

# Canacol Energy Ltd. Reports a 26% Increase in Realized Contractual Gas Sales, a Net Income of \$17.7 million and a 9% Increase in EBITDAX in Q2 2020

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CALGARY, Aug. 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 and six months ended June 30, 2020. Dollar amounts are expressed in United States dollars, except as otherwise noted.

Highlights for the three and six months ended June 30, 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 26% and 46% to 152.2 MMscfpd and 176.9 MMscfpd for the three and six months ended June 30, 2020, respectively, compared to 120.5 MMscfpd and 121.3 MMscfpd for the same periods in 2019, respectively. Average natural gas and LNG production volumes increased 24% and 44% to 151.1 MMscfpd and 176.3 MMscfpd for the three and six months ended June 30, 2020, respectively, compared to 121.5 MMscfpd and 122.4 for the same periods in 2019, respectively. The increase is primarily due to the completion of the 100 MMscfpd pipeline expansion in late Q3 2019, offset by the decrease in sales as a result of the Covid-19 pandemic.
- Total natural gas and LNG revenue, net of royalties and transportation expenses for the three and six months ended June 30, 2020 increased 17% and 28% to \$53.3 million and \$123.2 million, respectively, compared to \$45.7 million and \$93.1 million for same periods in 2019, respectively, mainly attributable to the increase of natural gas production and the 100 MMscfpd pipeline expansion.
- Adjusted funds from operations increased 22% and 38% to \$31.2 million and \$76.5 million, respectively, for the three and six months ended June 30, 2020, respectively, compared to \$25.6 million and \$55.5 million for the same periods in 2019, respectively. Adjusted funds from operations per basic share increased 21% and 35% to \$0.17 per basic share and \$0.42 per basic share for the three and six months ended June 30, 2020, respectively, compared to \$0.14 per basic share and \$0.31 per basic share for the same periods in 2019, respectively.
- EBITDAX increased 9% and 29% to \$40.4 million and \$99.3 million for the three and six months ended June 30, 2020, respectively, compared to \$37 million and \$76.8 million for the same periods in 2019, respectively.
- The Corporation realized a net income of \$17.7 million and a net loss of \$8.3 million for the three and six months ended June 30, 2020, respectively, compared to a net income of \$1.9 million and \$8.2 million for the same periods in 2019, respectively. The net loss realized during the six months ended June 30, 2020 is solely due to the non-cash deferred tax expense of \$29.5 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 pool.

- The Corporation's natural gas and LNG operating netback decreased 6% and 9% to \$3.63 per Mcf and \$3.60 per Mcf in the three and six months ended June 30, 2020, respectively, compared to \$3.88 per Mcf and \$3.96 per Mcf for the same periods in 2019, respectively. The decrease is due to lower spot market gas sales prices, net transportation costs. The decrease is offset by a 19% and 20% reduction of operating expenses per Mcf to \$0.25 per Mcf and \$0.24 per Mcf for the three and six months ended June 30, 2020, respectively, compared to \$0.31 per Mcf and \$0.30 for the same periods in 2019, respectively.
- Net capital expenditures for the three and six months ended June 30, 2020 were \$8.3 million and \$28.2 million, respectively. Net capital expenditures included non-cash adjustments related to decommissioning obligations of \$3.7 million and \$5 million three and six months ended June 30, 2020, respectively.
- On April 21, 2020, the Corporation entered into a credit agreement with Banco de Occidente (Operating loan) and withdrew \$5 million in COP for additional COP liquidity purposes.
- On June 30, 2020, the Corporation entered into an agreement to amend the terms of the bank debt held with Credit Suisse (Credit Suisse Bank Debt). The original fixed interest rate of 6.875% was revised to a floating interest rate of LIBOR + 4.25% (LIBOR rate was 0.3% at the amendment date) and the original eleven equal quarterly principal payments, which were to commence on June 11, 2020, were revised to seven equal quarterly principal payments to commence on December 11, 2021.
- As at June 30, 2020, the Corporation had \$58.6 million in cash and cash equivalents, \$4 million in restricted cash and \$72.1 million in working capital surplus.

## Outlook

Despite the worldwide uncertainties and disruptions caused by the Covid-19 pandemic, Canacol's operations continued on relatively uninterrupted during Q2, including the drilling of Clarinete-5 and its 43 MMscfpd production test. Post June 30, 2020, the Corporation is currently completing the Pandereta-8 development well, which encountered 168 feet true vertical depth of net gas pay. Utilizing a second rig, the Corporation has also recently spud the Porro Norte-1 exploration well and anticipates well results to be released once the well has reached total depth and has been logged.

As at June 30, 2020, Canacol maintained its strong balance sheet and liquidity including approximately \$58.6 million of cash, with our robust 2020 capital and dividend programs being funded through existing cash and operating cash flows. Adding to Canacol's existing financial flexibility, we have re-profiled the terms of the Credit Suisse Bank Debt and entered into two new credit facilities. Although these additional funds are not necessarily required at this time, the Corporation felt it prudent to secure additional financial flexibility at very favourable rates to potentially add additional wells in our drilling campaign and to advance the Medellin pipeline project.

Despite the slow recovery from the Covid-19 pandemic in Colombia, the Corporation expects its sales to be inside the previously released guidance range of 170 MMscfpd and 197 MMscfpd.

Financial	Three months ended June		
	2020	2019	Change
Total natural gas, LNG and crude oil revenues, net of royalties and transportation expense	\$ 54,405	\$ 47,689	14
Adjusted Funds from operations <sup>(1)</sup>	\$ 31,181	\$ 25,584	22
Per share basic (\$) <sup>(1)</sup>	0.17	0.14	21
Per share diluted (\$) <sup>(1)</sup>	0.17	0.14	21
Net income (loss) and comprehensive income (loss) <sup>(2)</sup>	\$ 17,715	\$ 1,878	843
Per share basic (\$)	0.10	0.01	900
Per share diluted (\$)	0.10	0.01	900

Cash flow provided by operating activities	\$ 37,814	\$ 9,027	319
Per share &#8211; basic (\$)	0.21	0.05	320
Per share &#8211; diluted (\$)	0.21	0.05	320
EBITDAX <sup>(1)</sup>	\$ 40,415	\$ 37,008	9
Weighted average shares outstanding &#8211; basic	180,916	177,381	2
Weighted average shares outstanding &#8211; diluted	181,484	178,979	1
Capital expenditures, net dispositions	\$ 8,269	\$ 13,442	(38)
Cash and cash equivalents			
Restricted cash			
Working capital surplus			
Total debt			
Total assets			
Common shares, end of period (000&#8217;s)			
Operating	Three months ended June		
	2020	2019	Cha
Production, before royalties <sup>(1)</sup>			
Natural gas and LNG (Mcfpd)	151,127	121,496	24
Colombia oil (bopd)	245	342	(28)
Total (boepd)	26,758	21,657	24
Realized contractual sales, before royalties <sup>(1)</sup>			
Natural gas and LNG (Mcfpd)	152,248	120,515	26
Colombia oil (bopd)	197	356	(45)
Total (boepd)	26,907	21,499	25
Operating netbacks <sup>(1)</sup>			
Natural gas and LNG (\$/Mcf)	3.63	3.88	(6
Colombia oil (\$/bopd)	12.16	29.20	(58
Corporate (\$/boe)	20.61	22.27	(7

- Non-IFRS measures &#8211; see &#8220;Non-IFRS Measures&#8221; section within the MD&A.
- The net loss realized during the six months ended June 30, 2020 is solely due to the non-cash deferred tax expense of \$29.5 million, which is primarily due to the effect of the reduction in the Colombian Peso (&#8220;COP&#8221;) exchange rate on the value of unused tax losses and cost pools. In the event that the COP strengthens in the future, as it did as at June 30, 2020, the Corporation would realize a deferred income tax recovery for the period.

This press release should be read in conjunction with the Corporation&#8217;s interim condensed consolidated financial statements and related Management&#8217;s Discussion and Analysis. The Corporation&#8217;s has filed its interim condensed consolidated financial statements and related Management's Discussion and Analysis as at and for the three and six months ended June 30, 2020 with Canadian securities regulatory authorities. These filings are available for review on SEDAR at [www.sedar.com](http://www.sedar.com).

Canacol is a natural gas exploration and production company with operations focused in Colombia. The Corporation&#8217;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](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 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.*

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