Canacol Energy Ltd. Announces Closing of the Shona Energy Company, Inc. Transaction

CALGARY, ALBERTA, December 21, 2012 – Canacol Energy Ltd. ("Canacol" or the "Corporation") (TSX: CNE, BVC: CNE.C) is pleased to announce the formal closing of the Shona Energy Company, Inc. (“Shona”) (TSXV: SHO) transaction, effective December 21, 2012.

Charle Gamba, CEO and President of Canacol, stated “The Shona assets bring Canacol 17 million standard cubic feet per day (“mmscfpd”) of net gas production (2,700 barrels per day of oil equivalent) (“boepd) under long term contracts, 95 billion cubic feet (“bcf”) of net proved plus probable (“2P”) reserves (15.8 million barrels of oil equivalent) (“mmboe”), and significant gas and conventional heavy oil upside on 4 exploration contracts in Colombia, making Canacol the 5th largest public exploration and production company in Colombia on a reserves basis, with net 2P reserves totaling 32 mmboe at a net present value discounted at 10% of US$736 million. The Corporation anticipates exiting calendar 2012 with net production of approximately 8,000 boepd net after royalty. The focus for 2013 is straight forward: firstly to grow production from both our light oil and gas producing properties to increase cash flow, which includes our two recently announced light oil discoveries in Colombia, and secondly to continue the successful exploration of our significant conventional and non-conventional oil and gas assets in Colombia to add reserves. The diversity of our production and exploration portfolio make Canacol unique as a junior oil and gas company in Colombia, balancing high decline, short reserve life Llanos Basin oil production with lower decline, long reserve life light oil production from Ecuador and now gas production from the Lower Magdalena Basin.”

The Corporation has net 2P reserves of approximately 32 million barrels of oil equivalent reserves with a pre-tax NPV10 of US$736 million, and interests in 29 E&P contracts totalling 3.3 million net acres. Core areas include light oil production and exploration in the Llanos Basin (which includes the recently announced Labrador light oil discovery on the LLA 23 E&P contract), conventional and non-conventional light oil exploration in the Middle Magdalena Basin (which includes the recently announced Mona Arana oil discovery on the VMM 2 contract) gas production and exploration in the Lower Magdalena Basin, heavy oil production and exploration in the Caguan Basin, and light oil production in the Oriente Basin of Ecuador.

Pursuant to an arrangement agreement (the "Arrangement Agreement") between the Corporation and Shona dated October 15, 2012, Canacol acquired, by way of a statutory plan of arrangement (the "Arrangement"), 100% of the issued and outstanding class "A" common shares of Shona ("Shona Common Shares") in exchange for 0.10573 of a post-Consolidation (as defined below) common share of Canacol (“Canacol Share”) and C$0.0896 cash for each Shona Common Share (the "Consideration") and 100% of the issued and outstanding series "A" preferred shares of Shona ("Shona Preferred Shares") in exchange for US$100.00 cash for each Shona Preferred Share. The Consideration represents a value of approximately C$0.56 per Shona Common Share, based on the volume weighted average price of the Canacol Shares on the Toronto Stock Exchange (the "TSX") for the 15 trading days ended October 12, 2012.

As previously announced, shareholders of Canacol approved the 10 to 1 consolidation (the “Consolidation”) of the Canacol Shares associated with the closing of the Arrangement. The Corporation completed the Consolidation effective December 14, 2012 and the Canacol Shares began trading on a post-Consolidation basis on the TSX and the Colombia Stock Exchange on December 20, 2012.

Under the terms of the Arrangement Agreement, all of Shona's outstanding options were surrendered and terminated prior to the closing of the Arrangement. In addition, all holders of Shona warrants are entitled to receive, in lieu of the number of Shona Common Shares otherwise issuable upon the exercise thereof, the number of Canacol Shares adjusted for an exchange ratio of 0.12587 of a post-Consolidation Canacol Share per Shona Share and the exercise price of the warrants has been reduced with respect to the exchange ratio of 0.12587 such that the warrants maintain their economic equivalency.

Canacol issued an aggregate of 24,600,758 post-Consolidation Canacol Shares to Shona Common Shareholders in connection with the Arrangement, at a deemed purchase price in respect of the Arrangement of approximately C$4.449 per post-Consolidation Canacol Share. After giving effect to the Arrangement and the Consolidation, Canacol has 86,499,001 post-Consolidation Canacol Shares outstanding.

In connection with the closing of the Arrangement, the Corporation entered into a senior secured credit agreement with an affiliate of Credit Suisse for US$45 million, the proceeds of which were used to fund the cash payments to the Shona Common Shareholders and Shona Preferred Shareholders, as well as to fund transaction costs of the Arrangement and the financing. 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 (subject to the approval of the TSX), at the election of the Corporation) equal to the in-the-money amount of 2,697,292 post-Consolidation 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’s existing reserve-based revolving credit facility is currently subject to redetermination by its lenders and the Corporation expects to receive notice of a reduction in the borrowing base under the facility in the near term. However, as a result of the closing of the Credit Suisse facility described above, the Corporation does not expect any material change in the overall borrowing amounts under its combined credit facilities after such redetermination.

Canacol is an exploration and production company with operations focused in Colombia, Ecuador, Brazil, and Guyana. The Canacol Shares trade on the TSX and the Colombia Stock Exchange under ticker symbol CNE and CNE.C, respectively.

Shona, as a wholly-owned subsidiary of Canacol, will now be delisted from the TSX Venture Exchange.

For further information with respect to Canacol please contact:

Investor Relations
214-235-4798
Email: IR@canacolenergy.com
Website: canacolenergy.com

Forward-Looking Information

This press release contains forward-looking forward-looking information and statements within the meaning of applicable securities laws and are based on the expectations, estimates and projections of management of Canacol as of the date of this news release unless otherwise stated. The use of any of the words "expect", "anticipate", "continue", "estimate", "objective", "ongoing", "may", "will", "project", "should", "believe", "plans", "intends" and similar expressions are intended to identify forward-looking information or statements. More particularly and without limitation, this press release contains forward-looking information and statements concerning the anticipated benefits of the Arrangement to Canacol and its shareholders.

In respect of the forward-looking information and statements concerning the anticipated benefits of the Arrangement, Canacol has provided such in reliance on certain assumptions that it believes are reasonable at this time, including expectations and assumptions concerning, among other things: commodity prices and interest and foreign exchange rates; planned synergies, capital efficiencies and cost-savings; applicable tax laws; future production rates; the *sufficiency of budgeted capital expenditures in carrying out planned activities; and the availability and cost of labour and services. Accordingly, readers should not place undue reliance on the forward-looking information and statements contained in this press release. In respect of the forward-looking information and statements, Canacol has provided such in reliance on certain assumptions that it believes are reasonable at this time, including assumptions in respect of: prevailing commodity prices, margins and exchange rates; that Canacol's future results of operations will be consistent with past performance and management expectations in relation thereto; the continued availability of capital at attractive prices to fund future capital requirements relating to existing assets and projects, including but not limited to future capital expenditures relating to expansion, upgrades and maintenance shutdowns; the success of growth projects; future operating costs; that counterparties to material agreements will continue to perform in a timely manner; that there are no unforeseen events preventing the performance of contracts; and that there are no unforeseen material construction or other costs related to current growth projects or current operations.*

Since forward-looking information and statements address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to the risks associated with the industries in which Canacol operates in general such as: operational risks; delays or changes in plans with respect to growth projects or capital expenditures; costs and expenses; health, safety and environmental risks; commodity price, interest rate and exchange rate fluctuations; environmental risks; competition; failure to realize the anticipated benefits of the Arrangement and to successfully integrate Shona and Canacol; ability to access sufficient capital from internal and external sources; and changes in legislation, including but not limited to tax laws and environmental regulations.

Readers are cautioned that the foregoing list of factors is not exhaustive. Additional information on other factors that could affect the operations or financial results of Canacol are included in reports on file with applicable securities regulatory authorities, including but not limited to Canacol' Annual Information Form for the year ended June 30, 2012 which may be accessed on Canacol' SEDAR profile at www.sedar.com.

Canacol's reserve amounts are based on reports in accordance with National Instrument 51-101 prepared by DeGolyer and MacNaughton Canada Limited and Petrotech Engineering Ltd., as of June 30, 2012 as disclosed in Canacol's Annual Information Form.

Shona's reserve amounts are based on reports in accordance with National Instrument 51-101 prepared by Collarini Associates, as of December 31, 2011 as disclosed in Shona's SEDAR profile at www.sedar.com.

The estimated values of future net revenue set out in the 51-101 Reports do not represent fair market value.

The forward-looking information and statements contained in this press release are made as of the date hereof and Canacol undertakes no obligation to update publicly or revise any forward-looking information or statements, whether as a result of new information, future events or otherwise, unless so required by applicable securities laws.

"Boe" means barrel of oil equivalent on the basis of 6 Mcf of natural gas to 1 bbl of oil. Boe's may be misleading, particularly if used in isolation. A boe conversion ratio of 6 Mcf: 1 bbl 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 addition, given that the value ratio based on the current price of crude oil as compared to natural gas is significantly different from the energy equivalency of 6:1, utilizing a conversion on a 6:1 basis may be misleading as an indication of value.