Canacol Energy Ltd. Reports a 17% Increase in Realized Contractual Natural Gas Sales Volumes and Net Income of $8.8 million in Q3 2021

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CALGARY, Nov. 04, 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 nine months ended September 30, 2021 and its October 2021 operational update. 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 Q3 2021 vs Q2 2021

- EBITDAX increased 21% to $53.8 million for the three months ended September 30, 2021, compared to $44.6 million for the three months ended June 30, 2021.
- Adjusted funds from operations increased 14% to $38.2 million for the three months ended September 30, 2021, compared to $33.6 million for the three months ended June 30, 2021.
- Realized contractual natural gas sales volumes increased 11% to 190.6 MMscfpd for the three months ended September 30, 2021, compared to 171.5 MMscfpd for the three months ended June 30, 2021.
- Net income of $8.8 million during the three months ended September 30, 2021, compared to $2.4 million for the three months ended June 30, 2021.
- The repurchase and cancellation of 1,773,700 common shares of the Corporation at a cost of $4.6 million during three months ended September 30, 2021, as compared to 1,000,000 repurchased common shares at a cost of $2.8 million during the three months ended June 30, 2021. During the third quarter Canacol also declared its eighth consecutive dividend of C$.052 per common share.

Highlights for the three and nine months ended September 30, 2021

- Realized contractual natural gas sales volumes increased 17% and 4% to 190.6 MMscfpd and 179.9 MMscfpd for the three and nine months ended September 30, 2021, compared to 163 MMscfpd and 172.2 MMscfpd for the same periods in 2020, respectively. Average natural gas production volumes increased 19% and 6% to 192.4 MMscfpd and 181.7 MMscfpd for the three and nine months ended September 30, 2021, compared to 162 MMscfpd and 171.5 MMscfpd for the same periods in 2020, respectively. The increases are due to the increase in natural gas demand as the COVID-19 pandemic restrictions are being gradually lifted.
- Total natural gas revenues, net of royalties and transportation expenses increased 16% to $65.5 million for the three months ended September 30, 2021, compared to $56.3 million for the same period in 2020, mainly attributable to an increase in natural gas production and a slightly higher natural gas sales price, net of transportation expense. Total natural gas revenues, net of royalties and transportation expenses decreased 2% to $176.4 million for the nine months ended September 30, 2021, compared to $179.5 million for the same periods in 2020, respectively. The decrease is mainly attributable to higher royalty expense, primarily due to higher production at the VIM-5 block, which is subject to a higher royalty rate and lower natural gas realized sales prices, net of transportation expense, mainly due to lower priced fixed contracts for the 2021 contract year as compared to the 2020 contract year.
- Adjusted funds from operations increased 14% to $38.2 million and increased to $110.2 million for the three and nine months ended September 30, 2021, compared to $33.4 million and $109.9 million for the same periods in 2020, respectively. Adjusted funds from operations per basic share increased 22% and 2% to $0.22 per basic share and $0.62 per basic share for the three and nine months ended September 30, 2021, compared to $0.18 per basic share and $0.61 per basic share for the same periods in 2020, respectively.
- EBITDAX increased 27% and 3% to $53.8 million and $145.2 million for the three and nine months ended September 30, 2021, compared to $42.3 million and $141.6 million for the same periods in 2020, respectively.

- The Corporation realized a net income of $8.8 million for the three months ended September 30, 2021, compared to a net income of $2.6 million for the same period in 2020, resulting in a 237% increase year over year. The Corporation realized a net income of $8.2 million for the nine months ended September 30, 2021, compared to a net loss of $5.7 million for the same period in 2020.
- The Corporation's natural gas operating netback increased 1% to $3.49 per Mcf in the three months ended September 30, 2021, compared to $3.47 per Mcf for the same period in 2020. The increase is mainly due to the lower average operating expenses per Mcf, offset by higher royalties per Mcf. Operating expenses per Mcf decreased 14% to $0.25 per Mcf during the three months ended September 30, 2021, compared to $0.29 per Mcf for the same period in 2020, mainly due to an increase in natural gas production, as the majority of the Corporation's operating expenses are fixed. Royalties per Mcf increased by 5% to $0.69 per Mcf in the three months ended September 30, 2021, compared to $0.66 per Mcf for the same period in 2020. The increase is mainly due to higher production at the Corporation's VIM-5 block, which is subject to a higher royalty rate.
- The Corporation's natural gas operating netback decreased 6% to $3.34 per Mcf in the nine months ended September 30, 2021, compared to $3.57 per Mcf for the same period in 2020. 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. In addition, the Corporation's royalties per Mcf increased 3% to $0.70 per Mcf in the nine months ended September 30, 2021, compared to $0.68 per Mcf for the same period in 2020. 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 nine months ended September 30, 2021 were $24.2 million and $78.4 million, respectively. Net capital expenditures included non-cash adjustments related mainly to decommissioning obligations and right-of-use leased assets of $0.1 million and $1.5 million for the three and nine months ended September 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).
- On August 12, 2021, the Corporation amended its Bridge Loan to extend both the term and the availability period of undrawn amounts from July 31, 2022 to July 31, 2023. The Bridge Loan was entered into by the Corporation to construct and own the Medellin pipeline (the "Project"), with Canacol being the guarantor throughout the outstanding term of the Bridge Loan. During the term, Canacol intends to divest between 75% to 100% ownership of the Project, while maintaining up to a 25% working interest in the ownership with Canacol being the guarantor throughout the outstanding term of the Bridge Loan.
- As at September 30, 2021, the Corporation had $43.1 million in cash and cash equivalents and $38 million in working capital surplus. The Corporation made certain significant cash payments during the nine months ended September 30, 2021 related to: i) certain income tax expense cash payments of $31.9 million (see the "Income Tax Expense" section in this MD&A) and ii) the semi-annual Senior Notes interest payment of $11.6 million, offset by the majority of the 2020 prepaid tax installments totaling $9 million being received from the Colombian tax authority.

Sustainability

Canacol continues to be committed to strengthening its environmental, social and governance ("ESG") strategy. Canacol enthusiastically supports global goals to meet the Paris Agreement targets as well as Colombia's commitment to a 51% reduction in emissions by 2030, of which natural gas will play a crucial role in a fair and equitable energy transition.

The Corporation's purpose with regards ESG matters is to improve the quality of life of millions of people through the exploration, production and supply of conventional natural gas in Colombia. Alongside this, the Corporation's objective is to generate value for its stakeholders in a sustainable, collaborative, co-responsible, respectful and transparent way. With the Corporation's transition to natural gas, it now has an environmentally friendly value proposition that contributes to the reduction of CO2 emissions in Colombia and provides for a more efficient use of resources.

The Corporation continues to support its communities in essential social projects such as access to water and utilities, productive projects, construction and improvement of public and community infrastructure, technical and university scholarships amongst others.

The Corporation has strong corporate governance standards and procedures, which are aligned with best global practices and trends, and uses control mechanisms that protect shareholder's interests, respect and promote human rights, guarantee ethical behavior and integrity and ensure regulatory compliance.

In 2021, the Corporation has made substantial improvements not only in the many ESG aspects related to its business but also in the way it manages and reports sustainability to its stakeholders. For the remainder of 2021 and beyond, the Corporation is committed to developing and maintaining a robust ESG strategy and, as such, has developed a six-year plan with the following four priorities:

1) A cleaner energy future - deliver natural gas under the highest environmental and operational efficiency standards.
2) A safe and committed team - maintain best-in-class health and safety practices and promote a diverse and inclusive culture.
3) A transparent and ethical business - adopt the best practices, encourage respect for human rights and ensure ethics and integrity in everything Canacol does.
4) A society guided by sustainable development - promote and maintain close and transparent relationships that guarantee communities' growth and quality of life.

The Corporation has identified specific targets as part of the six-year plan that encompass the four priorities, including such things as further reduction targets for CO_2 emissions, a year over year increase in renewable and low-or-no carbon sources of energy, the establishment of biodiversity conservation agreements with local stakeholders, the implementation of a 100% zero waste model for the Corporation's operations, further strengthening of its diverse and inclusive work environment and the demonstration of zero tolerance for corruption and human rights violations.

Outlook

For the remainder of 2021, the Corporation anticipates the completion of an eleven well drilling program, which will be marked by the drilling of the Siku-1 exploration well. With respect to the Medellin pipeline project, the Corporation continues to focus on the following activities related to the pipeline project, all of which are anticipated to be completed by the end of Q1 2022: 1) finalize work on the environmental permit to submit to the ANLA for approval, 2) finalize the selection of the construction company that will be responsible for building and operating the pipeline, 3) arrange the necessary financing as required to execute the project, and 4) continue to negotiate and execute an additional 45 MMscfpd of gas sales contracts with consumers in the interior to fill the initial 100 MMscfpd capacity of the pipeline.

Gas sales averaged 192 MMscfpd for October 2021

Realized contractual natural gas sales (which are gas produced, delivered, and paid for) were 192 MMscfpd for October 2021.

Remaining 2021 Exploration Drilling Program

The Corporation in October 2021 completed the drilling of the Corneta-1 exploration well, which has been cased and suspended as a future water disposal well having encountered non commercial volumes of gas. The rig is currently mobilizing to drill the Siku-1 exploration well, which is targeting gas bearing sandstones of the CDO reservoir in close proximity to the Corporation's Clarinete gas field, also located on the VIM-5 E&P contract. The Siku-1 exploration well is anticipated to take approximately five weeks to drill, complete, and test prior to the end of the year.

FINANCIAL & OPERATING HIGHLIGHTS

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

	Three months ended September 30,

Financial	2021	2020	Change	
Total natural gas, LNG and crude oil revenues, net of royalties and transportation expense	72,802	57,429	27	%
Adjusted Funds from operations(1)(2)	38,227	33,409	14	%
Per share - basic ($)(1)	0.22	0.18	22	%
Per share - diluted ($)(1)	0.22	0.18	22	%
Net income (loss) and comprehensive income (loss)	8,790	2,609	237	%
Per share - basic ($)	0.05	0.01	400	%
Per share - diluted ($)	0.05	0.01	400	%
Cash flow provided by operating activities(3)	57,046	50,016	14	%
Per share - basic ($)	0.32	0.28	14	%
Per share - diluted ($)	0.32	0.28	14	%
EBITDAX(1)	53,836	42,303	27	%
Weighted average shares outstanding - basic	177,245	180,980	(2	%)
Weighted average shares outstanding - diluted	177,245	181,495	(2	%)
Capital expenditures, net of dispositions	24,177	26,437	(9	%)

Cash and cash equivalents(3)				
Working capital surplus				
Total debt				
Total assets				
Common shares, end of period (000's)				

	Three months ended September 30,			
Operating	2021	2020	Change	
Production(1)				
Natural gas and LNG (MMscfpd)	192,402	162,012	19	%
Colombia oil (bopd)	394	317	24	%
Total (boepd)	34,149	28,740	19	%
Realized contractual sales(1)				
Natural gas and LNG (MMscfpd)	190,553	162,984	17	%
Colombia oil (bopd)	168	347	(52	%)
Total (boepd)	33,598	28,941	16	%
Operating netbacks(1)				
Natural gas and LNG ($/Mcf)	3.49	3.47	1	%
Colombia oil ($/bopd)	30.93	17.04	82	%
Corporate ($/boe)	19.96	19.76	1	%

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

(2) Adjusted funds from operations represents cash flow provided by operating activities before certain adjustments related to: i) changes in non-cash working capital of $2.1 million and ii) the payment of the remaining outstanding balance of the Corporation's litigation settlement liability of $13.1 million.

(3) The Corporation made certain significant cash payments during the nine months ended September 30, 2021 related to: i) certain income tax expense cash payments (see the "Income Tax Expense" section in this MD&A) of $31.9 million and ii) the semi-annual Senior Notes interest payment of $11.6 million, offset by the majority of the 2020 prepaid tax installments totaling $9 million being received from the Colombian tax authority.

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's has filed its interim condensed consolidated financial statements and related Management's Discussion and Analysis as at and for the three and nine months ended September 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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