

Frontera Announces Third Quarter 2017 Results

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Continued Focus on Value over Volumes

Cash Generated by Operating Activities: \$110 million, Cash Used in Investing Activities: \$41 million

TORONTO, Nov. 13, 2017 /CNW/ - [Frontera Energy Corp.](#) (TSX: FEC) ("Frontera" or the "Company") announced today its condensed consolidated financial statements for the third quarter of 2017, together with its management discussion and analysis documents will be posted on the Company's website at www.fronteraenergy.ca and SEDAR at www.sedar.com. The financial information contained herein is reported in United States dollars and is in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, unless otherwise noted.

THIRD QUARTER 2017 HIGHLIGHTS AND OPERATIONAL UPDATE

Operational:

- Q3 production, after royalties and internal consumption, of 71,068 boe/d was essentially flat with Q2 production of 70,000 boe/d. The decrease quarter over quarter was due to the impact of maintenance downtime related to the La Creciente natural gas field and the impact of reduced spending on our Colombian assets thus far in 2017.
- Production growth continued in Peru, where light and medium oil production grew 39% in Q3 compared to Q2, however, production was subject to an indigenous blockade on September 18, 2017. Although the blockade has been lifted, production has not yet resumed. The Company is currently evaluating the status of the assets within the block and is working with the local indigenous government to ensure a safe and efficient re-start of production.
- Completed drilling of the Alligator 1x exploration well on the Guatiquia Block in the Llanos basin, the first exploration well in over two years. The well encountered three potential productive zones that will each be evaluated for testing in the fourth quarter of 2017.
- Initial results since implementing new best practices have yielded encouraging results with initial oil production rates of ~150 bbl/d (compared to historic results of ~150 bbl/d) and average water cuts of ~56% (compared to historic results of ~96%) in September and October.
- The Company will be implementing a pressure maintenance project on the Copa field during the fourth quarter of 2017. The fields to be placed under water flood in the next 12 months. These projects in addition to the start of wells with dual completion and multilateral drilling opportunities are all projects that have been implemented following the detailed reservoir review completed this year.
- The Company drilled 24 development wells and four workover wells in Colombia during Q3 with a further 35-45 development wells in Q4. The Company currently has 10 drilling rigs running throughout its portfolio of assets in Colombia.
- Recent agreements to acquire Pacific Midstream Limited ("PML"), and sale of Petroeléctrica de los Llanos ("PEL") are part of a series of transactions targeted to improve transportation costs by ~\$100 million per year and reduce existing pipeline costs.

Financial:

- Sales increased 3% to \$307.1 million in Q3 compared with \$299.5 million in Q2 due primarily to higher realized oil prices. Selling expenses were up 174% in Q3 compared to a loss of \$51.5 million in Q2 due primarily to one off asset impairment charges.
- Operating EBITDA for Q3 was \$105.9 million representing an increase of 22% from the \$86.9 million reported in Q2.
- The Company increased the midpoint of Operating EBITDA guidance by 13% to \$300 to \$350 million, while maintaining production and capital spending guidance of 70,000 to 75,000 boe/d and \$250 to \$300 million respectively.
- Adjusted Funds Flow from Operations ("Adjusted FFO") was \$47.9 million in Q3, up 4% from \$46.2 million in Q2 due to higher oil prices and continued focus on cost control.
- Total capital expenditures increased to \$48.6 million in Q3, compared to \$37.8 million in Q2.
- Strong balance sheet with \$599.9 million of total cash, cash equivalents and restricted cash. Cash and cash equivalents increased to \$250.0 million of total long-term debt.
- Operating Netback was \$23.54/boe in Q3, an increase of 16% quarter-over-quarter compared to \$20.31/boe in Q2 due to higher realized pricing and lower total operating costs.

- Total operating costs (including production, royalties paid in cash, transportation, and diluent costs) averaged \$24/boe, a 6% improvement quarter over quarter compared to \$25.97/boe in Q2. The largest driver of lower total operating costs was transportation costs, which improved 17% quarter over quarter to \$11.77/boe in Q3 from \$14.19/boe in Q2. The largest cost recovery was a result of two payments, the first from the reversal of the Bicentenario pipeline while the Caño Limón pipeline was second due to cost recoveries from Puerto Bahia. Lower operational transportation costs were also a result of high availability of the Caño Limón and Bicentenario pipeline systems in Q3, with 75 days off line compared to 48 days in Q2. Lower cost transportation cost options were realized while take or pay contracts were realized on separate line item outside of direct operating costs.
- G&A costs were essentially in line quarter over quarter at \$4.06/boe in Q3 versus \$3.96/boe in Q2.
- On November 2, 2017, Fitch upgraded the Company's Long Term Foreign and Local Currency Issuer Default Rating from BB-/RR3 to BB-/RR3, with a stable rating outlook.
- Strong hedging position with over 50% of production hedged with an average floor price over \$51 per barrel Brent.

Barry Larson, Chief Executive Officer of the Company, commented:

"Earlier this year Frontera undertook a comprehensive reservoir optimization and technical review of its producing assets. These studies have begun to exhibit successful results. Additional value creating operational practices including pressure management, dual completions and multi-lateral field development will be implemented over the next twelve months.

Planning and preparation for the Company's major exploration well on the Llanos 25 block continues, as the Company secures the rig that will be used to spud its Acorazado-1 prospect in the first quarter of 2018. The expected cost for the well is between \$35 million and \$50 million.

Looking forward, additional potential positive catalysts to unlock shareholder value include contract renegotiations, contract dispositions, exploration drilling success, and continued cost control. We are excited to continue to implement strategic material exploration drilling designed to drive long term growth and unlock latent value."

Production:

Net Production Summary

	2017			2016	
	Q3	Q2	Q1	Q4	Q3
Oil and Liquids (bbl/d)					
Colombia	58,836	61,535	62,180	60,150	64,946
Peru	6,805	4,913	3,855	2,079	2,182
Total Oil and Liquids (bbl/d)	65,641	66,448	66,035	62,229	67,128
Natural Gas (boe/d) ⁽¹⁾					
Colombia	5,427	5,922	6,489	7,203	7,968
Total Natural Gas (boe/d)	5,427	5,922	6,489	7,203	7,968
Total Equivalent Production (boe/d)	71,068	72,370	72,524	69,432	75,096

⁽¹⁾ Colombian standard natural gas conversion ratio of 5.7 Mcf/bbl.

Additional production details are available in the MD&A.

Financial Results:

	2017		2016
	Q3	Q2	Q3
Total Sales (\$ millions)	307.1	299.5	308.7
Operating EBITDA (\$ millions) ⁽¹⁾	105.9	86.9	89.8
Operating EBITDA Margin (Operating EBITDA/Revenues) ⁽¹⁾	34%	29%	29%
Adjusted EBITDA (\$ millions) ⁽¹⁾	44.2	87.4	37.7
Adjusted EBITDA margin (Adjusted EBITDA/revenues) ⁽¹⁾	14%	29%	12%
Adjusted FFO (\$ millions) ⁽¹⁾	47.9	46.2	43.0
Net Loss (\$ millions) ⁽²⁾	(141.1)	(51.5)	(557.1)
Per share – basic (\$) ⁽³⁾	(2.82)	(1.03)	(176,835.08)
Total Production (boe/d)	71,068	72,370	75,096
Sales Volumes (boe/d)	63,162	64,908	81,877
Average Shares Outstanding – basic (thousands)	50,005.8	50,005.8	3.2

⁽¹⁾ These metrics are Non-IFRS financial measures. See Advisories - "Non-IFRS Financial Measures" - below and "Non-IFRS Measures" on page 17 of the MD&A.

⁽²⁾ Net loss attributable to equity holders of the parent.

⁽³⁾ The basic and diluted weighted average numbers of common shares for the three months ended September 30, 2017 and 2016 were 50,005,832 and 3,150, respectively.

Strategic Initiatives:

- On October 13, 2017, the Company signed an agreement to acquire the outstanding 36.4% ownership of PML from Corporation and from funds related to the International Finance Corporation (jointly, the "IFC Parties"). Following the acquisition, the Company will own 100% of PML which will enable the Company to pursue initiatives related to the reduction of, and the elimination of, transportation commitments, including fixed rate take-or-pay arrangements. The acquisition consideration will be paid in instalments over a 36-month period, plus accrued interest over unpaid amounts. The completion of the transaction is subject to certain modifications to certain take-or-pay contracts entered into by Frontera, which are expected to reduce tariffs, and other matters, at the time of closing. In addition, the consent of the Company's noteholders and secured lenders is required to complete the transaction.
- On October 25, 2017, the Company entered into an agreement to sell its interest in PEL to an affiliate of Electrica S.A.S., for cash consideration of \$56 million, of which \$50 million will be used as the first payment to the IFC Parties in connection with the purchase of the IFC Parties' common shares of PML.
- The Company is currently undergoing an optimization of its organizational structure in an effort to streamline its operations and eliminate legal entity redundancies. In the third quarter, the Company initiated its first merger, of a series of mergers, and a series of consolidations. The Company is in a process of consolidating the four legal entities that hold its Colombian operational assets into one legal entity.
- During the third quarter 2017, Itau BBA S.A. released the outstanding standby letter of credit, related to the transfer of the PML assets, in three offshore blocks in Brazil to Queiroz Galvão Exploração e Produção S.A., reducing Frontera's credit exposure.

Asset Sales:

During the third quarter of 2017, the Company continued to monetize non-core assets. Below is a summary of all the non-core asset sales of exploration and production blocks executed within the past 12 months; many are pending final government approvals:

Assets Divested (\$ millions)	Cash Proceeds Commitments ⁽¹⁾ SBLC / Collateral ⁽²⁾		
Brazil Exploration Blocks	5.5	76.4	42.5
Colombia Exploration Blocks ^(3,4)	11.2	34.3	5.4
Colombia Production Blocks ⁽⁵⁾	2.1	12.9	0.8
Peru Exploration Blocks ⁽⁴⁾	17.3	22.7	2.8
Papua New Guinea ⁽⁴⁾	57.0	-	-
Petroelectrica de los Llanos ⁽⁴⁾	56.0	-	-
Total Divestments	149.1	146.3	51.5

(1) Includes Exploration, Abandonment and Environmental Costs

(2) Standby Letter of Credit and Released Collateral

(3) Includes Major lands, Putumayo Basin and San Jacinto 7 block

(4) Agreements have been signed, subject to closing

(5) Includes Casanare Este and Cerrito

Take-or-Pay Reduction Initiative:

- Frontera continues to create value through the execution of strategic initiatives, including the recently announced outstanding 36.4% ownership of PML for \$225 million (bringing our ownership of PML to 100%), and the subsequent proceeds of \$56 million.
- These initiatives are part of a series of strategic transactions intended to reduce our transportation costs by eliminating commitments and is ultimately expected to decrease our annual transportation costs by over \$100 million.

Updated 2017 Guidance and Fourth Quarter 2017 Outlook:

Due to operational improvements and higher realized oil prices, Frontera is raising its guidance for 2017 Operating EBITDA for the second time this year to \$300 to \$350 million - representing a 13% increase from the midpoint of previous guidance of \$275 to \$300 million, and a 24% increase from the midpoint of initial 2017 Operating EBITDA guidance of \$250 to 275 million. Guidance for 2017 exit production and annual capital expenditures remains unchanged at 70,000 to 75,000 barrels of oil equivalent per day and \$250 to \$300 million, respectively. Revised guidance places Frontera's capital expenditures below Operating EBITDA for 2017. The Company's assumptions described above are dependent on a base case average Brent oil price assumption for 2017 of \$53/bbl and benchmark combined price differential of between \$5.50/bbl and \$6.00/bbl.

With a more active drilling program in the fourth quarter of 2017, Frontera expects oil production in Colombia to increase throughout the remainder of 2017. The Company plans to drill between 35 and 45 development wells, 2 to 4 exploration wells, and continue with an active workover and recompletion program in the fourth quarter of 2017.

From a financial perspective, the Company's strong balance sheet provides financial flexibility to unlock value for shareholders as we continue to focus on Operating EBITDA expansion. Some of the initiatives being considered include: contract renegotiations, non-core asset dispositions, continued cost control, and improved financial and covenant flexibility via debt refinancing or amendments. The Company's balance sheet remains extremely strong with \$599.9 million of total cash, cash equivalents and restricted cash, offset by \$250.0 million of long-term debt. Frontera also enjoys a strong oil hedge book with over 50% of our production hedged at an average floor of over \$51 per barrel Brent for the next 11 months.

Third Quarter 2017 Conference Call Details:

A conference call for investors and analysts is scheduled for Tuesday, November 14, 2017 at 8:30 a.m. (Calgary time) and 10:30 a.m. (Toronto / Bogotá time). Participants will include Gabriel de Alba, Chairman of the Board of Directors, Barry Larson, Chief Executive Officer, Camilo McAllister, Chief Financial Officer and select members of the senior management team.

A presentation will be available on the Company's website prior to the call, which can be accessed at www.fronteraenergy.ca.

Analysts and investors are invited to participate using the following dial-in numbers:

Participant Number (International/Local):	(647) 427-7450
Participant Number (Toll free Colombia):	01-800-518-0661
Participant Number (Toll free North America):	(888) 231-8191
Conference ID:	9489889

Webcast: www.fronteraenergy.ca

A replay of the conference call will be available until 11:59 p.m. (Toronto / Bogotá time), Tuesday, November 28, 2017 and can be accessed using the following dial-in numbers:

Encore Toll Free Dial-in Number:	1-855-859-2056
Local Dial-in-Number:	(416)-849-0833
Encore ID:	9489889

About Frontera:

Frontera is a Canadian public company and a leading explorer and producer of crude oil and natural gas, with operations focused in Latin America. The Company has a diversified portfolio of assets with interests in more than 25 exploration and production blocks in Colombia and Peru. The Company's strategy is focused on sustainable growth in production and reserves and cash generation. Frontera is committed to conducting business safely, in a socially and environmentally responsible manner.

The Company's common shares trade on the Toronto Stock Exchange under the ticker symbol "FEC".

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Advisories:

Cautionary Note Concerning Forward-Looking Statements

This news release contains forward-looking statements. All statements, other than statements of historical fact, that address activities, events or developments that the Company believes, expects or anticipates will or may occur in the future (including, without limitation, statements regarding estimates and/or assumptions in respect of production, revenue, cash flow and costs, reserve and resource estimates, potential resources and reserves and the Company's exploration and development plans and objectives) are forward-looking statements. These forward-looking statements reflect the current expectations or beliefs of the Company based on information currently available to the Company. Forward-looking statements are subject to a

number of risks and uncertainties that may cause the actual results of the Company to differ materially from those discussed in the forward-looking statements, and even if such actual results are realized or substantially realized, there can be no assurance that they will have the expected consequences to, or effects on, the Company. Factors that could cause actual results or events to differ materially from current expectations include, among other things: uncertainty of estimates of capital and operating costs, production estimates and estimated economic return; uncertainties associated with estimating oil and natural gas reserves; failure to establish estimated resources or reserves; volatility in market prices for oil and natural gas; fluctuation in currency exchange rates; inflation; changes in equity markets; perceptions of the Company's prospects and the prospects of the oil and gas industry in Colombia and the other countries where the Company operates or has investments; uncertainties relating to the availability and costs of financing needed in the future; the uncertainties involved in interpreting drilling results and other geological data; and the other risks disclosed under the heading "Risk Factors" and elsewhere in the Company's annual information form dated March 14, 2017 filed on SEDAR at www.sedar.com. Any forward-looking statement speaks only as of the date on which it is made and, except as may be required by applicable securities laws, the Company disclaims any intent or obligation to update any forward-looking statement, whether as a result of new information, future events or results or otherwise. Although the Company believes that the assumptions inherent in the forward-looking statements are reasonable, forward-looking statements are not guarantees of future performance and accordingly undue reliance should not be put on such statements due to the inherent uncertainty therein.

This news release contains future oriented financial information and financial outlook information (collectively, "FOFI") (including, without limitation, statements regarding expected capital expenditures, production levels, oil prices, and G&A), and are subject to the same assumptions, risk factors, limitations and qualifications as set forth in the above paragraph. The FOFI has been prepared by management to provide an outlook of the Company's activities and results, and such information may not be appropriate for other purposes. The Company and management believe that the FOFI has been prepared on a reasonable basis, reflecting management's best estimates and judgments, however, actual results of operations of the Company and the resulting financial results may vary from the amounts set forth herein. Any FOFI speaks only as of the date on which it is made and, except as may be required by applicable securities laws, the Company disclaims any intent or obligation to update any FOFI, whether as a result of new information, future events or results or otherwise.

In addition, reported production levels may not be reflective of sustainable production rates and future production rates may differ materially from the production rates reflected in this news release due to, among other factors, difficulties or interruptions encountered during the production of hydrocarbons.

Non-IFRS Financial Measures

This news release contains financial terms that are not considered in IFRS. These non-IFRS measures do not have any standardized meaning, and therefore are unlikely to be comparable to similar measures presented by other companies. These non-IFRS measures should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. These financial measures are included because management uses this information to analyze operating performance and liquidity. They are different from those measures disclosed in prior periods, reflecting the Company's new strategic focus on operational efficiency and capital discipline.

Operating and Adjusted EBITDA

Management believes that EBITDA is a common measure used to assess profitability before the impact of different financing methods, income taxes, depreciation and impairment of capital assets and amortization of intangible assets.

- Operating EBITDA represents the operating results of the Company's primary business, excluding the effects of one-time items, investments (infrastructure assets), non-cash items that depend on accounting policy choices, and one-time items that recur.
- Adjusted EBITDA excludes items of a non-recurring nature (one-time items), or that could make the period-over-period comparison from operations less meaningful, but includes results from the Company's other investments (infrastructure assets).

A reconciliation of Operating and Adjusted EBITDA to net earnings is as follows:

(in thousands of US\$)	Three Months Ended September 30
Net loss ⁽¹⁾	\$(557,065) 1)
Adjustments	
Income tax expense	20,563
Depletion, depreciation and amortization	287,000
Impairment and exploration expenses	103,059
Finance costs	12,008
Restructuring and severance costs	20,002
Equity tax	20,000 h;
Other expense/(income)	69,278
Foreign exchange unrealized gain	(10,020)
Adjusted EBITDA	276,666
(Gain) loss valuation of unrealized hedge contracts	(2,500) 6
Share of gain in equity-accounted investees	(20,000)
Gain (loss) attributable to non-controlling interest	(2,300)
Share based compensation	20,000 h;
Foreign exchange realized loss (gain)	(2,000)
Fees paid on suspended pipeline capacity	30,000
Operating EBITDA	\$296,366

(1) Net loss attributable to equity holders of the parent.

	2017			2016			
(in thousands of US\$)	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Financial and Operational results:							
Operating EBITDA	105,885	86,857	92,442	44,275	89,846	120,452	190,064
Adjusted EBITDA	44,203	87,389	115,058	(1,967)	37,689	126,083	91,814
Netbacks							

Management believes that Netback is a useful measure to assess the net profit after all the costs associated with bringing one barrel of oil to the market. It is also commonly used by the oil and gas industry to analyze financial and operating performances expressed as profit per barrel.

- Operating Netback represents realized price per barrel plus realized gain or loss on financial derivatives, less production in cash, transportation cost and diluent cost, and shows how efficient the Company is at extracting and selling its
- Adjusted Netback represents Operating Netback plus the results from corporate investments such as our pipeline addition to oil and gas production and the take-or-pay tariffs paid on disrupted pipelines.
- Adjusted Funds Flow from Operations Netback, represents Adjusted Netback less corporate cash expenses (general expenses and cash finance costs), and other cash items (mainly includes dividends from associates, Frontera's share of equity-accounted investee-pipelines, current income tax, equity tax paid, realized foreign exchange, inventory fluctuations, underlift and uses of asset retirement obligations).

Adjusted Funds Flow from Operations

Management believes Adjusted FFO is a useful measure to assess operating performance and liquidity. Changes to non-cash working capital can include differences in timing of cash flows related to accounts receivable and accounts payable, which management believes reduces comparability among periods. This non-IFRS measure excludes assets retirement obligation settlements, one-time expenses for the Company not related to ongoing operations such as restructuring and severance costs, and expense/revenue from past assets.

	Three Months Ended September 30		Nine Months Ended September 30	
(in thousands of US\$)	2017	2016	2017	2016
Net cash provided (used) by operating activities	110,306	(12,414)	189,287	(56,450)
Changes in non-cash working capital	(65,733)	22,846	(27,873)	128,037
Deferred revenue net proceeds	—	—	—	75,000
Restructuring and severance costs	2,393	32,102	10,181	99,821
Settlement of assets retirement obligations	1,565	502	1,847	2,308
Loss (gain) from past assets	(642)	—	(642)	—
Adjusted FFO	47,889	43,036	172,800	248,716

Please see the Company's most recent Management's Discussion and Analysis, which is available at www.sedar.com for additional information about these financial measures.

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 5.7 Mcf: 1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Definitions

bbl	Barrel of oil.
bbl/d	Barrel of oil per day.
boe	Barrel of oil equivalent. Boe's may be misleading, particularly if used in isolation. The Colombian standard has a boe conversion ratio of 5.7 Mcf:1 bbl and is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.
boe/d	Barrel of oil equivalent per day.
Mbbl	Thousand barrels.
Mboe	Thousand barrels of oil equivalent.
MMbbl	Million barrels.
MMboe	Million barrels of oil equivalent.
Mcf	Thousand cubic feet.
Net Production	Company working interest production after deduction of royalties.
Total Field Production	100% of total field production before accounting for working interest and royalty deductions.
Gross Production	Company working interest production before deduction of royalties.

SOURCE [Frontera Energy Corp.](#)

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