Canacol Energy Ltd. Provides Colombian Exploration Update

CALGARY, ALBERTA--(September 25, 2012) - Canacol Energy Ltd. ("Canacol" or the "Corporation") (TSX:CNE; BVC:CNEC) is pleased to provide the following update with respect to its ongoing exploration programs in Colombia for the remainder of calendar 2012. The Corporation plans to drill a total of 9 exploration wells targeting conventional light and heavy oil, as well as non-conventional light oil from fractured shales during the remainder of calendar 2012.

Charle Gamba, President and CEO of Canacol, stated “The Corporation is engaged in significant exploratory activity on a number of fronts in Colombia for the remainder of the year. The early results from our 6 well stratigraphic test program in the Caguan-Putumayo Basin are very encouraging, revealing the presence of a functioning heavy oil system on our new Portofino contract via the recently drilled Achote 1 well. The Corporation is also pleased to announce the spud of the Mono Arana well on the VMM2 contract by the ExxonMobil consortium, which will test both a Tertiary conventional sandstone target and more importantly a non-conventional Cretaceous fractured shale target. Finally, the Corporation will also be drilling a light oil prospect, Labrador, located north of our Rancho Hermoso field on the LLA23 contract.”

Caguan – Putumayo basin

Portofino (40% operated working interest) and Cedrela (100% operated working interest) E&P contracts

In June 2012, the Corporation announced the start of its heavy oil exploration drilling program on its Portofino and Cedrela Exploration and Production (“E&P”) contracts located in the Caguan-Putumayo basin in Colombia. Canacol plans to drill six stratigraphic tests, which include four tests on the Portofino contract and two tests on the Cedrela contract in a back-to-back drilling campaign that commenced in August 2012 and is expected to end in early 2013.

The Corporation completed the drilling of the first stratigraphic test, Achote 1 on the Portofino contract, in calendar third quarter. The well was drilled to 4,300 feet measured depth (“ft md”) and encountered approximately 60 feet of basal sandstone with porosities up to 25% and heavy oil shows while drilling. The results of the well confirm the presence of an active heavy oil hydrocarbon system in this previously undrilled frontier exploration contract. These results, along with the results of the other 3 stratigraphic tests planned on the Portofino E&P contract during the remainder of 2012, will be used to plan the drilling of a conventional exploration well on the contract in 2013. The Corporation is currently acquiring 45 square kilometers (“kms”) of 3D seismic and 58 kms of 2D seismic in the southern part of the contract, and will use the data to drill the remaining 3 stratigraphic wells prior to year end 2012.

Meanwhile, the drilling rig is currently being mobilized to the Cedrela E&P contract where the next two stratigraphic tests are planned to be drilled. The first, Guarango 1, is planned to be drilled to a depth of approximately 3,000 ft md depth and will target potential heavy oil-bearing reservoirs in the Mirador sandstones, the main producing sandstones in the Corporation’s Capella heavy oil field, and the same porous sandstones encountered in the Achote 1 stratigraphic test. The Guarango 1 stratigraphic test will be spud in early October 2012, and will be followed immediately by the drilling of a second stratigraphic test, the Cedrillo 1 well, in late October 2012. The results of the 2 stratigraphic tests will be used to pick the drilling location of a conventional exploration well on the Cedrela E&P contract in 2013.

The Corporation was also the successful bidder for Achapo E&P contract in the recent Mini-Ronda held in late August 2012, and anticipates being formally awarded the contract in late 2012. The Achapo contract is 52,799 acres (21,369 hectares) in area and is situated between the Cedrela and Portofino contracts. The first exploration commitment phase is 18 months, with a commitment to acquire 42 kms of 2D seismic for an investment of US$840,000. The Achapo contract contains the extension of several large prospects and leads identified on seismic data recently acquired on the Cedrela contract in 2011, which are similar in style and size to the nearby Capella heavy oil field.

Middle Magdalena basin

VMM2 (20% working interest) E&P contract

In April 2012, the Corporation's wholly owned subsidiary, Carrao Energy Sucursal Colombia, entered into a farm-out agreement with ExxonMobil Exploration Colombia Limited, a wholly-owned subsidiary of ExxonMobil Corporation for the exploration of the Corporation's non-operated VMM2 E&P contract. The consortium, which also includes operator Vetra Exploracion y Produccion Colombia, plans to drill two exploration wells on the VMM2 contract in 2012 and early 2013. The first, Mono Arana 1, spud on September 23, 2012 and will test both a conventional shallow light oil target in the Tertiary Liasama sandstone and a deeper non-conventional light oil target in the fractured oil shale of the Cretaceous La Luna oil source rock. The Mono Arana 1 well has a planned total depth of 12,500 ft md in the Cretaceous Tablazo oil source rock and will take approximately 50 days to drill. The consortium may core up to 30 feet of the La Luna or Tablazo oil source rock interval, and may perform up to 3 production tests on the conventional sandstone and non-conventional fractured shale reservoirs, with results anticipated in December 2012. The consortium will spud a second exploration well, El Cejudo 1, using the same drilling rig, in late 2012 specifically targeting non-conventional fractured shale reservoirs in the Cretaceous La Luna and Tablazo oil source rocks. This well is anticipated to be drilled to a total depth of approximately 14,500 ft md to the base of the Tablazo and may take approximately 85 days to drill. It is anticipated that the consortium will cut up to 600 feet of core, and that the non-conventional fractured shale reservoirs may be stimulated in various intervals to determine production rates.

Llanos basin

LLA23 (80% working interest) E&P contract

In June 2012, the Corporation acquired 70 square kms of 3D seismic on the LLA23 E&P contract, which revealed 3 sizeable prospects along the extension of the Rancho Hermoso fault onto the block. The Corporation anticipates drilling its first exploration well to test the Labrador prospect immediately to the north of the Rancho Hermoso field in early October 2012. The well will be drilled to a total depth of approximately 11,200 ft md and will take approximately 20 days to drill. The Corporation is currently acquiring an additional 31 square kms of 3D seismic on the northern part of the contract, where two well-developed leads have been identified on the basis of the existing 2D seismic along the same Rancho Hermoso fault trend. Canacol anticipates drilling a number of these prospects in 2013.

Canacol Energy is an exploration and production corporation 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 CNE.C, respectively.

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