Canacol Energy Ltd. Reports Fiscal Q2 2013 Financial and Operating Results

CALGARY, ALBERTA - (February 13, 2013) - Canacol Energy Ltd. ("Canacol" or the "Corporation") (TSX:CNE; BVC:CNEC) announced today its financial and operating results for the three and six months ended December 31, 2012.

Highlights for the Three and Six Months Ended December 31, 2012

(in United States dollars, except as otherwise noted; "net" production represents working-interest production before royalties)

Completion of Shona Acquisition

On December 21, 2012, Canacol completed the acquisition of all the outstanding common and preferred shares of Shona Energy Company, Inc. ("Shona") for cash consideration of $40.2 million, excluding transaction costs, and share consideration of 24,600,758 common shares of Canacol. All of Shona's outstanding options were surrendered and terminated prior to closing the acquisition, while Shona's warrants were adjusted such that they maintained their economic equivalency.

Shona was an international oil and gas exploration and production company with operations focused in Colombia and Peru. With working interests in five blocks, Shona had net proven and probable reserves of approximately 95 billion cubic feet, or 16.6 million boe, at December 31, 2011 and operated production for the three months ended December 31, 2012 of approximately 15.6 million cubic feet per day, or 2,744 boepd, before royalties, from the Esperanza field in Colombia.

The strategic rationale of the acquisition of Shona included:

- Doubling of the Corporation's 2P reserves plus deemed volumes to 33 million boe, net after royalties, with a before-tax NPV10 of $736 million.
- Adding long reserve life gas fields to the Corporation's existing portfolio of oil reserves.
- Adding significant production under long-term sales contracts with escalating pricing. The Corporation also has the ability to raise gas production volumes in the short term with no material additional capital required.
- Adding interests in five exploration assets with net risked prospective resources of 66 million barrels of oil and gas. Three of these assets are located adjacent to the Corporation's Capella heavy oil field situated in the Caguan-Putumayo Basin of Colombia.

Results of operations for Shona are only included in the condensed consolidated results of the Corporation from the acquisition date, December 21, 2012. Shona's assets are expected to significantly contribute to the production and operating cash flows of the Corporation in future periods.

Exploration Successes

On October 31, 2012 the Corporation announced that the Mona Arana 1 exploration well on its VMM2 E&P contract located in the Middle Magdalena Basin had encountered 85 feet of net potential oil pay within the conventional Lisama sandstone reservoir. A subsequent test of the interval in January 2013 produced 1,242 bopd. On January 24, 2013 the Corporation announced that the Mona Arana 1 well had encountered 230 feet of potential net oil pay within 700 gross feet of the non-conventional Upper La Luna shale. ExxonMobil Colombia, the Corporations partner in the well, exercised its right to assume operatorship of the well and the contract. ExxonMobil Colombia is presently considering options to drill the well deeper and/or conduct flow tests of the La Luna shale in late second quarter of calendar 2013. The Corporation has a 20% non-operated working interest in the contract.

On December 4, 2012, the Corporation announced that the Agueda 1 ST well had encountered 70 feet of net oil pay within the C7, Lower Gacheta, and Ubaque reservoirs on its LLA 23 E&P contract located to the north of the Rancho Hermoso field in the Llanos Basin. The Lower Gacheta tested 1,832 gross bopd of light oil, and was placed on a long term production test. The Corporation has an 80% operated working interest in the contract and has plans to drill 2 to 3 development wells commencing in the first quarter of calendar 2013.

Share Consolidation

Effective December 20, 2012, the Corporation completed a 10:1 consolidation of its common shares.

Production

For the three and six months ended December 31, 2012, the Corporation's production primarily consisted of crude oil and natural gas liquids from its Rancho Hermoso field in the Llanos Basin of Colombia. Over the second half of calendar 2012, the Corporation focused its efforts in Rancho Hermoso on higher netback non-tariff production versus low netback tariff production, which previously contributed a large percentage to the Corporation's total production. As a result, total corporate production for the three and six months ended December 31, 2012 was 5,354 boepd and 5,687 boepd, respectively, with only 26% (2011 – 65%) and 33% (2011 – 65%), respectively, representing low netback tariff production from Rancho Hermoso. This trend has continued into calendar 2013 and all remaining tariff production has been converted to non-tariff formations as of the date hereof after the last remaining producing Mirador well experienced a recent mechanical issue and was converted to non-tariff production from the Barco reservoir, which is currently producing 2,198 gross bopd (540 bopd net) with 21 percent water cut and 900 Mscfpd of associated gas. Overall production at the Rancho Hermoso field has now stabilized and consists entirely of higher netback non-tariff oil production. The Corporation is currently working over the RH 17 well to convert it from a high water cut Mirador producer to a higher netback Ubaque producer, and has plans to sequentially recomplete an additional 3 high water cut producers to lower water cut producers in the first half of calendar 2013.

With the completion of the Shona acquisition described above, the Corporation added a significant natural gas production asset to its portfolio. The Esperanza field, located in the Lower Magdelana Basin of Colombia, produces dry natural gas for sale to local customers under long-term contracts. Actual average daily production of the Esperanza field for the three and six months ended December 31, 2012 was 2,744 boepd and 2,757 boepd, respectively. However, since the acquisition of Shona was completed on December 21, 2012, the Esperanza field accounted for only 319 boepd and 160 boepd, respectively, of the Corporation's total production for the three and six months ended December 31, 2012. The Corporation has the ability to increase gas production volumes in the short term with no material additional capital required once additional sales contracts are secured. Effective February 8, 2013, the Corporation has executed an additional sales contract with a current buyer to formally increase contract volumes by approximately 5 MMcfpd (877 boepd) effective April 1, 2013.

During the three months ended December 31, 2012, the Corporation made a key light oil discovery on its LLA 23 block immediately adjacent to the Rancho Hermoso field. The initial well was completed and put onto production in early December 2012 and produced at an average net rate of 1,286 bopd for the month of December 2012. However, since production only commenced in December, the LLA 23 field accounted for only 433 bopd and 216 bopd net of the Corporation's total production for the three and six months ended December 31, 2012, respectively. The Corporation plans to drill up to 3 development wells into the discovery commencing in mid-March 2013 and has recently received the necessary environmental approvals for such.

For the three and six months ended December 31, 2012, the Corporation also had minor crude oil production from its Capella and Entrerrios properties in Colombia. Capella, in particular, was shut-in for the majority of the time period; however, production recommenced in early December 2012. December 2012 production averaged 1,975 bopd gross (198 bopd net) from 10 of the 31 wells development wells drilled into the field to date.

Ecuador tariff production has steadily increased in calendar 2012 and is expected to continue to increase into calendar 2013, contributing a significant portion to the Corporation's total production in the future as the capital program is executed. For the three and six months ended December 31, 2012, Ecuador tariff production was 316 bopd and 186 bopd, respectively. The Corporation receives a set tariff price of $39.53 under the Ecuador incremental production contract; however, since all production expenses are the responsibility of the operator, PetroEcuador, operating netbacks are very favourable. The Corporation expects to spend approximately $21 million on capital expenditures in Ecuador in calendar 2013.

Average daily net production for the month of January 2013, was approximately 7,800 boepd, which consisted of approximately 4,650 bopd of crude oil and natural gas liquids and 3,150 boepd of natural gas. Average daily net production from February 1 to February 10, 2013 was approximately 8,000 boepd, which consisted of 4,700 bopd of crude oil and natural gas liquids and 3,300 boepd of natural gas.

Results from Operations

The Corporation recorded net income of $3.1 million and a net loss of $3.0 million for the three and six months ended December 31, 2012, respectively. The Corporation experienced a challenging quarter in terms of operating cash flows as the production decline at the Rancho Hermoso field was not offset until December 2012 by the recent new light oil discovery well at LLA 23 and the acquisition of the Shona production assets on December 21, 2012. Further, cost savings from the new power generation facility at Rancho Hermoso are not expected until the facility becomes operational in calendar Q1 2013 and, consequently, the Corporation was faced with continued high diesel running costs during the quarter. As a result, funds from operations were $3.0 million and $17.0 million for the three and six months ended December 31, 2012, respectively. As discussed above, production at Rancho Hermoso has stabilized and the Corporation expects to see the full benefit of additional production from Esperanza and LLA 23 in calendar Q1 2013. LLA 23, in particular, achieved a netback of $59.63/bbl during the reporting period using high cost temporary production facilities that are expected to be replaced shortly with permanent facilities, including a generator that uses low cost LPGs from the Rancho Hermoso field. The Corporation further expects to see production expense savings at Rancho Hermoso in calendar 2013 as a result of cost saving measures being implemented, as well as realize significant synergies on general and administrative expenses in calendar 2013 with the integration of Shona. Cost control will remain a key focus of the Corporation through calendar 2013.

Exploration and Development Activities

The Corporation spent $22.7 million and $41.6 million on exploration and development projects for the three and six months ended December 31, 2012, respectively. Most significantly, the Corporation announced two oil discoveries: the Labrador discovery on the LLA 23 in the Llanos Basin and the Mono Arana 1 discovery on the VMM2 block in the Middle Magdalena Basin, as further described above.

Cash, Working Capital and Debt

At December 31, 2012, the Corporation had cash, cash equivalents and restricted cash of $52.6 million, a working capital surplus (excluding short-term bank debt and derivatives) of $52.0 million, and total bank debt (short and long-term) of $99.4 million. The increase in debt during the quarter is primarily related to the Shona acquisition.

In connection with the closing of the Shona business acquisition on December 21, 2012, the Corporation entered into a senior secured credit agreement for $45.0 million. This credit facility carries a term of one year, is repayable in full upon maturity, bears interest at 15% per annum, payable quarterly, and is secured by the assets of Shona. In consideration for entering into the credit agreement, the Corporation agreed to a "phantom warrant payment" arrangement such that the Corporation will pay an amount (in cash or Canacol Shares, at the election of the Corporation) equal to the in-the-money amount of 2,697,292 common share purchase warrants of the Corporation at an exercise price of C$4.50 per Canacol Share. The phantom warrant payment may be demanded partially or in full at any time for a period of three years.

The Corporation expects to refinance this Shona term loan with the existing lender during calendar 2013 into an amortized term facility.

At December 31, 2012, the Corporation had $41.0 million drawn under its existing syndicated credit facility and an additional amount of $5.8 million was guaranteed under a letter of credit for a total of $46.8 million. The $5.8 million letter of credit is expected to be cancelled and replaced for a significantly lower amount during calendar Q1 2013.

In late December 2012, the Corporation received notice from its lender that the borrowing base was re-determined to $33.0 million, compared to the total amount drawn or guaranteed under the facility at the time of $46.8 million. Consequently, under the credit agreement, the Corporation must cure the deficiency of $13.8 million through equal instalments of $2.3 million per month over the next six months. The results of the Corporation's recent successful light oil well on the LLA 23 block were not considered in the borrowing base re-determination as sufficient information was not available at the time.

At December 31, 2012, $17.5 million was drawn under the Corporation's other Colombian credit facilities, a decision taken in December 2012 to ensure adequate short-term liquidity while the syndicated credit facility was under re-determination.

Outlook

The Corporation plans to spend capital expenditures of $67 million in calendar 2013 on drilling, workovers, seismic, production facilities, and pipelines in Colombia and Ecuador, and anticipates net average production before royalties of between 7,500 and 8,500 boepd over the period. As indicated above, average net daily production for the month of January 2013 and from February 1 to February 10, 2013 was approximately 7,800 boepd and 8,000 boepd, respectively.

In calendar 2013, the Corporation will focus on: 1) building out production and reserves from recent oil discoveries on LLA 23 and VMM2 and increasing production levels from the newly acquired Esperanza gas field in Colombia via new sales contracts; 2) continuing to increase production and reserves from the Libertador-Atacapi oil fields in Ecuador; and 3) execute a significant oil-focused exploration program in Colombia targeting 44 million barrels of net risked prospective conventional light and heavy oil, and unconventional light oil resources. Exploration projects of significance for calendar 2013 include exploration wells on LLA 23 targeting light oil, exploration wells on each of the Corporation's three Middle Magdalena blocks (Santa Isabel, VMM2 and VMM3) targeting both shallow conventional light oil and deeper unconventional shale oil, and the continuation of the heavy oil exploration program on assets in the Putumayo-Caguan Basin. Funding for the calendar 2013 capital program is expected to come from working capital, operating cash flows and debt facilities.

Financial and Operating Highlights for the Three and Six Months Ended December 31, 2012

(in thousands of United States dollars, except as otherwise noted; "net" production represents working-interest production before royalties)

Financial	Three months ended December 31,			Six months ended December 31,		
	2012	2011	Change	**2012**	2011	Change
Petroleum and natural gas revenues, net of royalties	**27,350**	55,241	(50%)	**69,145**	90,571	(24%)
Funds from operations [(1)(2)]	**2,943**	24,480	(88%)	**17,034**	42,241	(60%)
Per share – basic ($)	**0.05**	0.45	(90%)	**0.27**	0.80	(66%)
Per share – diluted ($)	**0.05**	0.45	(90%)	**0.27**	0.78	(65%)
Net income (loss) [(2)]	**3,131**	(2,423)	n/a	**(3,083)**	11,063	n/a
Per share – basic ($)	**0.05**	(0.04)	n/a	**(0.05)**	0.21	n/a
Per share – diluted ($)	**0.05**	(0.04)	n/a	**(0.05)**	0.20	n/a
Capital expenditures, excluding business acquisition	**22,667**	62,425	(64%)	**41,598**	93,781	(56%)
				December 31, 2012	June 30, 2012	Change
Cash and cash equivalents				**33,253**	30,789	8%
Restricted cash				**19,298**	6,555	194%
Working capital surplus, excluding the current portion of bank debt and derivatives [(1)]				**52,042**	29,697	75%
Short-term and long-term bank debt				**99,440**	27,986	255%
Total assets				**595,051**	406,828	46%
Common shares, end of period (000s)				**86,499**	61,898	40%

Operating	Three months ended December 31,			Six months ended December 31,		
	2012	2011	Change	**2012**	2011	Change
Petroleum and natural gas production, before royalties (boepd)						
Petroleum	**5,035**	13,837	(64%)	**5,527**	11,935	(54%)
Natural gas	**319**	-	n/a	**160**	-	n/a
Total	**5,354**	13,837	(61%)	**5,687**	11,935	(52%)
Petroleum and natural gas sales, before royalties (boepd)						
Petroleum	**4,815**	14,155	(66%)	**6,068**	12,182	(50%)
Natural gas	**319**	-	n/a	**160**	-	n/a
Total	**5,134**	14,155	(64%)	**6,228**	12,182	(49%)
Realized sales prices ($/boe)						
Rancho Hermoso and LLA 23 – non-tariff	**89.64**	99.34	(10%)	**91.23**	94.42	(3%)
Rancho Hermoso – tariff	**17.36**	17.36	-	**17.36**	16.35	6%
LLA 23	**88.54**	-	n/a	**88.54**	-	n/a
Esperanza	**33.87**	-	n/a	**33.87**	-	n/a
Ecuador – tariff	**39.53**	-	n/a	**39.53**	-	n/a
Total	**62.44**	47.10	33%	**65.27**	44.59	46%
Operating netbacks ($/boe) [(1)]						
Rancho Hermoso – non-tariff	**23.20**	53.06	(56%)	**30.60**	52.14	(41%)
Rancho Hermoso – tariff	**3.73**	10.06	(63%)	**5.11**	9.49	(46%)
LLA 23	**59.63**	-	n/a	**59.63**	-	n/a
Esperanza	**28.35**	-	n/a	**28.35**	-	n/a
Ecuador – tariff	**39.53**	-	n/a	**39.53**	-	n/a
Total	**19.01**	24.32	(22%)	**21.86**	23.97	(9%)

(1) Non-IFRS measure. See "Non-IFRS Measures" section within MD&A.

(2) Effective December 20, 2012, the Corporation completed a 10:1 consolidation of its common shares. Consequently, per share information presented above was restated to a post-consolidation basis for comparability.

The Corporation's has filed its unaudited interim condensed consolidated financial statements, and related Management's Discussion and Analysis as of and for the three and six months ended December 31, 2012 with Canadian securities regulatory authorities. These filings are available for review at www.sedar.com.

Director Appointments and Director Retirement

The Corporation is pleased to announce the appointment of two former Shona directors, Mr. Gary R. Petersen and Mr. Gregory D. Elliot, to its Board of Directors. Mr. Petersen is a Managing Partner and co-founder of EnCap Investments LP. Established in 1988, EnCap Investments LP is an investment manager and leading provider of private equity capital to the upstream and midstream sectors of the oil and gas industry. Mr. Elliot founded Workstrings LLC in 1997, a premiere oilfield rental company which was sold to Superior Energy Services in 2001. Mr. Elliot continues as President of Workstrings International, which has become the second largest oilfield rental company globally. The Corporation also wishes to announce the retirement of Mr. Alvaro Barrera from its Board of Directors. Mr. Barrera has enjoyed a long distinguished career in the oil and gas industry in Colombia and has been a director of Canacol since 2008. The directors and management wish to express their sincere gratitude to Mr. Barrera for his contributions to the Board of Directors of Canacol and wish him a happy retirement. Mr. Barrera will remain on the Advisory Board of Canacol.

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Canacol is an exploration and production corporation with operations in Colombia, Ecuador, Brazil, Guyana and Peru. The Corporation's common stock trades on the Toronto Stock Exchange and the Colombia Stock Exchange under ticker symbol CNE and CNEC, respectively.

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