

# Canacol Energy Ltd. Reports a 41% Increase in Funds from Operations and a 27% Increase in Realized Gas Sales in Q3 2019 and Declares a Recurring Quarterly Dividend

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CALGARY, Nov. 07, 2019 - [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 nine months ended September 30, 2019. Dollar amounts are expressed in United States dollars, except as otherwise noted.

Charle Gamba, President and CEO of the Corporation, commented: ‘‘The third quarter saw an increase in natural gas production of 28% for the three months ended and 18% for the nine months ended, compared to the same periods in 2018, maintaining stable netbacks at the wellhead of \$3.86/Mcf, after opex and royalties. Looking forward to the remainder of 2019, the Corporation anticipates signing during the week of November 18, 2019, a twelve year take or pay gas sales contract for approximately half of the volume of the planned 100 MMcfd gas pipeline from Jobo to Medellin. Given the stability of our future cash flow streams, and the forecast of free cash flows, Canacol’s board of directors has decided to declare a recurring dividend paid quarterly. A dividend of US\$7 million will be paid in cash on December 31, 2019 to shareholders of record at the close of business on December 16, 2019, subject to regulatory approvals.’’

Highlights for the three and nine months ended September 30, 2019

*(Production is stated as working-interest before royalties)*

Financial and operational highlights of the Corporation include:

- Realized contractual natural gas sales increased 27% and 17% to 146.4 MMscfd and 129.7 MMscfd for the three and nine months ended September 30, 2019, compared to 115.3 MMscfd and 111.2 MMscfd for the same periods in 2018, respectively. Average natural gas production volumes increased 28% and 18% to 147.6 MMscfd and 130.9 MMscfd for the three and nine months ended September 30, 2019, compared to 114.9 MMscfd and 110.6 MMscfd for the same periods in 2018, respectively.
- Total natural gas revenue, net of royalties and transportation expenses for the three and nine months ended September 30, 2019, increased 25% and 19% to \$55.1 million and \$148.2 million, compared to \$43.9 million and \$125 million for same periods in 2018, respectively, mainly attributable to the increase of natural gas production.
- The Corporation realized an EBITDAX of \$46 million and \$122.9 million for the three and nine months ended September 30, 2019, compared to \$36 million and \$105.2 million for the same periods in 2018, respectively.
- Funds from operations increased 41% and 22% to \$36.4 million and \$91.9 million for the three and nine months ended September 30, 2019, compared to \$25.8 million and \$75.6 million for the same periods in 2018, respectively. Funds from operations per share increased 33% and 21% from \$0.15 per share and \$0.43 per share to \$0.20 per share and \$0.52 per share, respectively.
- The Corporation recorded net income of \$0.7 million and \$8.8 million for the three and nine months ended September 30, 2019, compared to a net income of \$12.1 million and net loss of \$5.6 million for the same periods in 2018, respectively. The net income realized during three months ended September 30, 2019 is net of certain non-cash expenses, including a deferred income tax expense of \$14.2 million (almost entirely due to the effect of the reduction in the Colombian Peso exchange rate on the value of unused tax losses and cost pools) and a depletion and depreciation expense of \$13 million.

- The Corporation's natural gas operating netback increased 2% and 4% to \$3.86 per Mcf and \$3.92 per Mcf in the three and nine months ended September 30, 2019, compared to \$3.80 per Mcf and \$3.77 per Mcf for the same periods in 2018, respectively. The increases are mainly attributable to a 40% and 32% reduction of operating expenses to \$0.24 per Mcf and \$0.28 per Mcf for the three and nine months ended September 30, 2019, compared to \$0.40 per Mcf and \$0.41 per Mcf for the same periods in 2018, respectively.
- Net capital expenditures for the three and nine months ended September 30, 2019 were \$30.8 million and \$79 million, respectively. Net capital expenditures were net of the \$14.5 million disposition of working interest of the Sabanas flowline during the nine months ended September 30, 2019.
- As at September 30, 2019, the Corporation had \$33.4 million in cash and cash equivalents, \$4.6 million in restricted cash and \$49.1 million in working capital surplus.
- The Corporation drilled three development wells, Clarinete-4, Palmer-2 and Nelson-7 and three exploration wells, Pandereta-5, Acordeon-1 and Ocarina-1 during the nine months ended September 30, 2019.
- The expansion of the Promigas 100 MMcfd pipeline expansion was completed and the Jobo 3 natural gas processing facility commenced operation during the three months ended September 30, 2019, lifting Canacol's natural gas treatment capacity from previous levels of 200 MMcfd to 330 MMcfd.

## Outlook

For the remainder of 2019, the Corporation is focused on executing its exploration drilling program and executing the necessary agreements related to the construction of a new gas pipeline to Medellin, which will transport 100 MMcfd of new gas sales in 2023.

The 2019 drilling program has been successful to date, with two discoveries, Acordeon-1 and Ocarina-1, and three successful development wells, Palmer-2, Nelson-7, and Clarinete-4. The success at Acordeon-1 and Ocarina-1 lifts Canacol's commercial chance of exploration success to 85%, an industry leading metric for a conventional onshore gas play. The remainder of the drilling program for 2019 includes the Arandala-1 exploration well, which the Corporation has recently cased and completed.

With respect to the Medellin pipeline project, the Corporation anticipates executing a take-or-pay sales contract with a major Colombian utility during the current month of November 2019, whereby half of the capacity of the new pipeline will be contracted for a period of twelve years. The next step, to be completed by the end of 2019, will be to form the consortium which will build and operate the pipeline.

Commencing in the fourth quarter of 2019, the Corporation is pleased to announce a regular recurring quarterly dividend. The Board of Directors has approved a US\$7 million quarterly dividend to be paid on December 31, 2019, with a record date anticipated to be December 16, 2019, subject to regulatory approvals. This amount represents approximately C\$0.052 per share or a yield of approximately 4.4% annually at current share prices.

Financial	Three months ended September		
	2019	2018	Change
Total natural gas and crude oil revenues, net of royalties and transportation expense	\$ 56,634	\$ 53,398	6%
Funds from operations <sup>(1)</sup>	\$ 36,420	\$ 25,810	41%
Per share &ndash; basic (\$) <sup>(1)</sup>	0.20	0.15	33%
Per share &ndash; diluted (\$) <sup>(1)</sup>	0.20	0.15	33%
Net income (loss) and comprehensive income (loss)	\$ 663	\$ 12,138	(95%)
Per share &ndash; basic (\$)	&ndash;	0.07	n/a
Per share &ndash; diluted (\$)	&ndash;	0.07	n/a
EBITDAX <sup>(1)</sup>	\$ 46,037	\$ 36,006	28%
Weighted average shares outstanding &ndash; basic	178,273	177,453	&ndash;
Weighted average shares outstanding &ndash; diluted	180,873	178,985	1%

Capital expenditures, net dispositions	\$ 30,806	\$ 18,585	66%
Cash and cash equivalents			
Restricted cash			
Working capital surplus			
Total debt			
Total assets			
Common shares, end of period (000's)			
Operating	Three months ended	September	
	2019	2018	Change
Natural gas and crude oil production, before royalties <sup>(1)</sup>			
Natural gas (Mcfpd)	147,630	114,923	28%
Colombia oil (bopd)	322	1,816	(82%)
Total (boepd) <sup>(2)</sup>	26,222	21,978	19%
Realized contractual sales, before royalties <sup>(1)</sup>			
Natural gas (Mcfpd)	146,439	115,317	27%
Colombia oil (bopd)	329	1,945	(83%)
Total (boepd) <sup>(2)</sup>	26,020	22,176	17%
Operating netbacks <sup>(1)</sup>			
Natural gas (\$/Mcf)	3.86	3.80	2%
Colombia oil (\$/bopd)	24.34	26.27	(7%)
Corporate (\$/boe) <sup>(2)</sup>	22.06	22.04	&mdash

(1) Non-IFRS measures &ndash; see &ldquo;Non-IFRS Measures&rdquo; section within the MD&A.

(2) The Corporation has excluded results relating to the Ecuador IPC in the prior period for comparative purposes.

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 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.

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, 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 &ldquo;plan&rdquo;, &ldquo;expect&rdquo;, &ldquo;project&rdquo;, &ldquo;target&rdquo;, &ldquo;intend&rdquo;, &ldquo;believe&rdquo;, &ldquo;anticipate&rdquo;, &ldquo;estimate&rdquo; and other similar words, or statements that certain events or conditions &ldquo;may&rdquo; or &ldquo;will&rdquo; 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](http://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 funds from operations. 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 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 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 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 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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