

Canacol Energy Ltd. Reports a 13% Increase in Realized Contractual Natural Gas Sales Volumes and Net Income of \$2.4 million in Q2 2021

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CALGARY, Aug. 05, 2021 - [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, 2021. Dollar amounts are expressed in United States dollars, with the exception of Canadian dollar unit prices ("C\$") where indicated and otherwise noted.

Highlights for the three and six months ended June 30, 2021

(Production is stated as working-interest before royalties)

Financial and operational highlights of the Corporation include:

- Realized contractual natural gas sales volumes increased 13% to 171.5 MMscf/d for the three months ended June 30, 2021, compared to 152.2 MMscf/d for the same period in 2020. Average natural gas production volumes increased 15% to 173.1 MMscf/d for the three months ended June 30, 2021, compared to 151.1 MMscf/d for the same period in 2020. The increase is mainly due to increased firm contract and spot market sales as a result of the COVID-19 pandemic restrictions being gradually lifted during the three months ended June 30, 2021. Realized contractual natural gas sales volumes decreased 1% to 174.5 MMscf/d for the six months ended June 30, 2021, compared to 176.9 MMscf/d for the same period in 2020. Average natural gas production volumes were 176.3 MMscf/d for the six months ended June 30, 2021 and 2020.
- Total natural gas revenues, net of royalties and transportation expenses decreased 1% and 10% to \$52.6 million and \$110.9 million for the three and six months ended June 30, 2021, respectively, compared to \$53.3 million and \$123.2 million for the same periods in 2020, respectively, mainly attributable to lower natural gas realized sales prices, net of transportation expense.
- Subsequent to June 30, 2021, the demand for spot market volumes has increased, as evidenced by the July 2021 realized contractual natural gas sales volumes of approximately 190 MMscf/d, mainly due to the following: i) the recent political unrest in Colombia has improved, ii) the COVID-19 vaccination roll-out in Colombia is well underway and iii) the La Niña climate phenomenon has weakened, all of which, results in the higher demand of natural gas. As such, the spot market average natural gas and LNG sales prices, net of transportation has been significantly higher since mid-July 2021, as compared to the three and six months ended June 30, 2021.
- Adjusted funds from operations increased 8% to \$33.6 million for the three months ended June 30, 2021, compared to \$31.2 million for the same period in 2020. Adjusted funds from operations decreased 6% to \$71.9 million for the six months ended June 30, 2021, compared to \$76.5 million for the same period in 2020. Adjusted funds from operations per basic share increased 12% to \$0.19 per basic share for the three months ended June 30, 2021, compared to \$0.17 per basic share for the same period in 2020. Adjusted funds from operations per basic share decreased 5% to \$0.40 per basic share for the six months ended June 30, 2021, compared to \$0.42 per basic share for the same period in 2020.
- EBITDAX increased 10% to \$44.6 million for the three months ended June 30, 2021, compared to \$40.4 million for the same period in 2020. EBITDAX decreased 8% to \$91.4 million for the six months ended June 30, 2021, compared to \$99.3 for the same period in 2020.

- The Corporation realized a net income of \$2.4 million for the three months ended June 30, 2021, compared to a net income of \$17.7 million for the same period in 2020, resulting in a 86% decrease year over year. The decrease is mainly due to a deferred tax recovery realized during the three months ended June 30, 2020 as a result of the recovery of the Colombian Peso ("COP") relative to the USD as at June 30, 2020 as compared to March 31, 2020. The Corporation realized a net loss of \$0.6 million for the six months ended June 30, 2021, compared to a net loss of \$8.3 million for the same period in 2020. The net loss realized during the six months ended June 30, 2021 is primarily due to a deferred tax expense of \$9.7 million, which is mainly due to the effect of the reduction in the COP exchange rate on the value of unused tax losses and cost pool.
- The Corporation's natural gas operating netback decreased 13% and 10% to \$3.14 per Mcf and \$3.25 per Mcf in the three and six months ended June 30, 2021, compared to \$3.63 per Mcf and \$3.60 per Mcf for the same periods in 2020, respectively. The decrease is mainly due to the lower average realized prices, net of transportation expense due to lower priced fixed contracts for the 2021 contract year as compared to the 2020 contract year. The Corporation's royalties per Mcf increased by 11% and 3% to \$0.71 per Mcf in the three and six months ended June 30, 2021, compared to \$0.64 per Mcf and \$0.69 per Mcf for the same periods in 2020, respectively. The increase is due to higher production at the Corporation's VIM-5 block, which is subject to a higher royalty rate.
- Net capital expenditures for the three and six months ended June 30, 2021 were \$26.4 million and \$54.2 million, respectively. Net capital expenditures included non-cash adjustments related to decommissioning obligations and right-of-use leased assets of \$1.9 million and \$1.4 million for the three and six months ended June 30, 2021, respectively.
- On June 17, 2021, the Corporation entered into a three year term credit agreement with Banco Davivienda ("Colombia Bank Debt") for a principal amount of \$12.9 million denominated in COP, which is subject to an annual interest rate of Reference Bank Indicator ("IBR") plus 2.5% (IBR was 1.86% at the agreement date). The Colombia Bank Debt was used to repay the Corporation's litigation settlement liability, which was subject to an 8.74% annual interest rate. As a result of a lower interest rate, the Corporation will realize annual interest savings of approximately \$0.6 million (lower interest rate of 4.38% at the agreement date).
- As at June 30, 2021, the Corporation had \$34.8 million in cash and cash equivalents and \$44.7 million in working capital surplus. During the three months ended June 30, 2021, the Corporation made cash payments as follows: i) the 2020 income tax remaining installment of \$11.3 million, ii) prepaid 2021 tax installments of \$10.7 million and iii) the semi-annual Senior Notes interest payment of \$12.1 million. The Corporation expects that a portion of its 2020 prepaid tax installments totaling \$9.3 million will be returned from the Colombian tax authorities by the end of Q3 2021.

Outlook

For the remainder of 2021, the Corporation is focused on the following objectives: 1) Target the drilling of up to twelve exploration, appraisal, and development wells in a continuous program with the objective of targeting a 2P reserves replacement ratio of more than 200 percent. The Corporation has drilled six exploration and development wells, with a significant gas discovery being made at Aguas Vivas, which is currently being appraised; 2) The acquisition of the 655 square kilometers of 3D seismic on the Corporation's VIM-5 and SSJN-7 blocks to expand its exploration prospect inventory. The Corporation has successfully completed the seismic program on SSJN-7 and is currently in the process of acquisition on VIM-5; 3) The execution of a definitive agreement to construct a new natural gas pipeline from the Jobo natural gas processing facility to Medellin, Colombia, which will increase the Corporation's natural gas sales by an additional 100 MMscf/d in 2024; 4) The continued strengthening of our environmental, social and governance strategy and reporting. The Corporation has now released its 2020 sustainability report, making substantial gains in all key metrics; 5) The continuation of our return of capital program to shareholders. The Corporation has continued to issue quarterly dividends with no reduction in dividend amounts. In addition, since the Corporation obtained necessary approval to conduct a normal course issuer bid to purchase outstanding common shares of the Corporation in November 2018, it has acquired and cancelled 4,857,013 common shares of the Corporation at an average price of C\$3.59 per common share, including 2,060,000 common shares, which were repurchased since May 2021, at an average price of C\$3.31 per common share.

FINANCIAL & OPERATING HIGHLIGHTS

(in United States dollars (tabular amounts in thousands) except as otherwise noted)

Financial

Three months ended June
2021 2020 Change

Total natural gas, LNG and crude oil revenues, net of royalties and transportation expense	59,969	54,405	10
Adjusted Funds from operations ⁽¹⁾⁽³⁾	33,643	31,181	8
Per share - basic (\$) ⁽¹⁾	0.19	0.17	12
Per share - diluted (\$) ⁽¹⁾	0.19	0.17	12
Net income (loss) and comprehensive income (loss) ⁽²⁾	2,424	17,715	(86)
Per share - basic (\$)	0.01	0.10	(90)
Per share - diluted (\$)	0.01	0.10	(90)
Cash flow (used) provided by operating activities ⁽³⁾	(13)	37,814	n/a
Per share - basic (\$)	-	0.21	(100)
Per share - diluted (\$)	-	0.21	(100)
EBITDAX ⁽¹⁾	44,638	40,415	10
Weighted average shares outstanding - basic	179,289	180,916	(1)
Weighted average shares outstanding - diluted	179,289	181,484	(1)
Capital expenditures, net of dispositions	26,363	8,269	219
Cash and cash equivalents ⁽⁴⁾			
Working capital surplus			
Total debt			
Total assets			
Common shares, end of period (000's)			
Operating	Three months ended June		
	2021	2020	Change
Production ⁽¹⁾			
Natural gas and LNG (MMscfpd)	173,117	151,127	15
Colombia oil (bopd)	262	245	7
Total (boepd)	30,633	26,758	14
Realized contractual sales ⁽¹⁾			
Natural gas and LNG (MMscfpd)	171,463	152,248	13
Colombia oil (bopd)	209	197	6
Total (boepd)	30,290	26,907	13
Operating netbacks ⁽¹⁾			
Natural gas and LNG (\$/Mcf)	3.14	3.63	(13)
Colombia oil (\$/bopd)	33.54	12.16	176
Corporate (\$/boe)	17.98	20.61	(13)

(1) Non-IFRS measures - see "Non-IFRS Measures" section within the MD&A.

(2) The net loss realized during the six months ended June 30, 2021 is mainly due to the non-cash deferred tax expense of \$9.7 million, which is primarily due to the effect of the reduction in the COP exchange rate on the value of unused tax losses and cost pools.

(3) Adjusted funds from operations represents cash flow (used) provided by operating activities before certain adjustments related to: i) changes in non-cash working capital of \$20.7 million, primarily due to certain income tax expense cash payments (see the "Income Tax Expense" section of the MD&A), ii) the payment of the remaining outstanding balance of the Corporation's litigation settlement liability of \$12.9 million.

(4) During the three months ended June 30, 2021, the Corporation made cash payments as follows: i) the 2020 income tax expense of \$11.3 million, ii) prepaid 2021 tax installments of \$10.7 million and iii) the semi-annual Senior Notes interest payment of \$12.1 million. The Corporation expects to receive a portion of its 2020 prepaid tax installments totaling \$9.3 million in cash from the Colombian tax authorities by the end of 2021.

This press release should be read in conjunction with the Corporation's interim condensed consolidated financial statements and related Management's Discussion and Analysis. The Corporation 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, 2021 with Canadian securities regulatory authorities. These filings are available for review on SEDAR at www.sedar.com.

Canacol is a natural gas 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 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. 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 (used) provided by operating activities before changes in non-cash working capital, settlement of a litigation settlement liability 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 (used) 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 (used) 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.

The Corporation's LNG sales account for less than one percent of the Corporation's total realized contractual natural gas and LNG sales.

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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