Canacol Energy Ltd. and Shona Energy Company, Inc.
Announce Business Combination

CALGARY, ALBERTA, October 15, 2012 – Canacol Energy Ltd. ("Canacol" or the "Corporation") (TSX: CNE) and Shona Energy Company, Inc. ("Shona") (TSXV: SHO and OTCQX: SHOAF) are pleased to jointly announce that they have entered into an agreement (the "Arrangement Agreement") whereby Canacol will acquire 100% of the issued and outstanding class "A" common shares of Shona ("Shona Common Shares") and series "A" preferred shares of Shona ("Shona Preferred Shares"), in exchange for common shares of Canacol ("Canacol Shares") and cash, by way of a statutory plan of arrangement (the "Arrangement"). The transaction is expected to close on or around December 20, 2012, provided all required Shona and Canacol securityholder, court and regulatory approvals are obtained.

Shona, which is listed on the TSX Venture Exchange and OTCQX International, is an international oil and gas exploration and production company with operations focused in Colombia and Peru. With working interests in 5 blocks, Shona has net proven and probable ("2P") reserves of approximately 95 billion cubic feet ("bcf") (15.8 million barrels of oil equivalent) ("MMboe") and operated production of 14 million cubic feet per day ("MMscfpd") (2,300 barrels of oil equivalent per day) ("boepd") from the Esperanza E&P contract located in Colombia.

Charle Gamba, CEO and President of Canacol, stated "This transaction strengthens our productive base with stable low cost production and associated cash flows under long term sales contracts, and increases our net 2P reserves and deemed volumes to approximately 32 MMboe of oil and gas. The size of the combined company and its stable production and cash flow streams will facilitate easier access to capital and open up additional consolidation opportunities, particularly in Colombia. The transaction positions us to take a leading role in an expanding gas market in Colombia at a low entry price, and also adds three conventional heavy oil exploration contracts to our already extensive exploration position in the Caguan - Putumayo basin. With interests in 29 E&P contracts, the combined company will have one of the largest and most diverse conventional and non-conventional oil and gas exploration portfolios in Colombia".

James Payne, CEO and Chairman of Shona, stated: "This business combination allows Shona shareholders the opportunity to access lower-cost capital and accelerate participation in additional identified opportunities while, at the same time, continuing to benefit from the significant upside potential of its existing concessions, especially the under-monetized gas assets at Esperanza. Shona also views this combination of companies as an opportunity for its shareholders to participate in the consolidation activities which should continue to take place in the South American E&P sector."

The combined company will have net 2P reserves and deemed volumes of approximately 32 MMboe with a pre-tax NPV10 of US$736 million, and will have interests in 29 E&P contracts totalling 3.3 million net acres. Core exploration and production areas will include conventional heavy oil production and exploration in the Caguan – Putumayo Basin, conventional and non-conventional light oil exploration in the Middle and Upper Magdalena Basin, gas exploration and production in the Lower Magdalena Basin, light oil exploration and production in the Llanos Basin, and light oil production in the Oriente Basin of Ecuador. The estimated values disclosed herein do not represent fair market value.

Description of Shona's Assets

Esperanza Block (100% operated working interest / 60,002 net acres)

Located in the Lower Magdalena basin, the Esperanza Block contains four producing gas fields and is operated under a contract with the Agencia Nacional de Hidrocarburos ("ANH"). According to the NI 51-

101 compliant reserves report effective January 2012 by Collarini Associates, the independent auditor assigned 95 bcf in net 2P natural gas reserves (15.8 MMboe) and 78 bcf (13.0 MMboe) in possible reserves to the contract. The four fields are currently producing approximately 14 MMscfpd, the equivalent of 2,300 barrels of oil equivalent per day. The fields' gas is sold under existing long-term gas contracts with an average price of approximately US$5.30 per thousand standard cubic feet ("Mscf"). As announced on October 10, 2012, Shona has signed a Letter of Intent, and is currently negotiating a Definitive Agreement, to provide up to 17 MMscfpd of gas for an LNG project over 10 years, with a five year extension pending confirmation of reserves as part of a planned 2013 drilling program. The contractual gas price will be determined in the Definitive Agreement, but is expected to be between US$4.50 and US$5.25 Mscf and will include an annual escalation clause. In addition to the producing fields, Shona's seismic programs have identified 12 exploration prospects on the Esperanza Block with up to 300 bcf of net unrisked gas reserves as calculated by Canacol and Shona management. The Corporation plans to drill exploration and/or development wells on the concession which will include, in part, some of the larger prospects: Palmer (30 bcf gross unrisked reserves), Nelson Norte (150 bcf gross unrisked reserves), Contento (40 bcf gross unrisked reserves), and Sucre (25 bcf gross unrisked reserves) in 2013.

Serrania Block (37.5% non-operated working interest / 41,538 net acres)
Los Picachos Block (37.5% non-operated working interest / 19,789 net acres)
Macaya Block (37.5% non-operated working interest / 73,220 net acres)

Located in the Caguan-Putumayo basin, Serrania, Los Picachos, and Macaya exploration contracts are situated immediately to the north and east of the Corporation's Ombu contract, which contains the Capella heavy-oil discovery. Together with the adjacent Cedrela, Portofino, Sangretoro, and Tamarin contracts, Canacol's consolidated exploratory land position of 1.1 million net acres is one of the largest in this emerging conventional heavy-oil trend.

The exploration potential for Serrania, Los Picachos, and Macaya contracts are characterized by large, faulted anticlines similar to Capella. Serrania is believed to contain one of the largest undrilled 4-way closure structures in northern South America. Cumulatively, management estimates that the contracts contain at least 6 exploratory candidates with over 65 million barrels of net unrisked prospective heavy-oil resources. Canacol aims to utilize its local knowledge acquired at Capella and extensive exploration activity in the area.

Block 102 Peru (36.5% non-operated working interest / 114,253 net acres)

Block 102 is located in the Maranon Basin of northern Peru. In 2011, Shona participated in a small light oil discovery, Boa Oeste – 1X that is anticipated to be tested by its operating partner later in 2012 or in 2013; however, Shona announced on July 27, 2012 that, due to the ongoing testing delays and lack of anticipated benefits from the production test, Shona has elected to be a Non-Consenting Party in the remaining activities on the Boa Prospect. Instead, Shona and the Operating Partners agreed to enter the fourth exploration period to acquire 400 kilometers of 2-D seismic or 133 square kilometers of 3-D seismic in 2013, focusing on the anticipated higher-reserve light oil potential along the producing Macusari and Capahuari trends.

Terms of the Agreement

Under the terms of the Arrangement, each Shona Common Share will be exchanged for C$0.0896 cash and 1.0573 Canacol Share (the "Consideration") and each Shona Preferred Share will be exchanged for US$100.00 cash. 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.

Under the terms of the Arrangement Agreement, all of Shona's outstanding options will be exercised in accordance with their terms or surrendered or otherwise terminated prior to the closing of the Arrangement. In addition, under the terms of the Arrangement Agreement, all holders of Shona warrants will be 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 1.2587 Canacol Shares per Shona Share, and the exercise price of the warrants will be reduced with respect to the exchange ratio of 1.2587 such that the warrants maintain their economic equivalency.

Canacol anticipates issuing to the common shareholders of Shona an aggregate of 246,007,577 pre-consolidation Canacol Shares in connection with the Arrangement, at a deemed purchase price in respect of the Arrangement of approximately C$0.4449. Also, in connection with the Arrangement, Canacol intends to consolidate its common shares on a basis of 1 for 10. After giving effect to the Arrangement and the share consolidation, Canacol will have 86,499,001 post-consolidation Canacol Shares outstanding (864,990,009 pre-consolidation Canacol Shares).

The Arrangement Agreement provides for, among other things, a customary "fiduciary out" provision, that entitles Shona to consider and accept a superior proposal and a right in favour of Canacol to match any superior proposal. If the Arrangement Agreement is terminated in certain circumstances, including if Shona enters into an agreement with respect to a superior proposal or if the board of directors of Shona withdraws or modifies its recommendation with respect to the proposed transaction, including if Shona exercises its right to terminate the Arrangement Agreement at its sole discretion, Canacol is entitled to a termination payment in cash of US$4,000,000. Shona is also entitled to a termination payment in cash of US$4,000,000 in certain circumstances, including if Canacol exercises its right to terminate the Arrangement Agreement at its sole discretion. A complete copy of the Arrangement Agreement will be available under Canacol's and Shona's issuer profile on SEDAR at www.sedar.com.

The Shona board of directors has unanimously determined that the Arrangement is in the best interests of Shona and that the consideration being offered to Shona Shareholders is fair, from a financial point of view, to the Shona Shareholders. The Shona board has resolved to unanimously recommend that holders of Shona Common Shares and Shona Preferred Shares (collectively, the "Shona Shareholders") vote their shares in favour of the Arrangement at the annual and special meeting (the "Shona Meeting") of Shona Shareholders (voting together as a class) to be held on or about December 14, 2012. The directors and senior officers of Shona have entered into support agreements with Canacol to vote their Shona Common Shares and Shona Preferred Shares in favour of the Arrangement at the Shona Meeting.

The Canacol board of directors has unanimously determined that the Arrangement is in the best interests of Canacol and that the consideration being offered to Shona Shareholders is fair, from a financial point of view, to the Canacol Shareholders. The Canacol board has resolved to unanimously recommend that holders of Canacol Common Shares vote their shares in favour of the Arrangement at the annual and special meeting (the "Canacol Meeting") of Canacol Shareholders to be held on or about December 14, 2012. The directors and senior officers of Canacol have entered into support agreements with Shona to vote their Canacol Common Shares in favour of the Arrangement at the Canacol Meeting. Upon completion of the transaction two directors from Shona, one being James Payne and the other to be determined, shall join the Canacol board.

Completion of the transaction is subject to customary closing conditions, including court approval of the Arrangement; approval of two-thirds of the votes cast by holders of Shona Common Shares and Shona Preferred Shares in person or by proxy at the Shona Meeting; approval of a majority of the votes cast by holders of Canacol Shares in person or by proxy at the special meeting of Canacol Shareholders; and applicable government and regulatory approvals.

Full details of the transaction will be included in an information circular to be mailed to Shona Shareholders and an information circular to be mailed to Canacol Shareholders in accordance with applicable securities laws. A copy of the applicable information circular and related documents will be filed under each of Canacol's and Shona's issuer profiles on SEDAR at www.sedar.com.

AltaCorp Capital Inc. is acting as financial advisor to Shona with respect to the Arrangement and has provided the board of directors of Shona with its verbal opinion that, subject to its review of the final form of documents effecting the Arrangement, the Consideration payable pursuant to the Arrangement is fair, from a financial point of view, to the shareholders of Shona.

Canaccord Genuity is acting as financial advisor to Canacol with respect to the Arrangement and has provided the board of directors of Canacol with its verbal opinion that, subject to its review of the final form of documents effecting the Arrangement, the Consideration payable pursuant to the Arrangement is fair, from a financial point of view, to the shareholders of Canacol.

About Shona Energy Company, Inc.

Shona is an international oil and natural gas exploration, development and production company focusing on South America, specifically Colombia and Peru. Shona's assets currently include interests in the Shona-operated Esperanza block located in Colombia's Lower Magdalena Basin, the non-operated Serrania, Los Picachos and Macaya Blocks in Colombia's Caguan Putumayo Basin, and the non-operated Block 102 in Peru's Maranon Basin.

For further information with respect to Shona please contact:

David Gian, Treasurer & Investor Relations
Shona Energy Company, Inc.
Houston, Texas
713-622-8809

Shetal Mentlewski, VP Admin & Legal
Shona Energy Company, Inc.
Houston, Texas
713-622-8809

About Canacol Energy Ltd.

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

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 and Shona 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 Shona and their respective shareholders, including anticipated synergies; the timing and anticipated receipt of required regulatory, court and securityholder approvals for the transaction; the ability of Canacol and Shona to satisfy the other conditions to, and to complete, the Arrangement; the anticipated timing of the mailing of the information circulars regarding the Arrangement, the holding of the Shona Meeting and Canacol shareholder meeting and the closing of the Arrangement.

In respect of the forward-looking information and statements concerning the anticipated benefits and completion of the proposed Arrangement and the anticipated timing for completion of the Arrangement, Canacol and Shona have provided such in reliance on certain assumptions that it believes are reasonable at this time, including assumptions as to the time required to prepare and mail securityholder meeting materials, including the required information circulars; the ability of Canacol and Shona to receive, in a timely manner, the necessary government, regulatory, court, securityholder, stock exchange and other third party approvals, including but not limited to the receipt of applicable competition approvals and foreign government approvals; the ability of Canacol and Shona to satisfy, in a timely manner, the other conditions to the closing of the Arrangement; and 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. The anticipated dates provided may change for a number of reasons, including unforeseen delays in preparing meeting materials, inability to secure necessary securityholder, government, regulatory, court or other third party approvals in the time assumed or the need for additional time to satisfy the other conditions to the completion of the

Arrangement. 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 and Shona have 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' 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 and Shona operate 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. Risks and uncertainties inherent in the nature of the Arrangement include the failure of Canacol or Shona to obtain necessary securityholder, government, regulatory, court and other third party approvals, or to otherwise satisfy the conditions to the Arrangement, in a timely manner, or at all. Failure to so obtain such approvals, or the failure of Canacol or Shona to otherwise satisfy the conditions to the Arrangement, may result in the Arrangement not being completed on the proposed terms, or at all.

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, Shona and the combined company, 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.

The forward-looking information and statements contained in this press release are made as of the date hereof and Canacol and Shona undertake 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.