Canacol Energy Ltd. Announces Oil Discovery at Oso Pardo 1 Exploration Well in Colombia

CALGARY, ALBERTA--(August 27, 2013) - Canacol Energy Ltd. ("Canacol" or the "Corporation") (TSX:CNE; BVC:CNEC) provides the following operational update concerning the Oso Pardo 1 exploration well drilled on the Santa Isabel Exploration and Production ("E&P") contract located in the Middle Magdalena Valley of Colombia. The Oso Pardo - 1 well was spud on June 10, 2013, and was designed to test the oil potential of both the shallow conventional Tertiary Lisama sandstone reservoir and deeper naturally fractured shale and carbonate reservoirs within the La Luna and Simiti oil shales with a planned total depth of 10,199 feet measured depth ("ft md").

The well penetrated the Lisama sandstones as anticipated at 3,390 ft md with good oil and gas shows while drilling, and drilled through the Umir Formation with similarly good oil and gas shows in two separate oil filled sandstone intervals at 3,665 and 3,800 ft md respectively. Petrophysical evaluation of the openhole logs acquired indicate 88 feet of oil pay with these Tertiary sandstones: 60 ft of oil pay within the Lisama sandstones with an average porosity of 25%, and 28 ft of oil pay within two separate Umir sandstones with an average porosity of 16%. However, while drilling the Tertiary section, the Corporation encountered technical problems that compromised the integrity of the wellbore. The appropriate corrective measures were taken but it was decided not to proceed with the drilling of the deeper Cretaceous shales. The Corporation subsequently exercised its option to continue shallow operations at Oso Pardo – 1 on a 100% cost basis, with the objective of conducting a series of cased hole production tests of the Umir and Lisama sandstones.

Production Test Results

The Upper Umir sandstone interval was perforated by the Corporation between 3,666 – 3,685 ft md and produced at a final stable rate of approximately 205.3 barrels oil per day ("bopd") of 23^{o} API oil with a water cut of 9.67% and gas production of 107.54 thousand cubic feet per day. The well has been on production over a period of 13 days using a jet pump. Water cut decreased steadily throughout the course of the test, and management believes the water to be completion fluid related to the drilling of the well, as over 2,000 barrels of drilling fluid were lost into the Umir and Lisama sandstones. An analysis of the pressure build up performed at the end of the test indicated heavy formation damage related to the drilling process. This damage will be remediated with a small acid stimulation prior to the zone being brought on long term production test.

The Lisama reservoir was perforated between 3,399 – 3,427 ft md and tested a small amount of heavy oil of less than 10^{o} API gravity and filtrate using a jet pump. The entire reservoir interval is believed to contain heavy oil. The Corporation is considering various production techniques that could be used to establish commercial production from this heavy oil discovery at some point in the future.

The Corporation is currently designing a stimulation for the Upper Umir sandstone in order to remove the formation damage caused while drilling and improve productivity, and anticipates placing the well on long term production test once the appropriate permit has been received, within a period of one month. As per the farm-out agreement between Canacol and ConocoPhillips, the Corporation has the right to receive 100% of the crude oil produced from the Umir and Lisama sandstones, subject to the approval of the ANH.

Charle Gamba, CEO of the Corporation commented, "Although the Oso Pardo 1 well did not reach its primary shale objectives due to technical difficulties encountered while drilling, we are pleased to have made a light oil discovery in the Umir sandstone which we shall continue to production test. This discovery, the first on the Santa Isabel contract, indicates that there is significant potential within the shallow sandstone section of the block, where Canacol has the right to receive 100% of the crude produced, subject to the approval of the ANH. We look forward to the drilling of the next well on the contract, which shall be done using what we have learned while drilling this well."

Canacol is an exploration and production company with operations focused in Colombia and Ecuador. The Corporation's common stock trades on the Toronto Stock Exchange and the Colombia Stock Exchange under ticker symbol CNE and CNEC, respectively.

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