Canacol’s Q220 results confirm the financial impact of the reduced production and sales in Q2 as previously announced. While sales and production are down c 25% over Q120, the underlying message is that production continues to improve from an April low following the COVID-19 outbreak, while netbacks also improve with additional sales. EBITDAX and earnings remain strong, further exemplifying the company’s lean operations and majority (c 80%) take-or-pay offtake contracts denominated in US dollars that protect the company from macro fluctuations.

Q2 results confirm previously announced production for the quarter of 151mmcfd and sales of 152mmcfd. While this represents a c 25% reduction from Q120 of 201mmcfd, as previously announced, the underlying monthly production has recovered significantly over Q2 with June production at 165mmcfd. Revenues fell from $69.9m in Q120 to $53.3m (net of royalties/transportation) in Q220 reflecting the decrease in sales volumes, although slightly offset by a marginal improvement in natural gas netbacks. We would expect netbacks to continue to improve as production and sales increase with more spot sales included in the sales mix going forward. Net operating expenses remained low at $0.25/mcf in Q220.

The impact of reduced revenues has naturally fed through to EBITDAX, down 32% from Q120 to $40.4m. However, in reality this exemplifies the lean operation that Canacol is able to run to absorb the majority of the impact of reduced sales. Net income for the quarter was $17.7m, in line with other results (Q120 net loss of $26m was heavily affected by a non-cash deferred tax expense).

Canacol is currently completing the Pandereta-8 development well, which encountered 168ft TVD of net gas pay. The company also recently spud the Porro Norte-1 exploration well with a second rig which we expect to take around seven weeks to drill.

Canacol exits the quarter with $58.6m of cash and cash equivalents, and net debt of $287.7m, a reduction of $12.7m since end 2019. Liquidity has been further strengthened post quarter end with two additional facilities of $46m and $75m. The $75m facility is a bridge term loan for the company to accelerate engineering and environment permitting of its anticipated Medellin pipeline, which is due to enter production in H224. Ultimately, Canacol expects to transfer majority ownership of this pipeline to a third party, but the bridge loan will allow it to maintain its schedule with the pipeline in the meantime.

Canacol continues to guide to sales for 2020 of 170–197mmcfd, meaning it will need to secure minimum sales for H220 of 163mmcfd. This seems easily achievable given current production levels, especially when including 14.6mmcfd of gas sales nominations being rolled over from H120.

### Q2 results update

**17 August 2020**

<table>
<thead>
<tr>
<th>Price</th>
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<tbody>
<tr>
<td>Market cap</td>
<td>C$657m</td>
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<tr>
<td>Net debt (US$m) at 30 June 2020</td>
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<tr>
<td>Shares in issue</td>
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<td>Free float</td>
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<td>Primary exchange</td>
<td>TSX</td>
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<tr>
<td>Secondary exchange</td>
<td>BVC</td>
</tr>
</tbody>
</table>

### Share price performance

![Graph showing share price performance]

### Business description

Canacol Energy is a natural gas exploration and production company primarily focused on Colombia.

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