

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise.

This short form prospectus constitutes a public offering of securities only in those jurisdictions where such securities may be lawfully offered for sale and therein only by persons permitted to sell such securities. The securities offered hereby have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**U.S. Securities Act**"), or the securities laws of any state of the United States and, accordingly, may not be offered, sold or delivered, directly or indirectly, in the United States (as such term is defined in Regulation S under the U.S. Securities Act) except in transactions exempt from the registration requirements of the U.S. Securities Act and applicable state securities laws. This short form prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of the securities offered hereby within the United States. See "Plan of Distribution".

**Information has been incorporated by reference in this short form prospectus from documents filed with securities commissions or similar authorities in Canada.** Copies of the documents incorporated herein by reference may be obtained on request without charge from the Chief Financial Officer of Canacol Energy Ltd., at 4500, 525 - 8<sup>th</sup> Avenue S.W., Calgary, Alberta T2P 1G1, Telephone (403) 561-1648, and are also available electronically at [www.sedar.com](http://www.sedar.com).

## SHORT FORM PROSPECTUS

New Issue

May 16, 2014



**\$125,001,700**

**15,823,000 Common Shares**

**Price: \$7.90 per Common Share**

Canacol Energy Ltd. ("**Canacol**" or the "**Corporation**") is hereby qualifying for distribution 15,823,000 common shares (the "**Common Shares**") of the Corporation at a price of \$7.90 per Common Share (the "**Offering**"). The offering price of the Common Shares offered under this short form prospectus (the "**Offered Shares**") was determined by negotiation between the Corporation and Canaccord Genuity Corp. (the "**Lead Underwriter**"), on its own behalf and on behalf of TD Securities Inc., CIBC World Markets Inc., Cormark Securities Inc., Desjardins Securities Inc., GMP Securities L.P. and Mackie Research Capital Corporation (collectively, the "**Underwriters**"). See "Plan of Distribution".

	<u>Price to Public</u>	<u>Underwriters' Fee<sup>(1)</sup></u>	<u>Net Proceeds to the Corporation<sup>(2)(3)</sup></u>
Per Common Share .....	\$7.90	\$0.3555	\$7.5445
Total Offering .....	\$125,001,700	\$5,625,076.50	\$119,376,623.50

### Notes:

- (1) The Underwriters will be paid an aggregate cash fee equal to 4.5% of the gross proceeds of the Offering (the "**Underwriters' Fee**").
- (2) After deducting the Underwriters' Fee but before deducting the expenses of the Offering, estimated to be approximately \$250,000.
- (3) The Corporation has granted to the Underwriters an option (the "**Over-Allotment Option**") exercisable, in whole or in part, from time to time, until 30 days after the closing of the Offering to purchase, on the same terms, up to an additional 2,373,450 Common Shares for aggregate proceeds of up to \$18,750,255 to cover over allotments, if any, and for market stabilization purposes. This short form prospectus qualifies the distribution of the Over-Allotment Option and the issuance and distribution of the Common Shares issuable on exercise of the Over-Allotment Option (the "**Over-Allotment Shares**", and where the context requires, reference to "Offered Shares" includes the Over-Allotment Shares). If the Over-Allotment Option is fully exercised, the total "Price to Public", "Underwriters' Fee" and "Net Proceeds to the Corporation" will be \$143,751,955, \$6,468,837.98 and \$137,283,117.02, respectively. See "Plan of Distribution".

The issued and outstanding Common Shares are listed on the Toronto Stock Exchange (the "**TSX**") under the symbol "CNE", on the Bolsa de Valores de Colombia (the "**BVC**"), the principal stock exchange of Colombia, under the symbol "CNEC", and on the OTCQX International Premier under the symbol "CNEEF". On May 5, 2014, the last trading day prior to the public announcement of the Offering, the closing price of the Common Shares on the TSX was \$8.15 per Common Share. On May 15, 2014, the last trading day prior to the date hereof, the closing price of the Common Shares on the TSX was \$7.67 per Common Share. The TSX has conditionally approved the listing of the Offered Shares and the Over-Allotment Shares offered under this short form prospectus. The listing of the Offered Shares and the Over-Allotment Shares will be subject to the Corporation fulfilling all of the listing requirements of the TSX.

The following table sets forth the number of options that have been issued, or may be issued, by the Corporation to the Underwriters:

<u>Underwriters Position</u>	<u>Maximum size or number of securities available</u>	<u>Exercise period</u>	<u>Exercise price</u>
Over-Allotment Option	2,373,450 Over-Allotment Shares	Until 30 days from the closing of the Offering	\$7.90 per Over-Allotment Share

The Underwriters, as principals with respect to the sale of the Offered Shares, conditionally offer the Offered Shares, subject to prior sale, if, as and when issued by the Corporation and delivered and accepted by the Underwriters in accordance with the conditions contained in the underwriting agreement referred to under "*Plan of Distribution*" and subject to approval of certain legal matters relating to the Offering on behalf of the Corporation by Davis LLP and on behalf of the Underwriters by Norton Rose Fulbright Canada LLP.

**The Underwriters propose to offer the Offered Shares initially at the offering price specified above. After a reasonable effort has been made to sell all of the Offered Shares at the price specified, the Underwriters may subsequently reduce the selling price to investors from time to time in order to sell any of the Offered Shares remaining unsold. Any such reduction would not affect the proceeds received by the Corporation. See "*Plan of Distribution*".**

**An investment in the securities offered hereunder is speculative and involves a high degree of risk.** The risk factors identified under the headings "*Risk Factors*" and "*Special Note Regarding Forward-Looking Statements*" herein and the other documents incorporated by reference in this short form prospectus should be carefully reviewed and evaluated by prospective subscribers before purchasing the securities being offered hereunder.

Subscriptions for Offered Shares and Over-Allotment Shares will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that closing will occur on or about May 27, 2014 or such other date as may be agreed upon by the Corporation and the Underwriters but in any event not later than 42 days following the date of the receipt for the (final) short form prospectus (the "**Closing Date**"). Except in certain limited circumstances: (i) Offered Shares will be represented by a global certificate issued in registered form to the CDS Clearing and Depositary Services Inc. ("**CDS**") in "bookentry only" form; (ii) no certificates evidencing the Offered Shares will be issued to purchasers of Offered Shares; and (iii) purchasers of Offered Shares will only receive a customer confirmation from the Underwriter or other registered dealer who is a CDS participant and from or through whom a beneficial interest in the Offered Shares is purchased. Purchasers who are not issued a certificate evidencing the Offered Shares which are subscribed for by them at closing are entitled under the *Business Corporations Act* (Alberta) ("**ABCA**") to request that a certificate be issued in their name. Such a request will need to be made through the CDS participant through whom the beneficial interest in the securities are held at the time of the request. See "*Plan of Distribution - Book-Entry Only System*".

Subject to applicable laws in connection with the Offering, the Underwriters may effect transactions intended to stabilize or maintain the market price for the Common Shares at a level above that which might otherwise prevail on the open market. Such transactions, if commenced, may be discontinued at any time. A purchaser who acquires Over-Allotment Shares forming part of the Underwriters' over-allocation position acquires those Over-Allotment Shares under this short form prospectus, regardless of whether the over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases, if applicable. See "*Plan of Distribution*".

The Corporation's head office is located at 4500, 525 - 8<sup>th</sup> Avenue S.W., Calgary, Alberta T2P 1G1 and its registered office is located at 1000, 250 - 2<sup>nd</sup> Street S.W., Calgary, Alberta, T2P 0C1.

The President and Chief Executive Officer of the Corporation, Mr. Charle A. Gamba, and two of the directors of the Corporation, being Mr. Luis Baena and Mr. Gregory D. Elliott, all reside outside of Canada. Although each of the aforementioned individuals has appointed Davis LLP, at 1000, 250 - 2<sup>nd</sup> Street S.W., Calgary, Alberta, T2P 0C1, as his agent for service of process in Canada, it may not be possible for investors to enforce judgments obtained in Canada against each of these individuals.

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## SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this short form prospectus, and in certain documents incorporated by reference into this short form prospectus, constitute forward-looking statements and forward-looking information (collectively referred to herein as "**forward-looking statements**") within the meaning of applicable Canadian securities laws. Such forward-looking statements relate to future events or the Corporation's future performance. All statements other than statements of historical fact may be forward-looking statements. Such forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "budget", "plan", "continue", "estimate", "expect", "forecast", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Corporation believes the expectations reflected in those forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in, or incorporated by reference into, this short form prospectus should not be unduly relied upon. These forward-looking statements speak only as of the date of this short form prospectus or as of the date specified in the documents incorporated by reference into this short form prospectus, as the case may be.

In particular, this short form prospectus, and the documents incorporated by reference, contain forward-looking statements, pertaining to the following:

- the Closing Date and the expected use of proceeds of the Offering;
- obtaining of all required regulatory approvals in connection with the Offering;
- the size of, and future net revenues from, oil and gas reserves;
- the performance characteristics of the Corporation's oil and gas properties;
- supply and demand for oil and natural gas;
- drilling plans, including the anticipated timing thereof;
- treatment under governmental regulatory regimes and tax laws;
- financial and business prospects and financial outlook;
- results of operations;
- production, future costs, reserves and production estimates;
- activities to be undertaken in various areas including the fulfillment of exploration commitments;
- timing of drilling, completion and tie in of wells;
- access to facilities and infrastructure;
- timing of development of undeveloped reserves;
- planned capital expenditures, the timing thereof and the method of funding;
- financial condition, access to capital and overall strategy;
- development and drilling plans for the Corporation's assets;
- the performance characteristics of the Corporation's properties;
- the quantity of the Corporation's reserves;
- treatment under governmental regulatory and taxation regimes;
- the Corporation's production levels; and
- the Corporation's expectations regarding its ability to obtain contract extensions or fulfill the contractual obligations required to retain its rights to explore, develop and exploit any of its undeveloped properties.

Statements relating to "reserves" or "resources" are by their nature forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions that the resources and reserves described can be profitably produced in the future. The recovery and reserve estimates of the Corporation's reserves provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. As a consequence, actual results may differ materially from those anticipated in the forward-looking statements.

The forward-statements contained herein and in the documents incorporated by reference are subject to numerous risks and uncertainties, including but not limited to, the impact of general economic and political conditions in Colombia, Ecuador, Brazil and Peru; industry conditions, including changes in laws and regulations including adoption of new environmental laws

and regulations, and changes in how they are interpreted and enforced, in Colombia, Ecuador, Brazil and Peru; volatility in market prices for oil, natural gas liquids ("NGLs") and natural gas; imprecision in reserve and resource estimates; lack of availability of additional financing and farm-in or joint venture partners; competition; the results of exploration and development drilling and related activities; lack of availability of qualified personnel; the Corporation's ability to recover reserves and resources; production rates and production decline rates; environmental risks; risks related to the ability of partners to fund capital work programs and other matters requiring partner approval; the production and growth potential of the Corporation's assets; obtaining required approvals of regulatory authorities in Colombia, Ecuador, Brazil and Peru; risks associated with negotiating with foreign governments as well as country risk associated with conducting international activities; fluctuations in foreign exchange or interest rates; changes in income tax laws or changes in tax laws and incentive programs relating to the oil and natural gas industry; risk that the Corporation will not be able to obtain contract extensions or fulfill the contractual obligations required to retain its rights to explore, develop and exploit any of its undeveloped properties; the risks discussed under the heading "*Risk Factors*" in the AIF; and other factors, many of which are beyond the control of the Corporation. Readers are cautioned that the foregoing list of factors is not exhaustive. Additional information on these and other factors that could affect the Corporation's operations and financial results are included in reports on file with Canadian securities regulatory authorities and may be accessed through the SEDAR website ([www.sedar.com](http://www.sedar.com)).

Although the forward-looking statements contained in this short form prospectus are based upon assumptions which management of the Corporation believes to be reasonable, the Corporation cannot assure investors that actual results will be consistent with these forward-looking statements. With respect to forward-looking statements contained in this short form prospectus, the Corporation has made assumptions regarding, but not limited to: current commodity prices and royalty regimes; availability of skilled labour; timing and amount of capital expenditures; uninterrupted access to infrastructure; future exchange rates; the price of oil, NGL's and natural gas; the impact of increasing competition; conditions in general economic and financial markets; availability of drilling and related equipment; effects of regulation by governmental agencies; recoverability of reserves; royalty rates; future operating costs; that the Corporation will have sufficient cash flow, debt or equity sources or other financial resources required to fund its capital and operating expenditures and requirements as needed; that the Corporation's conduct and results of operations will be consistent with its expectations; that the Corporation will have the ability to develop the Corporation's oil and gas properties in the manner currently contemplated; current or, where applicable, proposed industry conditions, laws and regulations will continue in effect or as anticipated as described herein; that the estimates of the Corporation's reserves volumes and the assumptions related thereto (including commodity prices and development costs) are accurate in all material respects; that the Corporation will be able to obtain contract extensions or fulfill the contractual obligations required to retain its rights to explore, develop and exploit any of its undeveloped properties; and other matters.

Forward-looking statements and other information contained herein concerning the oil and natural gas industry in the countries in which the Corporation operates and the Corporation's general expectations concerning this industry are based on estimates prepared by management of the Corporation using data from publicly available industry sources as well as from resource reports, market research and industry analysis and on assumptions based on data and knowledge of this industry which the Corporation believes to be reasonable. However, this data is inherently imprecise, although generally indicative of relative market positions, market shares and performance characteristics. While the Corporation is not aware of any material misstatements regarding any industry data presented herein, the oil and natural gas industry involves numerous risks and uncertainties and is subject to change based on various factors.

Management of the Corporation has included the above summary of assumptions and risks related to forward-looking information provided in this short form prospectus in order to provide shareholders with a more complete perspective on the Corporation's current and future operations and such information may not be appropriate for other purposes. The Corporation's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits that the Corporation will derive therefrom. These forward-looking statements are made as of the date of this short form prospectus and the Corporation disclaims any intent or obligation to update publicly any forward-looking statements, whether as a result of new information, future events or results or otherwise, other than as required by applicable securities laws.

## CONVENTIONS

The information in this short form prospectus assumes that the Over-Allotment Option is not exercised unless otherwise indicated. All financial information in this short form prospectus and in the documents incorporated by reference herein has been presented in accordance with Canadian generally accepted accounting principles applicable to public companies at the relevant time, which for certainty, for financial years beginning on or after January 1, 2011, is International Financial Reporting Standards ("**IFRS**") applicable to publicly accountable enterprises.

All financial information herein has been presented in Canadian dollars unless otherwise noted. "\$" means Canadian dollars and "US\$" means United States dollars. On May 15, 2014, the rate of exchange of the Canadian dollar, expressed in U.S. dollars, based on the noon buying rate as quoted by the Bank of Canada, was Canadian \$1.00 = US\$0.9185.

## NOTE TO READERS

Readers should rely only on the information contained or incorporated by reference in this short form prospectus. The Corporation has not authorized any person to provide different information. The Offered Shares offered hereunder and the Over-Allotment Shares may be sold only in those jurisdictions where offers and sales are permitted under applicable laws. This short form prospectus is not an offer to sell or a solicitation of any offer to buy Offered Shares in any jurisdiction where it is unlawful to do so. The information contained in this short form prospectus is accurate only as of the date of this short form prospectus, regardless of the time of delivery of this short form prospectus or of any sale of the Offered Shares offered hereunder.

Unless the context otherwise requires, all references to the "Corporation" includes Canacol Energy Ltd. and its predecessors, divisions and subsidiaries.

## DOCUMENTS INCORPORATED BY REFERENCE

**Information has been incorporated by reference in this short form prospectus from documents filed with the securities commissions or similar authorities in each of the Provinces of Canada other than Québec (collectively, the "Commissions").** Copies of the documents incorporated herein by reference may be obtained on request without charge from the Chief Financial Officer of the Corporation, at 4500, 525 - 8<sup>th</sup> Avenue S.W., Calgary, Alberta T2P 1G1, Telephone (403) 561-1648, and are also available electronically on SEDAR at [www.sedar.com](http://www.sedar.com).

The following documents of the Corporation are specifically incorporated by reference into and form an integral part of this short form prospectus:

- (a) notice of meeting and management proxy and information circular dated November 9, 2012 relating to the annual and special meeting of shareholders held on December 14, 2012 and filed on SEDAR on November 14, 2012;
- (b) amended annual information form (the "**AIF**") of the Corporation for the year ended June 30, 2013 (including the business acquisition report dated January 24, 2013 in respect of the acquisition of Shona Energy Company, Inc. incorporated by reference therein (the "**Shona BAR**")), dated May 15, 2014 and filed on SEDAR on May 16, 2014;
- (c) management's discussion and analysis of the financial condition and results of operation of the Corporation for the year ended June 30, 2013 and filed on SEDAR on September 25, 2013;
- (d) audited annual consolidated financial statements of the Corporation as at and for the years ended June 30, 2013 and 2012, together with the notes thereto and the independent auditors' report thereon, and filed on SEDAR on September 25, 2013;
- (e) notice of meeting and management proxy and information circular dated September 27, 2013 relating to the annual and special meeting of shareholders held on November 1, 2013 and filed on SEDAR on October 2, 2013;

- (f) management's discussion and analysis of the financial condition and results of operation of the Corporation for the three and nine month periods ended March 31, 2014 and filed on SEDAR on May 12, 2014;
- (g) unaudited interim condensed consolidated financial statements of the Corporation as at March 31, 2014 and for the three and nine month periods ended March 31, 2014 and 2013, together with the notes thereto, and filed on SEDAR on May 12, 2014;
- (h) material change report dated May 7, 2014 relating to the Offering and filed on SEDAR on May 7, 2014; and
- (i) the "template version" of the "marketing materials" (as such terms are defined under applicable Canadian securities laws) for the Offering and filed on SEDAR on May 9, 2014.

Any documents of the type required by National Instrument 44-101 – *Short Form Prospectus Distributions* to be incorporated by reference in a short form prospectus including any material change reports (excluding confidential reports), interim financial statements, annual financial statements and the auditors' report thereon, management's discussion of financial conditions and results of operations, information circulars, annual information forms and business acquisition reports filed by the Corporation with the Commissions, subsequent to the date of this short form prospectus and prior to the termination of this distribution, shall be deemed to be incorporated by reference in this short form prospectus. In regards to the interim and pro forma financial statements attached and part of the Shona BAR, the Corporation confirms that there were no material changes, acquisitions or dispositions for the period of July 1, 2012 to September 30, 2012, inclusive.

**Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purposes of this short form prospectus to the extent that a statement contained herein or in any other subsequently filed document which also is, or is deemed to be, incorporated by reference herein modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement shall not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this short form prospectus.**

#### **MARKETING MATERIALS**

Any "template version" of any "marketing materials" (as such terms are defined under applicable Canadian securities laws) that are utilized by the Underwriters in connection with the Offering are not part of this short form prospectus to the extent that the contents of the template version of the marketing materials have been modified or superseded by a statement contained in this short form prospectus. Any template version of any marketing materials filed after the date of this short form prospectus and before the termination of the distribution under the Offering (including any amendments to, or an amended version of, any template version of any marketing materials) is deemed to be incorporated into this short form prospectus.

#### **CANACOL ENERGY LTD.**

The Corporation was incorporated pursuant to the provisions of the *British Columbia Company Act* on July 20, 1970 and was continued under the ABCA on November 24, 2004. On February 12, 2009, the Corporation changed its name to "Canacol Energy Ltd."

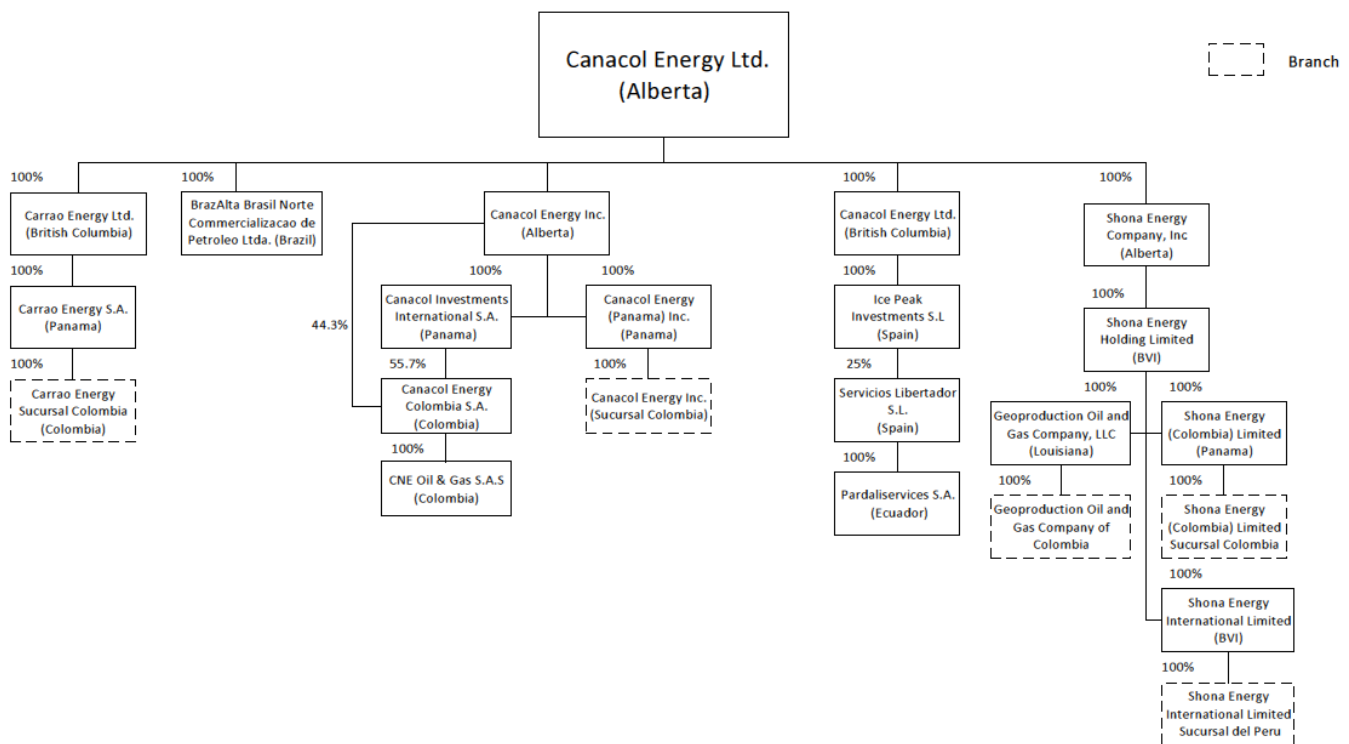
On December 14, 2012, the Corporation consolidated its Common Shares on the basis of 10 pre-consolidation Common Shares for one post-consolidation Common Share and amended its Articles to permit meetings of shareholders of the Corporation to be held outside of Alberta.

The Corporation's head office is located at 4500, 525 - 8<sup>th</sup> Avenue S.W., Calgary, Alberta T2P 1G1. The Corporation has a material branch office in Bogota, Colombia at Calle 113 No. 7-45 Torre B Oficina 1501. The registered office of the Corporation is located at 1000, 250 - 2<sup>nd</sup> Street S.W., Calgary, Alberta T2P 0C1.

The Corporation is a reporting issuer in each of the Provinces of Canada other than Québec. The Common Shares are listed and posted for trading on the TSX under the trading symbol "CNE", on the BVC under the symbol "CNEC", and on the OTCQX International Premier under the symbol "CNNEF". The 2010 Convertible Debentures (as defined herein) are listed and posted on the TSX under the trading symbol "CNE.DB".

## INTERCORPORATE RELATIONSHIPS

The following chart sets forth the Corporation's relationship with each wholly-owned and controlled material subsidiary and their respective jurisdictions of incorporation.



## SUMMARY DESCRIPTION OF THE BUSINESS

### General

Canacol is an international oil and gas company involved in the production, development, appraisal and exploration of hydrocarbons. The Corporation's key interests are in Colombia and Ecuador. The Corporation also has non-core operations in Brazil and Peru. The Corporation's asset portfolio encompasses production, development, appraisal and exploration properties.

### Exploration and Development Strategy

The near-term business plan of the Corporation is to continue growing its production and reserves base through a combination of exploration, property development and acquisitions. To accomplish this, Canacol continues to pursue an integrated growth strategy including exploration and development drilling in its core areas of Colombia and Ecuador and in its non-core areas of Brazil and Peru, farm-in opportunities, farm-out opportunities, further land acquisitions and swaps of property interests.



Additionally, potential asset and/or corporate acquisitions will be considered to further supplement the growth strategy of the Corporation. It is anticipated that any future acquisitions will be financed through a combination of cash flow and additional equity and/or debt. The Corporation will seek out, analyze and complete asset and/or corporate acquisitions where value creation opportunities have been identified that have the potential to increase shareholder value and returns, taking into account the Corporation's financial position, taxability and access to debt and equity financing.

Management of the Corporation has industry experience in several producing areas in addition to the Corporation's geographic areas of interest and has the capability to expand the scope of the Corporation's activities as opportunities arise.

Further details concerning the Corporation, including information with respect to the Corporation's assets, operations and development history, are provided in the AIF and other documents incorporated by reference into this short form prospectus. Readers are encouraged to review these documents as they contain important information about the Corporation.

## RECENT DEVELOPMENTS

On November 1, 2013, the shareholders of the Corporation approved a new shareholder rights plan of the Corporation. The shareholder rights plan was prepared to meet the guidelines of ISS Corporate Services, Inc. and is similar in structure to shareholder rights plans adopted by, and approved by the shareholders of, many Canadian public companies.

On January 23, 2014, the Corporation announced its 2014 capital exploration and development program, which includes a plan to spend net capital expenditures of US\$150,000,000 on drilling, work overs, seismic, production facilities, and pipelines in Colombia and Ecuador.

On January 31, 2014, the Corporation announced that its subsidiary, Canacol Energy Colombia S.A. ("**Canacol Colombia**"), acquired a right to an 80% interest in each of the COR 4 and COR 12 Exploration and Production ("**E&P**") contracts located in the Upper Magdalena Basin of Colombia. Pursuant to the terms of the agreements executed in respect of these transactions, Canacol Colombia acquired a right to an 80% interest in each of the COR 4 and COR 12 E&P contracts in consideration for: (i) a total payment of US\$15,000,000 (US\$7,500,000 for each block) via the issuance of 2,454,590 Common Shares at a deemed price of \$6.79 per Common Share; (ii) agreeing to fund the vendors' remaining 20% share of exploration commitments in the first two phases (unified into a single phase in the case of COR 12) of each of the contracts; (iii) granting a 3% overriding royalty to the applicable vendor for each block; and (iv) agreeing to the payment of a one-time bonus totalling US\$5,000,000 in the event that any one of the two blocks are subsequently successfully farmed out by Canacol Colombia to a third party. The Common Shares issued pursuant to each transaction are subject to a contractually imposed escrow period providing for progressive release over a period ending 90 days from the date on which the approval of the Agencia Nacional de Hidrocarburos of Colombia ("**ANH**") for the transactions is obtained. As at the date hereof, the Corporation has not received the approval from the ANH for these transactions.

On February 10, 2014, the Common Shares began trading on the OTCQX International Premier, a segment of the OTCQX marketplace, under the symbol "CNNEF".

On February 20, 2014, the Corporation announced the execution of two new gas sales contracts with respect to its 100% operated Nelson gas field located on the Esperanza E&P contract in the Lower Magdalena Basin of Colombia.

On April 24, 2014, the Corporation announced that it had closed an increase of its existing senior secured term loan (the "**Senior Secured Term Loan**") with a syndicate of banks led by Credit Suisse AG ("**Credit Suisse**"), as lead arranger. The revised Senior Secured Term Loan resulted in an increase of the borrowing base from US\$140,000,000 to US\$220,000,000, with no change to the term or the repayment schedule. Interest is payable quarterly and the principal is repayable in 15 equal quarterly instalments starting in October 2014. The revised Senior Secured Term Loan carries interest at the London Interbank Offered Rate ("**LIBOR**") plus 4.50-5.00% and is secured by all of the material assets of the Corporation.

## CONSOLIDATED CAPITALIZATION

The following table sets forth the consolidated capitalization of the Corporation as at May 5, 2014, before and after giving effect to the Offering:

Designation	Authorized	Drawn/Outstanding As at May 5, 2014	Drawn/Outstanding As at May 5, 2014 after giving effect to the Offering
<b>Debt</b>			
Senior Secured Term Loan <sup>(1)</sup>	US\$220,000,000	US\$220,000,000	US\$220,000,000
2010 Convertible Debentures, 8%	\$41,500,000	\$25,519,000 <sup>(2)</sup>	\$25,519,000 <sup>(2)</sup>
Colombian Revolving Lines of Credit <sup>(3)</sup>	US\$41,955,583 <sup>(3)</sup>	Nil <sup>(3)</sup>	Nil <sup>(3)</sup>
<b>Share Capital</b>			
Common Shares	Unlimited	\$481,983,400 <sup>(2)(4)</sup> (91,533,338 Common Shares)	\$601,110,023 <sup>(2)(4)(5)</sup> (107,356,338 Common Shares)
Preferred Shares	Unlimited	Nil	Nil
Options	N/A	7,843,058	7,843,058
Warrants	N/A	2,514,667	2,514,667
Phantom Warrants <sup>(6)</sup>	N/A	2,697,292	2,697,292
Restricted Share Units <sup>(7)</sup>	N/A	42,082	42,082

**Notes:**

- (1) As at May 5, 2014, the Corporation had the Senior Secured Term Loan with a syndicate of banks led by Credit Suisse, as lead arranger. The Senior Secured Term Loan is for a five-year term commencing April 3, 2013, with interest payable quarterly and principal repayable in 15 equal quarterly instalments starting in October 2014, following an initial 18 month grace period. The Senior Secured Term Loan carries interest at LIBOR plus 4.50-5.00% and is secured by all of the material assets of the Corporation. The Senior Secured Term Loan includes various non-financial covenants relating to future acquisitions, indebtedness, operations, investments, capital expenditures and other standard operating business covenants. The Corporation was in compliance with its covenants under the Senior Secured Term Loan as at May 5, 2014 and is in compliance as of the date hereof. See discussion below regarding the Corporation's covenants under the Senior Secured Term Loan.
- (2) Converted from U.S. dollars to Canadian dollars based on the noon buying rate as quoted by the Bank of Canada as at May 5, 2014 of US\$1.00 = \$1.0955.
- (3) The Corporation has revolving lines of credit in place in Colombia with an aggregate borrowing base of US\$41,955,583. These lines of credit have interest rates ranging from 6% to 9% and are unsecured. The facilities were undrawn as at May 5, 2014 and as of the date hereof. However, the Corporation also has letters of credit outstanding totaling US\$38,373,870 to guarantee work commitments on various exploration blocks and to guarantee other contractual commitments. The total of these letters of credit, net of amounts counter-guaranteed by other financial institutions, reduce the amounts available under the revolving lines of credit in place in Colombia by US\$21,373,870.
- (4) As at May 5, 2014. Does not include 7,843,058 Common Shares reserved for issuance pursuant to the Corporation's option plan, of which 6,291,788 Common Shares are issuable upon exercise of vested stock options. Does not include 2,514,667 issued and outstanding warrants to acquire Common Shares at a weighted average exercise price of \$5.45 per Common Share that expire on dates ranging from September 8, 2014 to February 9, 2016. Does not include the 2010 Convertible Debentures outstanding in the principal amount of \$25,519,000, which are convertible at a price of \$10.526 per Common Share, maturing on June 30, 2015.
- (5) Based on the issuance of 15,823,000 Common Shares for aggregate gross proceeds of \$125,001,700 less the Underwriters' Fee of \$5,625,076.50 and estimated expenses of the Offering of \$250,000 for net proceeds to the Corporation of \$119,126,623.50. See "Plan of Distribution".
- (6) In connection with the closing of the acquisition of Shona Energy Company, Inc. on December 21, 2012, the Corporation entered into a credit agreement for US\$45,000,000, which has since been replaced. In consideration for entering into the credit agreement, the Corporation issued to the lenders phantom warrants such that the Corporation would pay an amount equal to the in-the-money amount of 2,697,292 common share purchase warrants of the Corporation at an exercise price of \$4.50 per Common Share. The phantom warrant payment may be demanded partially or in full at any time until December 21, 2015.
- (7) From October 7, 2013 to March 31, 2014, the Corporation granted 42,082 restricted share units to certain directors, officers and employees, with reference prices ranging from \$4.70 to \$6.98 per Common Share. The restricted share units vest as to one-half in 12 months and one-half in 24 months from the grant date, and are settled in cash.

## Senior Secured Term Loan Covenants

The Senior Secured Term Loan includes various non-financial covenants relating to future acquisitions, indebtedness, operations, investments, capital expenditures and other standard operating business covenants. The Senior Secured Term Loan also includes various financial covenants, including a maximum consolidated leverage ratio ("**Consolidated Leverage Ratio**"), a minimum consolidated interest coverage ratio ("**Consolidated Interest Coverage Ratio**"), a minimum debt service coverage ratio ("**Debt Service Coverage Ratio**"), a minimum consolidated current assets to consolidated current liabilities ratio ("**Consolidated Current Assets to Consolidated Current Liabilities Ratio**") and other standard financial covenants.

The Consolidated Leverage Ratio is calculated on a quarterly basis as consolidated total debt ("**Consolidated Total Debt**") divided by consolidated EBITDAX ("**Consolidated EBITDAX**"). The maximum allowable Consolidated Leverage Ratio is 2.75:1.00. Consolidated Total Debt includes the principal amount of all indebtedness, which currently includes bank debt, office lease commitments, and net hedging liabilities, if any, and specifically excludes amounts with respect to the Corporation's convertible debentures or warrants; additionally, restricted cash maintained in the debt service reserve account related to the Senior Secured Term Loan is deductible against Consolidated Total Debt. Consolidated EBITDAX is calculated on a rolling 12-month basis and is defined as consolidated net income adjusted for interest, income taxes, depreciation, depletion, amortization, exploration expenses, share of joint venture profit/loss and other similar non-recurring or non-cash charges. Consolidated EBITDAX is further adjusted for the contribution to adjusted funds from operations, before taxes, of the results of the Ecuador IPC as disclosed in the calculation of Adjusted Funds from Operations in the Corporation's most recent management's discussion and analysis. The purpose of including this last amount is to capture the funds from operations of the Corporation's joint venture in Ecuador into the calculation as it is accounted for on an equity basis in the Corporation's consolidated financial statements.

The Consolidated Interest Coverage Ratio is calculated on a quarterly basis as Consolidated EBITDAX divided by consolidated interest expense ("**Consolidated Interest Expense**"). The minimum Consolidated Interest Coverage Ratio required is 3.50:1.00. Consolidated EBITDAX is calculated on a rolling 12-month basis as described in the above paragraph. Consolidated Interest Expense is calculated on a rolling 12-month basis and includes interest expense, amortization of upfront fees, and capitalized interest.

The Debt Service Coverage Ratio is calculated on a quarterly basis as actual cash collections deposited by customers in the Corporation's collection accounts divided by the debt service amount ("**Debt Service Amount**"). The minimum Debt Service Coverage Ratio required is 1.50:1.00. The Debt Service Amount is defined as the sum of all amounts in respect of principal, interest, and fees payable on the interest payment date succeeding the date of the calculation.

The Consolidated Current Assets to Consolidated Current Liabilities Ratio is calculated on a quarterly basis as consolidated current assets divided by consolidated current liabilities, excluding the current portion of any long-term indebtedness. The minimum Consolidated Current Assets to Consolidated Current Liabilities Ratio required is 1.00:1.00.

The Corporation was in compliance with its covenants under the Senior Secured Term Loan as at May 5, 2014 and is in compliance as of the date hereof.

## DESCRIPTION OF SHARE CAPITAL

The Corporation is authorized to issue an unlimited number of Common Shares and an unlimited number of preferred shares ("**Preferred Shares**"), issuable in series. As of May 15, 2014, an aggregate of 91,533,338 Common Shares and nil Preferred Shares were issued and outstanding.

The holders of the Common Shares are entitled to receive notice of and attend any meeting of the shareholders and are entitled to one vote for each Common Share held (except at meetings where only the holders of another class of shares are entitled to vote). Subject to the rights attached to any other class of shares, the holders of the Common Shares are entitled to receive dividends, if, as and when declared by the Board of Directors and are entitled to receive the remaining property upon liquidation of the Corporation.

The Preferred Shares may be issued from time to time in one or more series, with each series consisting of a number of Preferred Shares as determined by the Board of Directors, who may fix the designations, rights, privileges, restrictions and conditions attaching to the shares of each series of Preferred Shares. The Preferred Shares of each series shall, with respect to dividends, liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or any other distribution of the assets of the Corporation among its shareholders for the purpose of winding up its affairs, be entitled to preference over the Common Shares and the shares of any other class ranking junior to the Preferred Shares. The Preferred Shares of any series may also be given such other preferences and priorities over the Common Shares and any other shares of the Corporation ranking junior to such series of Preferred Shares.

### PRIOR SALES

The following table summarizes the issuances of Common Shares or securities convertible into Common Shares for the 12 month period prior to the date hereof.

<u>Date of Issuance</u>	<u>Description of Transaction</u>	<u>Number of Securities Issued</u>	<u>Number of Securities Granted</u>	<u>Price per Security / Exercise Price (\$)</u>
June 28, 2013	Stock Option Exercise	6,667	-	1.00
July 18, 2013	Stock Option Exercise	40,100	-	1.90
August 9, 2013	Stock Option Exercise	3,150	-	3.38
August 27, 2013	Stock Option Exercise	50,000	-	3.50
August 28, 2013	Stock Option Grant <sup>(1)</sup>	-	28,000	3.93
September 7, 2013	Stock Option Exercise	7,000	-	1.00
September 7, 2013	Stock Option Exercise	7,000	-	1.90
September 8, 2013	Stock Option Exercise	1,875	-	3.38
October 9, 2013	Stock Option Exercise	12,525	-	3.38
October 9, 2013	Stock Option Exercise	20,000	-	1.00
October 15, 2013	Stock Option Exercise	8,500	-	3.38
October 19, 2013	Warrant Exercise	11,802	-	4.26
October 22, 2013	Stock Option Exercise	4,750	-	3.38
October 25, 2013	Stock Option Exercise	6,000	-	3.38
November 1, 2013	Stock Option Grant <sup>(1)</sup>	-	83,000	4.67
November 18, 2013	Stock Option Exercise	5,375	-	3.38
December 18, 2013	Stock Option Exercise	3,500	-	3.38
December 18, 2013	Stock Option Exercise	589	-	4.50
January 7, 2014	Stock Option Exercise	1,121	-	4.50
January 7, 2014	Stock Option Exercise	4,000	-	3.38
January 21, 2014	Stock Option Exercise	433	-	4.50
January 21, 2014	Stock Option Exercise	1,250	-	3.38
January 27, 2014	Stock Option Exercise	400	-	4.50
January 27, 2014	Stock Option Exercise	1,750	-	3.38
January 28, 2014	Stock Option Exercise	1,286	-	4.50
January 28, 2014	Stock Option Exercise	3,250	-	3.38
January 30, 2014	Asset Acquisition <sup>(2)</sup>	2,454,590	-	6.79
February 5, 2014	Warrant Exercise	204,650	-	5.96
February 5, 2014	Warrant Exercise	51,070	-	3.97
February 6, 2014	Stock Option Exercise	317	-	4.50

February 6, 2014	Stock Option Exercise	2,000	-	3.38
February 11, 2014	Stock Option Exercise	42,000	-	1.00
February 11, 2014	Warrant Exercise	193,706	-	3.97
February 14, 2014	Stock Option Grant <sup>(1)</sup>	-	1,660,000	6.66
February 14, 2014	Stock Option Exercise	1,000	-	3.38
February 19, 2014	Stock Option Exercise	6,000	-	3.38
February 19, 2014	Stock Option Exercise	1,157	-	4.50
February 21, 2014	Stock Option Exercise	21,000	-	1.00
February 21, 2014	Stock Option Exercise	19,625	-	3.38
February 21, 2014	Stock Option Exercise	1,563	-	4.50
March 7, 2014	Stock Option Exercise	75,000	-	1.00
March 7, 2014	Stock Option Exercise	63,186	-	3.38
March 7, 2014	Stock Option Exercise	12,490	-	4.50
March 11, 2014	Stock Option Exercise	8,250	-	3.38
March 11, 2014	Stock Option Exercise	774	-	4.50
March 18, 2014	Warrant Exercise	145,487	-	3.97
March 18, 2014	Stock Option Exercise	90,000	-	3.38
March 19, 2014	Stock Option Exercise	60,000	-	3.38
March 19, 2014	Stock Option Exercise	16,667	-	3.50
March 24, 2014	Stock Option Exercise	10,500	-	3.38
March 24, 2014	Stock Option Exercise	466	-	4.50
March 24, 2014	Stock Option Exercise	9,000	-	3.50
March 24, 2014	Stock Option Exercise	21,200	-	6.00
March 24, 2014	Stock Option Exercise	7,000	-	6.66
March 31, 2014	Stock Option Exercise	324	-	4.50
March 31, 2014	Stock Option Exercise	4,500	-	3.38
April 2, 2014	Stock Option Exercise	2,667	-	4.67
April 2, 2014	Stock Option Exercise	46,125	-	3.38
April 2, 2014	Stock Option Exercise	9,183	-	4.50
April 2, 2014	Stock Option Exercise	2,500	-	1.90
April 2, 2014	Stock Option Exercise	833	-	3.50
April 7, 2014	Stock Option Exercise	2,000	-	3.38
April 7, 2014	Stock Option Exercise	5,000	-	4.67
April 9, 2014	Warrant Exercise	25,174	-	3.97
April 15, 2014	Stock Option Exercise	20,000	-	3.50
April 15, 2014	Stock Option Exercise	20,000	-	6.00
April 15, 2014	Stock Option Exercise	9,100	-	4.50
April 15, 2014	Stock Option Exercise	45,000	-	3.38
April 25, 2014	Warrant Exercise	498,868	-	5.96
April 25, 2014	Warrant Exercise	266,303	-	3.97
April 30, 2014	Warrant Exercise	64,500	-	5.20
May 5, 2014	Warrant Exercise	290,974	-	3.97

**Notes:**

- (1) The options were issued in accordance with the Corporation's stock option plan and expire five years from the date of issuance.
- (2) These Common Shares were issued in connection with the Corporation's acquisition of a right to an 80% interest in each of the COR 4 and COR 12 E&P contracts. See "*Recent Developments*".

## TRADING PRICE AND VOLUME

### Common Shares

The Common Shares are listed and posted for trading on the TSX under the symbol "CNE", on the BVC under the symbol "CNEC", and on the OTCQX International Premier under the symbol "CNNEF". The following table sets out the price range (monthly high and low closing prices) of the Common Shares and consolidated volumes traded on the TSX for the periods indicated (as reported by the TSX).

Period	High (\$)	Low (\$)	Volume
<b>2013</b>			
May	2.89	2.31	3,232,820
June	3.40	2.70	2,961,590
July	3.84	2.77	7,256,134
August	4.39	3.56	5,929,836
September	4.64	3.77	5,372,369
October	5.22	4.35	7,035,700
November	5.00	4.18	5,239,083
December	7.17	5.25	10,564,806
<b>2014</b>			
January	7.45	6.31	11,910,835
February	7.16	6.51	11,918,698
March	7.45	6.63	16,997,711
April	8.41	6.89	19,223,288
May <sup>(1)</sup>	8.77	7.19	21,555,489

**Note:**

- (1) Up to and including May 15, 2014.

### 2010 Convertible Debentures

On July 16, 2010, the Corporation closed an underwritten short form prospectus offering of \$41,500,000 principal amount of convertible unsecured debentures (the "**2010 Convertible Debentures**") with an interest rate of 8.00% per annum of which \$25,519,000 principal amount were outstanding as of May 5, 2014. See "*Consolidated Capitalization*". The 2010 Debentures are convertible at the holder's option into Common Shares at any time prior to June 30, 2015 and the business day immediately preceding the date fixed by the Corporation for redemption at a conversion price of \$10.526 per Common Share, being the ratio of 95 Common Shares per \$1,000 principal amount of 2010 Debentures.

The 2010 Convertible Debentures are listed and posted for trading on the TSX under the symbol "CNE.DB". The following table sets out the price range (monthly high and low closing prices) of the 2010 Convertible Debentures and consolidated volumes traded on the TSX for the periods indicated (as reported by the TSX).

Period	High (\$)	Low (\$)	Volume
<b>2013</b>			
May	94.00	91.50	163,000
June	91.00	89.50	493,000
July	95.00	90.00	1,688,000
August	98.14	92.25	1,960,000
September	101.00	96.50	826,000
October	100.25	97.50	1,168,000
November	100.85	98.27	639,000
December	102.00	101.00	1,440,000
<b>2014</b>			
January	102.00	101.15	1,427,000

<u>Period</u>	<u>High (\$)</u>	<u>Low (\$)</u>	<u>Volume</u>
February	103.00	101.10	3,444,000
March	105.50	103.00	601,100
April	106.00	102.46	405,900
May <sup>(1)</sup>	105.50	105.00	555,300

**Note:**

(1) Up to and including May 15, 2014.

**USE OF PROCEEDS**

The net proceeds to the Corporation from this Offering, prior to the exercise of the Over-Allotment Option, are estimated to be \$119,126,623.50 after deducting the Underwriters' Fee of \$5,625,076.50 and the estimated expenses of this Offering of \$250,000. If the Over-Allotment Option is exercised in full, the net proceeds from this Offering are estimated to be \$137,033,117.02 after deducting the Underwriters' Fee of \$6,468,837.98 and the estimated expenses of this Offering of \$250,000. See "*Plan of Distribution*".

The Corporation intends to use the net proceeds from the Offering to fund future capital expenditure activities in Colombia and for general corporate and working capital purposes. The Corporation's on-going capital expenditures are expected to be incurred in connection with drilling, completion and equipping operations by the Corporation, as well as land, seismic, facilities construction and property purchases, all relating to the Corporation's capital exploration and development program.

The following is an approximate breakdown of the proposed use of the net proceeds of the Offering:

<u>Activity</u>	<u>Cost (\$)</u>
2014 capital expenditure activities: two exploration wells and seven development wells on the LLA 23 E&P and Santa Isabel contracts	62,900,000.00
Future unallocated capital expenditure activities, working capital and general corporate expenses	56,226,623.50
<b>Total</b>	<b>\$119,126,623.50</b>

In the event the Over-Allotment Option is exercised in full, the additional net proceeds (estimated to be \$17,906,493.52) will be used by the Corporation for future unallocated capital expenditure activities, working capital and general corporate expenses.

The Corporation's revised 2014 capital exploration and development program includes a plan to spend net capital expenditures of approximately US\$210,000,000 on drilling, work overs, seismic, production facilities, and pipelines in Colombia and Ecuador. The program includes plans to drill 13 gross exploration wells, 43 gross development wells and work over 13 existing producing wells in its oil fields located in Colombia and Ecuador. The Corporation's exploration drilling activities will focus on the LLA 23 E&P contract, the VMM 2 E&P contract, the VMM 3 E&P contract, the Santa Isabel E&P contract, the Esperanza block and the Ombu block in the Caguan Putumayo Basin.

The use of the net proceeds of the Offering by the Corporation is consistent with the Corporation's stated business objectives, including those set forth under the heading "*Description of the Business*" in the AIF. There is no particular significant event or milestone that must occur for Canacol's business objectives to be accomplished. While Canacol believes that it has the skills and resources necessary to accomplish its stated business objectives, participation in the exploitation of, exploration for and development of oil and natural gas has a number of inherent risks. See "*Risk Factors*" in this short form prospectus and in the AIF. While the Corporation intends to use the net proceeds as stated above, there may be circumstances that are not known at this time where a reallocation of the net proceeds may be advisable for business reasons that management believes are in the Corporation's best interests.

## PLAN OF DISTRIBUTION

Pursuant to an underwriting agreement (the "**Underwriting Agreement**") dated effective as of May 6, 2014 among the Corporation and the Underwriters, the Corporation has agreed to issue and sell an aggregate of 15,823,000 Offered Shares to the Underwriters at a price of \$7.90 per Offered Share and the Underwriters have severally agreed to purchase (or arrange for the purchase of) such Offered Shares on or about May 27, 2014 or such other dates as may be agreed to by the Corporation and the Underwriters, but in any event not later than 42 days following the date of the receipt for the (final) short form prospectus. Delivery of the Offered Shares is conditional upon payment at closing of \$7.90 per Common Share by the Underwriters to the Corporation. The Underwriting Agreement provides that the Corporation will pay the Underwriters' Fee of \$0.3555 per Common Share for an aggregate fee payable by the Corporation of \$5,625,076.50, in consideration for their services in connection with the Offering. The terms of the Offering were determined by negotiation between the Corporation and the Lead Underwriter on its own behalf and on behalf of the Underwriters.

The Corporation has granted the Underwriters an Over-Allotment Option, exercisable, in whole or in part, from time to time, until 30 days following the closing of the Offering, to purchase (or arrange for the purchase of) up to an additional 2,373,450 Over-Allotment Shares at a price of \$7.90 per Over-Allotment Share for aggregate proceeds of up to \$18,750,255 for the purposes of covering the Underwriters' over-allotments, if any, and for market stabilization purposes. If the Underwriters exercise the Over-Allotment Option in full, the total Offering proceeds, Underwriters' Fee and net proceeds to the Corporation (before deducting expenses of the Offering) will be \$143,751,955, \$6,468,837.98 and \$137,283,117.02, respectively. This short form prospectus also qualifies the distribution of the Over-Allotment Shares.

The obligations of the Underwriters under the Underwriting Agreement are several and not joint and several, and may be terminated at any time in their sole discretion on the basis of their assessment of the state of the financial markets and on the occurrence of certain stated events. Subject to certain exceptions contained in the Underwriting Agreement, if an Underwriter fails to purchase the Offered Shares which it has agreed to purchase, the other Underwriters may, but are not obligated to, purchase such Offered Shares. The Underwriters are, however, obligated to take up and pay for all Offered Shares if any are purchased under the Underwriting Agreement. The Underwriting Agreement also provides that the Corporation will indemnify the Underwriters and their directors, officers, agents, shareholders, partners and employees against certain liabilities and expenses.

The issued and outstanding Common Shares are listed on the TSX under the symbol "CNE", on the BVC, the principal stock exchange of Colombia, under the symbol "CNEC", and on the OTCQX International Premier under the symbol "CNNEF". On May 5, 2014, the last trading day prior to the public announcement of the Offering, the closing price of the Common Shares on the TSX was \$8.15 per Common Share. On May 15, 2014, the last trading day prior to the date hereof, the closing price of the Common Shares on the TSX was \$7.67 per Common Share. The TSX has conditionally approved the listing of the Offered Shares and the Over-Allotment Shares offered under this short form prospectus. Listing will be subject to the Corporation fulfilling all of the listing requirements of the TSX.

Pursuant to the Underwriting Agreement, the Corporation has agreed not to issue, or announce any intention to issue, any shares from treasury or financial instruments convertible or exercisable into shares for a period of 90 days after the Closing Date without the written consent of the Lead Underwriter, such consent not to be unreasonably withheld. These restrictions do not apply to the exercise of stock options or outstanding share purchase warrants or to future grants of stock options during such period, provided that such options do not exceed, in the aggregate, 10% of the issued and outstanding Common Shares at the time of grant or Common Shares issued on redemption or conversion of outstanding convertible debentures.

The Underwriters propose to offer the Offered Shares and the Over-Allotment Shares initially at the offering price specified on the cover page of this short form prospectus. After the Underwriters have made a reasonable effort to sell all of the Offered Shares and the Over-Allotment Shares at the price specified on the cover page, the offering price may be decreased and may be further changed from time to time to an amount not greater than that set out on the cover page, and the compensation realized by the Underwriters will be decreased by the amount that the aggregate price paid by purchasers for the Offered Shares or the Over-Allotment Shares is less than the price paid by the Underwriters to the Corporation. Notwithstanding any reduction by the Underwriters in the offering price specified on the cover page, the proceeds received by the Corporation will not be affected.



Pursuant to policy statements of certain Canadian provincial securities commissions, the Underwriters may not, throughout the period of distribution, bid for or purchase Common Shares for their own account or for accounts over which they exercise control or direction. The foregoing restriction is subject to exceptions, on the condition that the bid or purchase not be engaged in for the purpose of creating actual or apparent active trading in, or raising the price of, the Common Shares. Such exceptions include a bid or purchase permitted under the Universal Market Integrity Rules for Canadian Marketplaces administered by Market Regulation Services Inc. relating to market stabilization and passive market making activities and a bid or purchase made for and on behalf of a customer where the order was not solicited during the period of distribution. Subject to applicable laws, pursuant to the first-mentioned exception, in connection with this Offering, the Underwriters may over-allot or effect transactions which stabilize or maintain the market price of the Common Shares at a level above that which might otherwise prevail on the open market. Such transactions, if commenced, may be discontinued at any time. A purchaser who acquires Over-Allotment Shares acquires those Over-Allotment Shares under this short form prospectus, regardless of whether the over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases.

The Offered Shares and Over-Allotment Shares have not been and will not be registered under the U.S. Securities Act or the securities laws of any state of the United States. The Offered Shares and Over-Allotment Shares may not be offered, sold or delivered, directly or indirectly, within the United States (as such term is defined in Regulation S under the U.S. Securities Act), except in transactions exempt from the registration requirements of the U.S. Securities Act and applicable state securities laws. The Underwriting Agreement permits the Underwriters through their U.S. registered broker-dealer affiliates to offer and sell Offered Shares in the United States to "qualified institutional buyers" as defined in Rule 144A under the U.S. Securities Act and similar exemptions under applicable state securities laws. This short form prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of the Offered Shares or Over-Allotment Shares in the United States. Moreover, the Underwriting Agreement provides that the Underwriters will offer and sell the Offered Shares and Over-Allotment Shares outside of the United States only in accordance with Rule 903 of Regulation S under the U.S. Securities Act. The Offered Shares that are sold in the United States will be restricted securities within the meaning of Rule 144(a)(3) of the U.S. Securities Act.

In addition, until 40 days after the commencement of the Offering, any offer or sale of Offered Shares within the United States by any dealer, whether or not participating in the Offering, may violate the registration requirement of the U.S. Securities Act if that offer or sale is made otherwise than in accordance with an applicable exemption from registration under the U.S. Securities Act.

### **Book-Entry Only System**

The Offered Shares will be issued in "book-entry only" form, except in certain limited circumstances, and must be purchased or transferred through a participant. On the Closing Date, the Offered Shares will be issued, registered to CDS or its nominee, CDS & Co., and will be deposited with CDS pursuant to the book-entry only system. Unless the book-entry only system is terminated as described below, a purchaser acquiring a beneficial interest in the Offered Shares, will not receive a certificate for Common Shares. Purchasers of Offered Shares will not be shown on the records maintained by CDS, except through a participant.

Beneficial interests in Offered Shares will be represented solely through the book-entry only system and such interests will be evidenced by customer confirmations of purchase from the registered dealer from which the Offered Shares are purchased in accordance with the practices and procedures of that registered dealer. In addition, registration of interests in and transfers of the Common Shares will be made only through the depository service of CDS.

As indirect holders of Common Shares, investors should be aware that they (subject to the situations described below): (a) may not have Common Shares registered in their name; (b) may not have physical certificates representing their interest in the Common Shares; (c) may not be able to sell the Common Shares to institutions required by law to hold physical certificates for securities they own; and (d) may be unable to pledge Common Shares as security. Purchasers who are not issued a certificate evidencing the Offered Shares which are subscribed for by them at closing are entitled under the ABCA to request that a certificate be issued in their name. Such a request will need to be made through the CDS participant through whom the beneficial interest in the securities are held at the time of the request.

The Common Shares will be issued to beneficial owners thereof in fully registered and certificated form only if: (a) required to do so by applicable law; (b) the book-entry only system ceases to exist; (c) CDS advises Canacol that CDS is no longer

willing or able to properly discharge its responsibilities as depository with respect to the Common Shares and Canacol is unable to locate a qualified successor; or (d) Canacol, at its option, decides to terminate the book-entry only system through CDS.

### **ELIGIBILITY FOR INVESTMENT**

In the opinion of Davis LLP, counsel to the Corporation, the Offered Shares, if issued on the date hereof, would be qualified investments under the *Income Tax Act* (Canada) (the "**Tax Act**") as of the date hereof for a trust governed by a registered retirement savings plan ("**RRSP**"), registered retirement income fund ("**RRIF**"), deferred profit sharing plan, registered education savings plan, registered disability savings plan or tax-free savings account ("**TFSA**").

Notwithstanding that the Offered Shares may be qualified investments for a trust governed by a RRSP, RRIF or a TFSA, the annuitant under a RRSP or RRIF or the holder of a TFSA may be subject to a penalty tax if such Offered Shares are a "prohibited investment" for the RRSP, RRIF or TFSA for purposes of the Tax Act. The Offered Shares will generally not, as of the date hereof, be a "prohibited investment" for trusts governed by a TFSA, RRSP, or RRIF unless the holder of the TFSA or the annuitant under the RRSP or RRIF, as applicable, (i) does not deal at arm's length with the Corporation for purposes of the Tax Act, or (ii) has a "significant interest" as defined in the Tax Act in the Corporation.

**Prospective holders who intend to hold Offered Shares in their RRSP, RRIF or TFSA should consult their own tax advisers regarding whether the Offered Shares will be a prohibited investment in their particular circumstances.**

### **RISK FACTORS**

**An investment in the Offered Shares or Over-Allotment Shares offered hereby is highly speculative due to the high risk nature and stage of development of the Corporation's business, including the nature of the Corporation's involvement in the exploration for and the acquisition, development and production of oil and natural gas in foreign countries.**

Prospective investors should consider carefully all of the information set out in this short form prospectus and in the documents incorporated by reference and the risks attaching to an investment in the Corporation, including in particular, but not limited to, the factors set out under the heading "*Risk Factors*" in the AIF, before making any investment decision and consult with their own professional advisors where necessary.

All statements regarding the Corporation's business should be viewed in light of these risk factors. Investors should consider carefully whether investment in the Offered Shares and Over-Allotment Shares is suitable for them in light of the information in this short form prospectus and in the documents incorporated by reference and their personal circumstances. Such information does not purport to be an exhaustive list. If any of the identified risks were to materialize, the Corporation's business, financial position, results and/or future operations may be materially affected. Additional risks and uncertainties not presently known to the Corporation, or which the Corporation currently deems not to be material, may also have an adverse effect upon the Corporation, the Offered Shares and the Over-Allotment Shares.

### **Use of Proceeds of the Offering**

As set out under the heading "*Use of Proceeds*" in this short form prospectus, the Corporation intends to use the net proceeds from the Offering to fund future capital expenditure activities and for general corporate and working capital purposes. Although these approximate allocations and the approximate timing of the expenditures are based on the current expectation of management of the Corporation, there may be circumstances that are not known at this time where a reallocation of the net proceeds of the Offering or a change in the timing of the particular expenditure may be advisable for business reasons that management believes are in the Corporation's best interests.

**Forward-Looking Statements May Prove to be Inaccurate**

Investors are cautioned not to place undue reliance on forward-looking statements. By its nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties, of both a general and specific nature, that could cause actual results to differ materially from those suggested by the forward-looking statements or contribute to the possibility that predictions, forecasts or projections will prove to be materially inaccurate.

Additional information on the risks, assumptions and uncertainties are found in this short form prospectus under the heading "*Special Note Regarding Forward-Looking Statements*".

**Significant Fluctuations in Market Price of Common Shares**

The trading price of the Common Shares has been and may continue to be subject to significant fluctuations, which may be based on factors unrelated to the Corporation's financial performance or prospects. These factors include macroeconomic developments in North America and globally, and market perceptions of the attractiveness of particular industries. The price of the Common Shares may also be significantly affected by changes in commodity prices, currency exchange fluctuation or in the Corporation's financial condition or results of operations. Other factors unrelated to the performance of the Corporation that may have an effect on the price of the securities of the Corporation include the following: the extent of analytical coverage available to investors concerning the business of the Corporation may be limited if investment banks with research capabilities do not follow the Corporation's securities; lessening in trading volume and general market interest in the Corporation's securities may affect an investor's ability to trade significant numbers of securities of the Corporation; and the size of the Corporation's public float may limit the ability of some institutions to invest in the Corporation's securities. If an active market for the securities of the Corporation does not continue, the liquidity of an investor's investment may be limited and the price of the securities of the Corporation may decline.

**Future Sales or Issuances of Securities**

The Corporation may sell additional Common Shares or other securities in subsequent offerings. The Corporation may also issue additional securities to finance future activities. The Corporation cannot predict the size of future issuances of securities or the effect, if any, that future issuances and sales of securities will have on the market price of the Common Shares. Sales or issuances of substantial number of Common Shares, or the perception that such sales could occur, may adversely affect the prevailing market price of the Common Shares. With any additional sale or issuance of Common Shares, investors will suffer dilution to their voting power and the Corporation may experience dilution in its earnings per share.

**LEGAL PROCEEDINGS**

There are no outstanding legal proceedings material to the Corporation to which the Corporation, or any of its respective properties are subject, nor are there any such proceedings known to be contemplated.

**AUDITOR, TRANSFER AGENT AND REGISTRAR**

The auditors of the Corporation are Deloitte LLP, Suite 700, 850 - 2<sup>nd</sup> Street S.W., Calgary, Alberta T2P 0R8.

Olympia Trust Company is the transfer agent and registrar for the Common Shares at its principal offices in Calgary, Alberta and Toronto, Ontario.

**INTEREST OF EXPERTS**

Certain legal matters in connection with the Offering will be passed upon by Davis LLP, on behalf of the Corporation, and by Norton Rose Fulbright Canada LLP, on behalf of the Underwriters.

As of the date hereof, the partners and associates of each of Davis LLP and Norton Rose Fulbright Canada LLP, as a group, beneficially own, directly or indirectly, less than 1% of the outstanding Common Shares.

Reserve estimates contained in the AIF and incorporated by reference into this short form prospectus are based upon reports prepared by DeGolyer and MacNaughton Canada Limited ("**DeGolyer**"), Petrotech Engineering Ltd. ("**Petrotech**") and Collarini Associates ("**Collarini**"), the Corporation's principal reserve evaluators. As at the date hereof, the directors, officers and associates of each of DeGolyer, Petrotech and Collarini, as a group, beneficially own, directly or indirectly, less than 1% of the outstanding Common Shares.

Deloitte LLP is the auditor of Canacol and is independent within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Alberta. Grant Thornton LLP was the auditor of Shona Energy Company, Inc. prior to its acquisition by the Corporation on December 21, 2012 and is independent within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Alberta.

#### **PURCHASER'S STATUTORY RIGHTS OF WITHDRAWAL AND RESCISSION**

Securities legislation in certain provinces of Canada provide purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. Applicable securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revision of the price or damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission or revision of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal advisor.

**CERTIFICATE OF THE CORPORATION**

Date: May 16, 2014

This short form prospectus, together with the documents incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of each of the provinces of Canada, other than Québec.

*(signed) "Charle A. Gamba"*  
President, Chief Executive Officer and Director

*(signed) "George Gramatke"*  
Chief Financial Officer

**On Behalf of the Board of Directors**

*(signed) "Michael Hibberd"*  
Director

*(signed) "Jason Bednar"*  
Director

**CERTIFICATE OF UNDERWRITERS**

Date: May 16, 2014

To the best of our knowledge, information and belief, this short form prospectus, together with the documents incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of each of the provinces of Canada, other than Québec.

**CANACCORD GENUITY CORP.**

By: (signed) "*Bruce McDonald*"  
Global Head of Energy, Investment Banking

**TD SECURITIES INC.**

By: (signed) "*Bryce Hipp*"  
Director, Investment Banking

**CIBC WORLD MARKETS INC.**

By: (signed) "*Adam Janikowski*"  
Executive Director, Investment Banking

**CORMARK SECURITIES INC.**

By: (signed) "*Chris Burchell*"  
Managing Director, Investment Banking

**DESJARDINS SECURITIES INC.**

By: (signed) "*Stuart Roberts*"  
Vice President, Investment Banking

**GMP SECURITIES L.P.**

By: (signed) "*Christopher Graham*"  
Director, Investment Banking

**MACKIE RESEARCH CAPITAL CORPORATION**

By: (signed) "*Gage Jull*"  
Managing Director, Investment Banking