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*Canacol Energy Ltd Announces 100% Increase in 2P Reserves at its Capella Discovery and Provides Update on Cyclic Steam Injection Pilot in Colombia*

CALGARY, ALBERTA- Canacol Energy Ltd. (“Canacol” or the “Corporation”) is pleased to announce a 100% increase from 2009 to 2010 in its net after royalty proven and probable reserves from 2.1 to 4.2 million net barrels and a 227% increase in net associated NPV10 to US\$ 64.7 million for its Capella heavy oil discovery in Colombia. Proven, probable and possible net reserves after royalty increased by 279% from 3.6 to 9.9 million net barrels, with net associated NPV10 increasing 644% to US\$ 182 million. The increase in reserves is due to production performance, drilling results, and the performance of horizontal wells in the field. The Corporation is also pleased to report the preliminary results of the cyclic steam injection pilot, which resulted in a 330% increase in gross production from the Capella C5 well. It is important to note that the current reserves report considers only primary or “cold” production, and does not include any potential additional reserve recovery related to secondary thermal recovery.

Charle Gamba, President and CEO of the Corporation, commented “We are very pleased to have doubled our net proven and probable reserves to 4.2 million barrels at Capella, primarily through the production performance of the field over the last year, and to the success we have experienced using horizontal wells in the field to increase production and reserves capture. In addition, the success of the cyclic steam injection pilot, which saw a production rate increase of 330% from one of the existing vertical wells, may result in significant future reserves increases which are not accounted for in the current reserves report. With best estimate gross contingent resources after royalty of 71 million barrels of recoverable oil under primary recovery conditions, we anticipate adding significant reserves from Capella going forward, most especially through secondary thermal recovery. These results reflect the significant upside associated with the large exploration position Canacol has secured separately along trend of the Capella discovery on its 100% operated acreage.”

### **Capella Reserves**

The Corporation has a 10% working interest in the Capella heavy oil discovery, located on the Ombu Exploration and Production Contract in the Putumayo – Caguan Basin. The Corporation's interest was earned through a farm-in with Emerald Energy Plc., the operator of the contract. The contract is operated under the terms defined by the Agencia Nacional de Hidrocarburos, whereby production is subject to a sliding scale royalty payable to the government. Royalty is determined by various production and reserves thresholds, and varies from a low of 8% to a high of 23%. The royalty level for Capella production is discounted by 25% due to the heavy nature of the crude. A total of 9 wells have been drilled in the Capella field to date, which include 8 verticals and 1 horizontal. Three additional wells (2 horizontals and 1 vertical) are planned to be drilled by year end.

The reserve and resource evaluations, effective June 30, 2010, were conducted by the company's independent reserve evaluator Degolyer and MacNaughton (“D&M”), and are in accordance with National Instrument 51-101 - Standards of Disclosure for Oil and Gas Activities. The reserves are provided on a net after royalty basis in units of barrels of oil (bbl) using a forecast price deck in US dollars. The estimated values may or may not represent the fair market value of the reserve estimates.

D&M derived both proven, probable, and possible reserves within a relatively small part of the structure that contains the wells drilled to date, and low case (C1), best case (C2), and high case (C3) estimates of unrisks contingent resources within the remaining undrilled portion of the field that does not yet contain well control. As appraisal and development wells are drilled into these areas, contingent resources may be reclassified as proven, probable, and possible reserves.

It is important to note that the reserves and resources assigned by D&M are derived under primary recovery (cold production) and do not take into account any benefit derived from secondary thermal recovery. Based on the results of the cyclic steam injection pilot thermal recovery may play a significant role in field development, with the potential to significantly increase recoverable reserves.

***Net After Royalty Reserves and NPV10 Summary***

Category	6/30/2010	
	Reserves (M BBLs)	NPV10 (MM US\$)
<b>Proven</b>	1,190	17.3
<b>Probable</b>	3,042	47.4
<b>Proven and Probable</b>	4,236	64.7
<b>Possible</b>	5,692	117.6
<b>Total</b>	<b>9,928</b>	<b>182</b>

In addition to proven, probable, and possible reserves, D&M also calculated unrisksed contingent recoverable resources associated with areas not currently containing well control.

***Net After Royalty Contingent Resources and NPV10 Summary***

Category	6/30/2010	
	Resources (M BBLs)	NPV10 (MM US\$)
<b>C1 (low)</b>	4,588	25.5
<b>C2 (Best)</b>	7,194	57.7
<b>C3 (High)</b>	10,675	88.7

**Capella C5 Cyclic Steam Injection Results**

A cyclic steam injection pilot involving the Capella C5 well is currently in progress. Approximately 1,900 tons of steam was injected into the Lower Mirador reservoir over a period of 18 days. The well was shut in for a period of 10 days to allow the steam to soak into the reservoir. Prior to steam injection, cold production from the well averaged 40 gross bopd during June and July of 2010, the well previously being one of the poorest producers at Capella. On September 30, 2010, immediately after the well was brought back on stream, production was 116 bopd, representing a 290 % increase in gross production rate compared to pre-injection production. Currently the well is producing at a rate of 132 bopd, or 330% that of pre-steam injection production. A cyclic steam injection pilot within the Upper Mirador reservoir is planned prior to year end using a different well in order to quantify the impact of steam on enhanced recovery in that zone.

The early results from the cyclic steam injection pilot indicate that the use of steam injection has a significant effect on enhancing the productivity of the wells compared to cold production, and that steam injection will likely play a significant role in increasing both the production rate and reserves of the Capella discovery. The results of the steam injection pilot were not incorporated into the June 2010 reserves report conducted by D&M.

**Forward Plans**

Three more wells at Capella are planned to be drilled during the remainder of 2010, with two planned as horizontals, and one as a vertical well. All of the information from the new wells, the final 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.

## **About Canacol**

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 (TSX VENTURE:CNE) and the Bolsa de Valores (BVC: CNE.N). The Corporation's public filings may be found at [www.sedar.com](http://www.sedar.com).

## **Readers' Advisory**

### **Definitions**

“Contingent resources” means those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations using established technology or technology under development, but which are not currently considered to be commercially recoverable due to one or more contingencies. Contingencies may include factors such as economic, legal, environmental, political, and regulatory matters or a lack of markets. It is also appropriate to classify as contingent resources the estimated discovered recoverable quantities associated with a project in the early evaluation stage.

“Probable reserves” means those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated Proved plus Probable reserves.

“Possible reserves” means those additional reserves that are less certain to be recovered than probable reserves. There is a 10% probability that the quantities recovered will equal or exceed the sum of the estimated Proved plus Probable plus Possible reserves.

“Proved reserves” means those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated Proved reserves.

The estimates of reserves and future net revenue for additional properties may not reflect the same confidence level as estimates of reserves and future net revenue for all properties, due to the effects of aggregation.

### **Forward Information**

This press release may contain statements within the meaning of safe harbour provisions as defined under Securities Laws and Regulations. The above statements are based on the current expectations and beliefs of Canacol's management and are subject to a number of risks and uncertainties that may cause the actual results to differ materially from those described above.

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. 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.

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