CANACOL ENERGY LTD.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
THREE MONTHS ENDED SEPTEMBER 30, 2012

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(UNAUDITED)

(in thousands of United States dollars)

As at	Note	September 30, 2012	June 30, 2012
ASSETS			
Current assets			
Cash and cash equivalents		$ 31,088	$ 30,789
Restricted cash		9,886	6,072
Trade and other receivables		30,617	32,801
Prepaid expenses and deposits		5,666	4,630
Embedded derivatives asset		3,428	3,156
Crude oil inventory		1,016	8,136
		81,701	85,584
Non-current assets			
Restricted cash		492	483
Embedded derivatives asset		3,633	3,942
Exploration and evaluation assets	4	131,129	126,295
Property, plant and equipment	5	190,545	187,208
Pipeline investment		2,569	2,690
Deferred tax assets		2,197	626
		330,565	321,244
Total assets		$ 412,266	$ 406,828
LIABILITIES AND EQUITY			
Current liabilities			
Bank debt		$ 12,000	$ 12,000
Trade and other payables		37,777	47,602
Deferred income	14	2,500	-
Commodity contracts	12	3,600	303
Equity tax payable		1,224	1,236
Taxes payable		3,030	3,893
		60,131	65,034
Non-current liabilities			
Bank debt		30,153	15,986
Commodity contracts	12	559	124
Decommissioning obligations		6,740	6,642
Convertible debentures	6	26,072	25,381
Warrants	7	580	896
Equity tax payable		1,077	1,671
Total liabilities		125,312	115,734
Equity			
Share capital	7	340,775	340,775
Other reserves	7	34,127	32,053
Accumulated other comprehensive loss		347	347
Deficit		(88,295)	(82,081)
Total equity		286,954	291,094
Total liabilities and equity		$ 412,266	$ 406,828

Commitments and contingencies (note 13); Subsequent event (note 15)
See accompanying notes to interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

(UNAUDITED)

(in thousands of United States dollars, except per share amounts)

Three months ended September 30	Note		2012		2011
Revenues					
Crude oil sales, net of royalties	10	$	37,822	$	26,453
Tariff revenue			3,973		8,877
			41,795		35,330
Expenses					
Operating and transportation			25,727		13,269
Pre-license exploration costs			224		1,456
General and administrative			4,723		2,541
Stock-based compensation	7		1,181		2,478
Depletion and depreciation	5		13,299		8,523
Gain on convertible debentures and warrants			(572)		(4,495)
Gain on overlifted volumes payable			-		(7,088)
Foreign exchange (gain) loss and other			1,386		(5,045)
Unrealized gain on embedded derivatives			37		-
(Gain) loss on commodity contracts	12		4,249		(537)
Net loss on sale of assets			-		4,170
			50,254		15,272
Net finance expense (income)	8		211		(103)
Income (loss) before income taxes			(8,670)		20,161
Income taxes (recovery)					
Current			(885)		3,915
Deferred			(1,571)		2,760
			(2,456)		6,675
Net income (loss)			(6,214)		13,486
Other comprehensive income					
Foreign currency translation adjustment			-		151
Comprehensive income (loss)			(6,214)		13,637
Earnings (loss) per share					
Basic and diluted	9	$	(0.01)	$	0.03

See accompanying notes to interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(UNAUDITED)

(in thousands of United States dollars, number of shares in thousands)

	Number of Common Shares		Share Capital		Other Reserves		Accumulated Other Comprehensive Income		Deficit		Total Equity
Balance as at June 30, 2011	511,637	$	269,732	$	21,286	$	347	$	(100,637)	$	190,728
Issue of common shares	78		72		-		-		-		72
Conversion of convertible debentures	833		767		-		-		-		767
Stock options exercised	405		264		(114)		-		-		150
Stock-based compensation	-		-		3,570		-		-		3,570
Net loss for the period	-		-		-		151		13,486		13,637
Balance at September 30, 2011	512,953	$	70,835	$	24,742	$	498	$	(87,151)	$	208,924
Balance as at June 30, 2012	618,982	$	340,775	$	32,053	$	347	$	(82,081)	$	291,094
Stock-based compensation	-		-		2,074		-		-		2,074
Net loss for the period	-		-		-		-		(6,214)		(6,214)
Balance at September 30, 2012	**618,982**		**340,775**		**34,127**		**347**		**(88,295)**		**286,954**

See accompanying notes to interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(in thousands of United States dollars)

Three months ended September 30	Note	2012	2011
Operating activities			
Net income (loss) for the period		$ (6,214)	$ 13,486
Adjustments for non-cash items:			
Stock-based compensation	7	1,181	2,478
Depletion and depreciation	5	13,299	8,523
Accretion on decommissioning liabilities	8	63	144
Gain on convertible debentures and warrants		(572)	(4,495)
Gain on overlifted volumes payable		-	(7,088)
Net loss on sale of assets		-	4,170
Unrealized (gain) loss on commodity contracts	12	3,732	(616)
Unrealized foreign exchange (gain) loss and other		1,469	(1,601)
Unrealized gain on embedded derivatives		37	-
Amortization of upfront fees	8	167	-
Deferred income	14	2,500	-
Deferred income tax		(1,571)	2,760
		14,091	17,761
Changes in non-cash working capital	10	(3,687)	12,375
		10,404	30,136
Investing activities			
Expenditures on exploration and evaluation assets		(4,781)	(6,723)
Expenditures on property, plant and equipment		(13,312)	(24,633)
Investment in pipeline		-	(402)
Proceeds on sale of Brazilian assets		-	3,152
Change in restricted cash		(3,823)	6,503
		(21,916)	(22,103)
Changes in non-cash working capital	10	(2,189)	(824)
		(24,105)	(22,927)
Financing activities			
Issue of common shares		-	150
Draw on bank debt		17,000	-
Repayment of bank debt		(3,000)	-
		14,000	150
Change in cash and cash equivalents		299	7,359
Cash and cash equivalents, beginning of period		30,789	101,627
Cash and cash equivalents, end of period		$ 31,088	$ 108,986
Cash and cash equivalents consists of:			
Cash		$ 23,699	$ 44,381
Cash equivalents		7,389	64,605
Cash and cash equivalents, end of period		$ 31,088	$ 108,986

See accompanying notes to interim condensed consolidated financial statements.

(in United States dollars (tabular amounts in thousands) except as otherwise noted)

NOTE 1 - GENERAL INFORMATION

Canacol Energy Ltd. (the "Corporation" or "Canacol") and its subsidiaries are primarily engaged in petroleum and natural gas exploration and development activities in Colombia, Brazil, Ecuador and Guyana. The Corporation's head office is located at 4500, 525 - 8th Avenue SW, Calgary, Alberta, T2P 1G1, Canada. The Corporation's shares are traded on the Toronto Stock Exchange under the symbol CNE and the Bolsa de Valores de Colombia under the symbol CNE.C.

The Board of Directors approved the financial statements for issuance on November 12, 2012.

NOTE 2 - BASIS OF PREPARATION

The interim condensed consolidated financial statements (the "financial statements") have been prepared by management in accordance with International Accounting Standard 34, "Interim Financial Reporting". These financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Corporation's annual financial statements for the year ended June 30, 2012.

Basis of Measurement

These financial statements have been prepared on an historical cost basis, except for commodity contracts, convertible debentures, warrants and overlifted volumes payable, which are measured at fair value with changes in fair value recorded in profit or loss ("fair value through profit or loss").

These financial statements have been prepared on a going concern basis.

Functional and Presentation Currency

These financial statements are presented in United States dollars, which is both the functional and presentation currency.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared using the same accounting policies and methods of computation as disclosed in note 4 of the annual consolidated financial statements as of and for the year ended June 30, 2012.

NOTE 4 – EXPLORATION AND EVALUATON ASSETS

Balance at June 30, 2012		126,295
Net additions		4,834
Balance at September 30, 2012	**$**	**131,129**

(in United States dollars (tabular amounts in thousands) except as otherwise noted)

NOTE 5 – PROPERTY, PLANT AND EQUIPMENT

	Crude Oil Assets	Gas Processing Facilities	Corporate and Other Assets	Total
Cost or deemed cost				
Balance at June 30, 2012	241,582	31,745	5,456	278,783
Net additions	13,266	615	216	14,097
Reclassifications	1,893	-	-	1,893
Balance at September 30, 2012	**$ 256,741**	**$ 32,360**	**$ 5,672**	**$ 294,773**
Accumulated depletion, depreciation and impairment losses				
Balance at June 30, 2012	(88,085)	(847)	(2,643)	(91,575)
Depletion and depreciation	(10,884)	(2,007)	(408)	(13,299)
Reclassifications	(1,893)	-	-	(1,893)
Inventory adjustment and other	2,539	-	-	2,539
Balance at September 30, 2012	**$ (98,323)**	**$ (2,854)**	**$ (3,051)**	**$ (104,228)**
Carrying amounts				
At June 30, 2012	$ 153,497	$ 30,898	$ 2,813	$ 187,208
At September 30, 2012	**$ 158,418**	**$ 29,506**	**$ 2,621**	**$ 190,545**

During the three months ended September 30, 2012, $1.4 million (2011 - $2.5 million) of compensation and other costs were capitalized, which reduced general and administrative and stock-based compensation expenses for the period.

NOTE 6 – CONVERTIBLE DEBENTURES

Convertible Debentures

The convertible debentures were recorded at fair value through profit or loss. Subsequent to initial recognition, these financial instruments are measured at fair value and changes therein are recognized in profit or loss. A reconciliation of the convertible debentures is provided below.

Balance at June 30, 2012	25,381
Unrealized gain	(223)
Foreign exchange loss	914
Balance at September 30, 2012	**$ 26,072**

NOTE 7 –SHARE CAPITAL

Authorized

The Corporation is authorized to issue an unlimited number of common shares.

Issued and Outstanding

	Number		Amount
	(000s)		
Balance at June 30, 2012 and September 30, 2012	**618,982**	**$**	**340,775**

Warrants

	Number		Amount
	(000s)		
Balance at June 30, 2012	3,287	$	896
Unrealized gain	-		(348)
Foreign exchange loss	-		32
Balance at September 30, 2012	**3,287**	**$**	**580**

Stock Options

The number and weighted-average exercise prices of stock options are as follows:

	Number	Weighted-Average Exercise Price
	(000s)	(C$)
Balance at June 30, 2012	54,980	0.79
Granted	4,044	0.45
Exercised	-	-
Forfeited and cancelled	(524)	0.93
Balance at September 30, 2012	**58,500**	**0.77**

Information with respect to stock options outstanding at September 30, 2012 is presented below.

	Stock Options Outstanding			Stock Options Exercisable	
Range of Exercise Prices	Number of Stock Options	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number of Stock Options	Weighted-Average Exercise Price
(C$)	(000s)	(years)	(C$)	(000s)	(C$)
$0.10 to $0.35	9,906	1.8	0.25	9,906	0.25
$0.36 to 0.70	15,506	3.5	0.53	11,910	0.55
$0.71 to $1.05	24,534	3.6	0.89	15,020	0.88
$1.06 to $1.40	1,520	3.1	1.21	998	1.22
$1.41 and higher	7,034	3.3	1.50	4,165	1.51
	58,500	**3.2**	**0.77**	**41,999**	**0.71**

(in United States dollars (tabular amounts in thousands) except as otherwise noted)

The fair value of the stock options granted was estimated using the Black-Scholes option pricing model with the following weighted-average inputs:

	Three months ended September 30, 2012	Year ended June 30, 2012
Weighted-average fair value at grant date (C$)	**0.51**	0.48
Share price (C$)	**0.45 - 1.50**	0.52 - 1.06
Exercise price (C$)	**0.45 - 1.50**	0.52 - 1.06
Volatility	**90% - 126%**	55% - 82%
Option life	**5 years**	5 years
Dividends	**Nil**	Nil
Risk-free interest rate	**1.17% - 2.78%**	1.36% - 2.32%

A forfeiture rate of 5% (2011 – 5%) was used when recording stock-based compensation for the three months ended September 30, 2012. Stock-based compensation expense of $1.2 million (2011 – $2.5 million) was expensed and $0.9 million (2011 – $1.1 million) was capitalized during the three months ended September 30, 2012.

NOTE 8 – FINANCE INCOME AND EXPENSE

Three months ended September 30,	**2012**	2011
Finance income		
Interest and other income	**$ 269**	$ 535
Finance expense		
Fair value adjustment on equity tax payable	**34**	26
Accretion on decommissioning obligations	**63**	144
Amortization of upfront fees	**167**	-
Interest and other expense	**216**	262
	480	432
Net finance expense (income)	**$ 211**	$ (103)

NOTE 9 – EARNINGS PER SHARE

Basic and diluted earnings per share were calculated as follows:

Three months ended September 30,	**2012**	2011
Net income (loss), basic and diluted	**$ (6,214)**	$ 13,486
Weighted-average common share adjustments		
Weighted-average common shares outstanding, basic	**618,982**	512,294
Effect of stock options	**-**	9,671
Effect of restricted share units	**-**	380
Weighted-average common shares outstanding, diluted	**618,982**	522,345

For the three months ended September 30, 2012, all items were anti-dilutive due to the net loss in the period.

(in United States dollars (tabular amounts in thousands) except as otherwise noted)

NOTE 10 – SUPPLEMENTAL INFORMATION

The Corporation records crude oil sales net of royalties. Royalties incurred were as follows:

Three months ended September 30,	2012	2011
Royalties	$ 3,508	$ 2,116

Income taxes and interest paid were as follows:

Three months ended September 30,	2012	2011
Income taxes paid	$ -	$ -
Interest paid	260	10

Changes in non-cash working capital are comprised of:

Three months ended September 30,	2012	2011
Change in:		
Trade and other receivables	$ 2,305	$ 7,853
Prepaid expenses and deposits	(1,036)	323
Crude oil inventory	4,672	4,403
Trade and other payables	(10,348)	(4,042)
Overlifted volumes payable	-	745
Equity tax payable	(606)	(970)
Taxes payable	(863)	3,239
	(5,876)	11,551
Attributable to:		
Operating activities	(3,687)	12,375
Investing activities	(2,189)	(824)
	$ (5,876)	$ 11,551

NOTE 11 – SEGMENTED INFORMATION

The Corporation's reportable and geographical segments are Colombia, Corporate, Ecuador, and Other. Corporate activities include the Corporation's corporate office in Canada. Other includes the Corporation's exploration and development activities in Brazil and Guyana. The accounting policies used for the reportable segments are the same as the Corporation's accounting policies.

For the purposes of monitoring segment performance and allocating resources between segments, the Corporation's executive officers monitor the tangible, intangible and financial assets attributable to each segment. All assets are allocated to reportable segments.

(in United States dollars (tabular amounts in thousands) except as otherwise noted)

The following tables show information regarding the Corporation's reportable segments.

		Colombia		Corporate		Ecuador		Other		Total
Three months ended September 30, 2012										
Revenues	$	41,592	$	-	$	203	$	-	$	41,795
Expenses, excluding income taxes		(50,065)		(225)		(53)		(122)		(50,465)
		(8,473)		(225)		150		(122)		(8,670)
Income taxes		(2,456)		-		-		-		(2,456)
Net income (loss)	$	(6,017)	$	(225)	$	150	$	(122)	$	(6,214)
Capital expenditures, net	$	14,626	$	216	$	3,960	$	129	$	18,931
Three months ended September 30, 2011										
Revenues	$	35,330	$	-	$	-	$	-	$	35,330
Expenses, excluding income taxes		(15,450)		2,050		-		(1,769)		(15,169)
		19,880		2,050		-		(1,769)		20,161
Income taxes		(6,675)		-		-		-		(6,675)
Net income (loss)	$	13,205	$	2,050	$	-	$	(1,769)	$	13,486
Capital expenditures, net	$	29,538	$	616	$	-	$	1,202	$	31,356
As at September 30, 2012										
Total assets	$	295,586	$	74,727	$	7,480	$	34,473	$	412,266
Total liabilities	$	98,365	$	23,974	$	2,973	$	-	$	125,312
As at June 30, 2012										
Total assets	$	314,394	$	61,922	$	4,357	$	26,155	$	406,828
Total liabilities	$	64,958	$	51,076	$	-	$	-	$	115,734

(in United States dollars (tabular amounts in thousands) except as otherwise noted)

NOTE 12 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair Value of Financial Instruments

The carrying values and respective fair values of financial assets and liabilities at September 30, 2012 are summarized as follows:

	Carrying Value	Fair Value
Fair value through profit or loss		
Cash and cash equivalents	$ 31,088	$ 31,088
Restricted cash	10,378	10,378
Convertible debentures	26,072	26,072
Commodity contracts liabilities	4,159	4,159
Embedded derivatives asset	7,061	7,061
Warrants	580	580
Loans and receivables		
Bank debt	42,153	44,000
Trade and other receivables	30,617	30,617
Other liabilities		
Trade and other payables	37,777	37,777
Deferred income	2,500	2,500

Market Risk

Market risk is the risk that changes in market factors, such as commodity prices, foreign exchange rates, and interest rates will affect the Corporation's cash flows, profit or loss, liquidity or the value of financial instruments. The objective of market risk management is to mitigate market risk exposures where considered appropriate and maximize returns.

(i) Commodity Price Risk

Commodity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in commodity prices. Lower commodity prices can also impact the Corporation's ability to raise capital. Commodity prices for crude oil are impacted by world economic events that dictate the levels of supply and demand. From time to time the Corporation may attempt to mitigate commodity price risk through the use of financial derivatives. The Corporation's policy is to only enter into commodity contracts considered appropriate to a maximum of 50% of forecasted production volumes.

At September 30, 2012, the Corporation had four financial oil collars outstanding under the following terms:

Period	Volume	Type	Price Range
Jul 2012 – Jun 2013	750 bbls/day	Financial Brent Oil Collar	$85.00 – $107.50
Jul 2012 – Jun 2013	750 bbls/day	Financial Brent Oil Collar	$85.00 – $106.80
Jul 2013 – Dec 2013	500 bbls/day	Financial Brent Oil Collar	$85.00 – $107.50
Jul 2013 – Dec 2013	500 bbls/day	Financial Brent Oil Collar	$85.00 – $106.80

(in United States dollars (tabular amounts in thousands) except as otherwise noted)

Gains and losses on commodity contracts recognized in profit or loss during the period are summarized below:

Three months ended September 30,	2012	2011
Unrealized change in fair value	$ (3,732)	$ 616
Realized cash settlement	(517)	(79)
Total gain (loss)	$ (4,249)	$ 537

(ii) Foreign Currency Risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in foreign currency exchange rates. The Corporation is exposed to foreign currency fluctuations as certain expenditures are denominated in Colombian pesos, Brazilian reais and Canadian dollars.

The Corporation had no forward exchange rate contracts in place as at or during the three months ended September 30, 2012.

(iii) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates. The Corporation is exposed to interest rate risk on certain variable interest rate debt instruments, to the extent they are drawn. The remainder of the Corporation's financial assets and liabilities are not exposed to interest rate risk. The Corporation had no interest rate swap or financial contracts in place as at or during the three months ended September 30, 2012.

Liquidity Risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they become due. The Corporation's approach to managing liquidity is to ensure, within reasonable means, sufficient liquidity to meet its liabilities when due, under both normal and unusual conditions, without incurring unacceptable losses or jeopardizing the Corporation's business objectives. The Corporation prepares annual capital expenditure budgets which are monitored regularly and updated as considered necessary. Crude oil production is monitored daily to provide current cash flow estimates and the Corporation utilizes authorizations for expenditures on projects to manage capital expenditures.

The following table outlines the contractual maturities of the Corporation's financial liabilities at September 30, 2012:

	Less than 1 year	1-2 years	Thereafter	Total
Bank debt – principal	12,000	15,000	17,000	44,000
Trade and other payables	37,777	-	-	37,777
Deferred income	2,500	-	-	2,500
Equity tax payable – undiscounted	1,224	1,224	-	2,448
Convertible debentures – principal	-	-	25,942	25,942
Commodity contracts	3,600	559	-	4,159
Warrants	-	80	500	580
	57,101	16,863	43,442	117,406

In addition to the above, the Corporation has issued letters of credit totalling $19.8 million to guarantee certain obligations under its exploration contracts. Such amounts only become payable should the Corporation not meet those obligations.

(in United States dollars (tabular amounts in thousands) except as otherwise noted)

Credit Risk

Credit risk reflects the risk of loss if counterparties do not fulfill their contractual obligations. The majority of the Corporation's trade accounts receivable balances relate to crude oil sales. The Corporation's policy is to enter into agreements with customers that are well established and well financed entities in the oil and gas industry such that the level of risk is mitigated. To date, the Corporation has not experienced any material credit loss in the collection of trade accounts receivable. In Colombia, a significant portion of crude oil sales and tariff oil revenue are with customers that are directly or indirectly controlled by the government. The Corporation has also entered into sales agreements with certain Colombian private sector companies.

Aging of trade receivables:	September 30, 2012	June 30, 2012
Less than 30 days	$ 2,734	$ 5,111
31 – 60 days	-	-
61 – 90 days	-	-
Over 90 days	-	-
	$ 2,734	$ 5,111

The Corporation's trade receivables primarily relate to sales of crude oil, which are normally collected within 45 days of the month of production. The Corporation has historically not experienced any collection issues with its crude oil customers.

Capital Management

The Corporation monitors leverage and adjusts its capital structure based on the ratio of net debt to annual cash flow from operations before changes in non-cash working capital ("funds from operations"). This ratio is calculated as net debt, defined as the principal amount of its outstanding bank debt plus the principal amount of its convertible debentures, unless the debentures are in-the-money, less working capital, adjusted for the current portion of bank debt and convertible debentures included above, divided by funds from operations. The Corporation uses the ratio of net debt to funds from operations as a key indicator of the Corporation's leverage and to monitor the strength of its financial position. In order to facilitate the management of this ratio, the Corporation prepares annual budgets, which are updated as necessary depending on varying factors including current and forecast crude oil prices, changes in capital structure, execution of the Corporation's business plan and general industry conditions. The annual budget is approved by the Board of Directors and updates are prepared and reviewed as required.

	September 30, 2012	June 30, 2012
Bank debt (current and long-term) – principal	$ 44,000	$ 30,000
Convertible debentures – principal	25,942	25,519
Working capital deficiency (surplus), excluding the current portion of bank debt, convertible debentures, and derivatives	(33,742)	(29,697)
Net debt (surplus)	36,200	25,822
Annualized funds from operations	$ 56,364	$ 68,965
Net debt to funds from operations	0.6	0.4

(in United States dollars (tabular amounts in thousands) except as otherwise noted)

NOTE 13 – COMMITMENTS AND CONTINGENCIES

Presented below are the Corporation's contractual commitments at September 30, 2012:

	Less than 1 year	1-3 years	Thereafter	Total
Exploration contracts	17,925	31,923	-	49,848
Incremental production contract	24,670	48,700	10,170	83,540
Office lease	1,131	1,823	5,850	8,804
	43,726	82,446	16,020	142,192

Contingencies

In the normal course of operations, the Corporation has disputes with industry participants for which it currently cannot determine the ultimate results. The Corporation has a policy to record contingent liabilities as they become determinable and the probability of loss is more likely than not.

NOTE 14 – DEFERRED INCOME

Pacific Rubiales Energy Corp. ("Pacific Rubiales") has executed an agreement with the Corporation whereby, among other things, the Corporation has agreed to transfer operatorship of the contract to Pacific Rubiales following completion of the next four wells to be drilled on the contract. Under the terms of the agreement, Pacific Rubiales will operate any commercial discoveries made on the contract. In consideration for the transfer of operatorship, Pacific Rubiales has agreed to pay the Corporation the sum of $3,731,000 (the "Consideration") and has agreed to provide the Corporation with the option to participate pro-rata in its interest in the Portofino contract, as well as in all pipelines and transportation infrastructure projects in which Pacific Rubiales participates in respect of the evacuation of crude from the area. At September 30, 2012, $2.5 million of the Consideration was received and recognized as deferred income.

NOTE 15 – SUBSEQUENT EVENT

Subsequent to September 30, 2012, the Corporation has entered into an agreement (the "Arrangement Agreement") whereby the Corporation will acquire 100% of the issued and outstanding class "A" common shares of Shona Energy Company, Inc. ("Shona Common Shares") and series "A" preferred shares of Shona Energy Company, Inc. ("Shona Preferred Shares"), in exchange for common shares of the Corporation ("Canacol Shares") and cash, by way of a statutory plan of arrangement (the "Arrangement"). The transaction is expected to close on or around December 19, 2012, provided all required Shona Energy Company, Inc. ("Shona") and Canacol securityholder, court and regulatory approvals are obtained.

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 $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.

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 $4.0 million. Shona is also entitled to a termination payment in cash of $4.0 million in certain circumstances, including if Canacol exercises its right to terminate the Arrangement Agreement at its sole discretion.