Canacol Energy Ltd Tests 5,019 BOPD from Los Cuervos - Barco Reservoir in the Rancho Hermoso 7ST Well in Colombia

CALGARY, ALBERTA- (October 26, 2010) Canacol Energy Ltd. ("Canacol" or the "Corporation") (TSX VENTURE:CNE) (BVC:CNEC) is pleased to provide an update of its development drilling program at its operated Rancho Hermoso Field located in the Llanos Basin of Colombia. The Corporation has completed flow testing of the Los Cuervos – Barco reservoir in the recently drilled Rancho Hermoso 7ST ("RH 7ST") well, the second of five development wells planned for 2010. The RH 7ST well encountered 84 feet ("ft") of net oil pay within 4 different reservoir intervals, which include, from top to bottom, the C7, Mirador, Los Cuervos - Barco, and Guadalupe.

Charle Gamba, President and CEO of Canacol, stated "We are very pleased with the excellent results that continue to flow from our operated Rancho Hermoso drilling program. RH 7ST, like RH 5 and 6 before it, has tested light oil at very high rates from the two new reservoirs we discovered in the field late in 2009. Three additional new wells, RH 8, 9 and 10, are planned to be drilled and on stream by the end of 2010. To achieve this we have mobilized a second rig to the field, which will commence drilling in mid November. The strong results from this program to date will ensure that the Corporation achieves its exit target of 7,000 bopd net production by year end."

Rancho Hermoso 7ST Well Results

The Rancho Hermoso 7 ("RH 7") well was spud on August 4, 2010 and reached a total depth of 10,121 ft measured depth ("md"), with good oil and gas shows encountered in the C7, Mirador, Los – Cuervos Barco, Guadalupe, and Ubaque reservoirs. While drilling to total depth in the Ubaque the well experienced severe mud losses resulting in the drill string becoming mechanically stuck. Extensive fishing efforts failed to recover the majority of the drill string, and the well was plugged back to the top of the fish and sidetracked on September 20, 2010. The RH 7ST reached a total depth of 9,425 ft md on October 5, 2010. The sidetrack was not drilled to the deeper Ubaque target where losses were encountered in the original well, but rather reached planned total depth in the overlying Guadalupe reservoir.

Petrophyical analysis of the openhole logs indicates a total of 84 ft of oil pay within the well: 14 ft of oil pay within the C7 reservoir with average porosity of 23%; 18 ft of oil pay within the Mirador reservoir with average porosity of 22%; 34 ft of oil pay within the Los Cuervos – Barco reservoir with average porosity of 21%; and 18 ft of oil pay within the Guadalupe reservoir with average porosity of 24%.

Los Cuervos - Barco Flow Test Results

The Los Cuervos – Barco reservoir at RH 7ST contains 34 ft of net oil pay. The Los Cuervos - Barco was perforated between 9,206 and 9,217 ft md and flowed at a final gross rate of 5,019 barrels of oil per day ("bopd") (1,255 bopd net) of 34^{o} API light gravity oil with 4% water cut using an electrical submersible pump set to a frequency of 35 Hz during a 24 hour flow period. Following a 12 hour shut in period to obtain reservoir pressure, the drilling rig is being demobilized from location in advance of the well being placed on production through the permanent production facilities. The Corporation plans to co-mingle production from the Los Cuervos – Barco and underlying Guadalupe reservoirs at some point in 2011 after the long term production performance of the zone has been established.

Forward Plans

The rig will be mobilized to the Rancho Hermoso 8 ("RH 8") well which is anticipated to spud the first week of November. The RH 8 well will target the Los Cuervos – Barco and Guadalupe reservoirs at a location approximately 1,500 ft to the southwest of the Rancho Hermoso 5 ("RH 5") well. Meanwhile, the Corporation has contracted the Saxon 132 drilling rig which is being mobilized to the Rancho Hermoso 9

("RH 9) location to commence drilling in mid November. The RH 9 well will target the deeper Ubaque reservoir at a location approximately 3,000 ft to the southwest of the RH 5 well.

The Corporation, through its 100% owned Colombian subsidiary Rancho Hermoso S.A., operates the Rancho Hermoso field under a Participation Contract in the Casanare Area with Ecopetrol S.A., whereby the Corporation receives 25% (after royalty) of gross production from the Los Cuervos – Barco, Guadalupe, and Ubaque reservoirs, with Ecopetrol S.A. receiving the remainder.

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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