Canacol Energy Ltd Provides Operations Update at its Capella Heavy Oil Discovery in Colombia

CALGARY, ALBERTA- Canacol Energy Ltd. ("Canacol" or the "Corporation") is pleased to announce that drilling and testing of the first horizontal well, Capella FH-10, and the Romero A1 well, has been completed, and that the steam injection pilot has commenced. The Corporation has also completed the acquisition and processing of 184 square kilometers of 3D seismic over the discovery, and has commenced the drilling of the Capella L-11 well. The Capella discovery is located on the Ombu E&P Contract in the Caguan – Putumayo basin of southern Colombia. The Corporation, through a farm in with Emerald Energy Plc. earned a 10% working interest in the Contract through the drilling of the Capella 1 discovery well in July 2008. The Ombu E&P Contract was awarded to the operator by the Agencia Nacional de Hidrocarburos in 2007. The Corporation has participated in the drilling of 8 wells into the discovery to date. Canacol also has a 100% operated working interest in 3 offsetting exploration contracts awarded directly to the Corporation in 2009 and 2010, and holds over 1.6 million net exploration acres in the area.

Charle Gamba, President and CEO of the Corporation, comments "We are very pleased with the results of the Capella FH-10 horizontal well, which has tested at a gross rate up to 437 bopd, significantly higher than that of a vertical well in the field. We are confident that horizontal wells will play an important part in the future development of the field, having now demonstrated the capability of providing significantly more production than vertical wells. We are also anticipating the results of the steam injection pilot, which could have the potential to double the recoverable reserves associated with the discovery. The results from the horizontal well, the steam injection pilot, the 3D seismic, and the remaining 5 wells to be drilled in the field this year will be used to formulate the development plan for the field going forward into 2011 and beyond. Aside from continuing to develop the potential of the Capella discovery, the Corporation is also positioned to execute a significant exploration program on its three 100% working interest operated exploration blocks offsetting the Capella discovery in 2011."

Capella F-10 Horizontal Well

The Capella F-10 well was drilled in 2 phases, the first being a deviated pilot hole, and the second a horizontal well drilled from the existing deviated pilot wellbore. The deviated pilot well was drilled to a total depth of 4,180 feet measured depth ("ft MD") or 3,505 ft true vertical depth and encountered 75 ft of net oil pay within the Upper Mirador sandstone reservoir, the target of the horizontal well. The Upper Mirador reservoir has an average porosity of 28% and average oil saturation of 83%, with no free water encountered.

The lower part of the deviated pilot was subsequently plugged back and a horizontal well targeting the 80 ft thick Upper Mirador reservoir drilled to a depth of 5,067 ft MD. The length of the horizontal section within the Upper Mirador reservoir is 1,017 ft. The horizontal well encountered excellent oil saturated sandstone reservoir throughout the entire length of the section. The horizontal section of the well was completed with a slotted liner followed by installation of a progressive cavity pump ("PCP").

Testing of the Upper Mirador yielded gross flow rates of up to 437 bopd (44 bopd net) of 11^{o} API oil with a water cut of approximately 1.3 % with the PCP set to 120 rotations per minute ("rpm"). The maximum potential flow rate of the well is 540 bopd gross (54 bopd net) with the PCP set to the maximum rate of 140 rpm. The rate achieved by the horizontal well greater than 2 times that of a vertical well, meaning that horizontal production wells will likely form a significant component of the future development drilling program for the field.

Cyclic Steam Injection Pilot

On August 27, 2010, the joint venture commenced steam injection into the Lower Mirador reservoir in the Capella C-5 well. As of August 31, 2010, approximately 300 tons of stem had been injected. Steam injection will continue until September 11, 2010, which will be followed by 5 days of soaking. After soaking has terminated, the well will be produced under natural hot-flow conditions for a period of up to 30 days. Following the period of natural flow, a PCP will be installed and the well produced until it has reached pre-steam injection production levels. The joint venture is currently converting the Capella A-1 well in preparation of injecting steam into the Upper Mirador reservoir. The testing program will duplicate that of the program being executed in the Capella C-5 well.

Romero 1 Well

The Romero 1 well was drilled to a total depth of 3,136 ft MD at the structurally highest part of the discovery. Good oil and gas shows were encountered in both the Upper and Lower Mirador reservoirs while drilling, although reservoir quality within both the Upper and Lower Mirador was poor, and each failed to yield any appreciable flow upon testing. The Corporation has concluded both the Upper and Lower Mirador reservoirs pinch out at the very top of the structure, with better reservoir known to be present along the flanks of the structure, as verified by the 7 other wells producing from flank locations. The Corporation plans to drill the Romero 2 well at a location structurally lower then Romero 1 was drilled as part of the remaining drilling program in 2010.

Capella L-11 Well

The Capella L-11 well was spud August 27, 2010, and is anticipated to reach a total depth of approximately 3,374 ft MD within the next 2 weeks. The well is a vertical well, and will target production from both of the Upper and Lower Mirador reservoirs, both of which will be production tested. The well is located approximately 1 kilometer to the northwest of the Capella F-7 well.

Forward Plans

The Corporation plans to drill an additional 4 wells in 2010, with 1 of them planned as horizontal, and the remaining 3 being planned as verticals. All of the information from the new wells, and the results of the steam injection pilot and the 3D seismic will be used to formulate the go forward development program for the Capella discovery in 2011 and beyond.

Canacol is a Canadian based international oil and gas corporation with operations in Colombia, Brazil and Guyana. Canacol is publicly traded on TSX Venture Exchange (TSXV: CNE) and the Bolsa de Valores Colombia (BVC: CNEC). The Corporation's public filings may be found at www.sedar.com.

This press release contains certain forward-looking statements within the meaning of applicable securities law. Forward-looking statements are frequently characterized by words such as "plan", "expect", "project", "intend", "believe", "anticipate", "estimate" and other similar words, or statements that certain events or conditions "may" or "will" occur, including without limitation statements relating to estimated production rates from the Corporation's properties and intended work programs and associated timelines. Forward-looking statements are based on the opinions and estimates of management at the date the statements are made and are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements. The Corporation cannot assure that actual results will be consistent with these forward looking statements. They are made as of the date hereof and are subject to change and the Corporation assumes no obligation to revise or update them to reflect new circumstances, except as required by law. Prospective investors should not place undue reliance on forward looking statements. These factors include the inherent risks involved in the exploration for and development of crude oil and natural gas properties, the uncertainties involved in interpreting drilling results and other geological and geophysical data, fluctuating energy prices, the possibility of cost overruns or unanticipated costs or delays and other uncertainties associated with the oil and gas industry. Other risk factors could include risks associated with negotiating with foreign governments as well as country risk associated with conducting international activities, and other factors, many of which are beyond the control of the Corporation.

A barrel of oil equivalent (boe) is derived by converting gas to oil in the ratio of six thousand cubic feet of gas to oil and may be misleading, particularly if used in isolation. A boe conversion is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead, especially in various international jurisdictions.

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