reserves report for the discovery.

As previously disclosed, the Corporation has executed two new gas sales contracts for a combined 35 mmscfpd which will take Canacol's current daily gas production of approximately 18 mmscfpd (3,170 boepd) to 53 mmscfpd (9,334 boepd) in late 2015. The new contracts each have a 5 year term, with pricing of US$ 5.40 / million British thermal units escalated at 2% per year. Canacol currently sells approximately 18 mmscfpd (3,170 barrels of oil equivalent per day) of gas from the Nelson Field to a local ferronickel producer under a 10 year contract that expires in 2021.

The Palmer 1 exploration well encountered 87 feet ("ft") of gas pay within the primary target of the Cienaga de Oro sandstone reservoir. The Cienaga de Oro sandstone reservoir was perforated from 6,811 to 6,906 ft measured depth and flowed naturally at a rate of 15.5 mmscfpd (2,730 boepd) of dry gas with no water on a 36/64 inch choke during the course of a 36 hour isochronal flow test. The Corporation plans to continue the isochronal flow test over the next week to determine the ultimate deliverability of the reservoir zone, and then will tie the well into the Corporation's operated gas processing and transportation facility at Jobo located approximately 5 kilometers east of the Palmer 1 well. The Corporation has identified up to 2 follow up locations to appraise and develop the Palmer discovery in early calendar 2015 once it has concluded its exploration drilling program at Esperanza, subject to the approval of the Agencia Nacional de Hidrocarburos ("ANH").

Upon the completion of testing operations at Palmer 1, the Corporation plans to spud the second of three planned exploration wells on the Esperanza contract targeting the Cienaga de Oro reservoir, Corozo 1, in early October 2014 subject to approval by the ANH. The Corporation plans to commence drilling of the third exploration well, Canandonga 1, in December 2014, subject to approval by the ANH. The positive drilling result at Palmer 1 has validated the Corporation's gas exploration model using advanced 3D seismic interpretation algorithms, meaning that the probability of encountering gas at both the Corozo and Canandonga prospects has increased significantly.

The Corporation will provide updates when relevant information becomes available.

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 symbol 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. 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.

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.

Data obtained from the initial testing results at the well identified in this press release, including barrels of oil produced and levels of water-cut, should be considered to be preliminary until a further and detailed analysis or interpretation has been done on such data. The well test results obtained and disclosed in this press release are not necessarily indicative of long-term performance or of ultimate recovery. The reader is cautioned not to unduly rely on such results as such results may not be indicative of future performance of the well or of expected production results for the Corporation in the future.

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Die URL für diesen Artikel lautet:
https://www.rohstoff-welt.de/news/180896--Canacol-Energy-Ltd.-Tests-15.5-MMSCFPD-at-Palmer-1-Gas-Discovery-Lower-Magdalena-Valley-Colombia.html

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