Canacol Energy Ltd. Announces Award of the Tamarin E&P Contract in Colombia and $2 Million Convertible Unsecured Subordinate Debenture Financing

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CALGARY, ALBERTA -- (August 31, 2009) – Canacol Energy Ltd. ("Canacol" or the "Corporation") (TSX VENTURE: CNE) is pleased to announce that it has been awarded the Tamarin Exploration and Production Contract ("Tamarin E&P Contract") by the Agencia Nacional de Hidrocarburos ("ANH") of Colombia, and that it has entered into an agreement with Canaccord Capital Corporation ("Canaccord") to raise gross proceeds of up to $2,000,000 (the "Offering") through a convertible unsecured subordinate debenture financing.

Tamarin E&P Contract

The Tamarin E&P Contract is located approximately 25 kilometers directly to the southwest of the Ombu E&P Contract which contains the Corporation's Capella heavy oil discovery, which is currently under appraisal. Based upon the available geophysical and geological data in this frontier area, the Corporation has determined that the fault trend present at its Capella discovery to the northeast continues onto the Tamarin E&P Contract, setting up the potential for another Capella type heavy oil prospect. Together with the nearby Pacarana TEA, awarded to the Corporation in July 2009, Canacol now has a 100% operated position in approximately 500,000 hectares of exploration land offsetting its Capella discovery. Including its interest in the Ombu E&P Contract, operated by Emerald Energy Plc., the Corporation now has interest in approximately 530,000 hectares in this portion of the basin.

Charle Gamba, President and CEO of Canacol, stated, "Canacol in the past two months has secured over 500,000 hectares of operated exploration acreage adjacent to its Capella heavy oil discovery on the Ombu E&P Contract at 100% working interest. The Tamarin E&P Contract represents one of the last contracts that will be awarded directly to industry, as all of the remaining open acreage in the area has recently been reserved for future competitive bid rounds by the ANH in what has become a significant emerging heavy oil exploration play in Colombia. Canacol's exploration success at Capella has put this part of Colombia on the map, and the Corporation has taken full advantage of its status as a qualified operator to negotiate both of these contracts directly with the ANH. This qualification provides Canacol with a significant competitive advantage over other junior players."

The Corporation has a 100% working interest in the Tamarin E&P Contract, which is approximately 27,500 hectares in size and is located in the Putumayo – Caguan Basin of Colombia. The terms of the six year contract are as follows:

<u>Phase 1 Exploration Period:</u> The Corporation will acquire, process and interpret 60 kilometers of 2D seismic and interpret all existing magnetic and gravity geophysical data. The duration of this phase is 18 months, with an anticipated cost of approximately US$1,600,000.

<u>Phase 2 Exploration Period:</u> The Corporation will drill one exploration well within a period of 18 months.

<u>Phase 3 Exploration Period:</u> The Corporation will acquire, process and interpret 30 square kilometers of 3D seismic within a period of 12 months.

Phase 4 Exploration Period: The Corporation will drill two exploration wells within a period of 24 months.

Based upon the results of the Phase 1 Exploration Period activities, the Corporation has the option to proceed to the Phase 2 Exploration Period and associated activity or relinquish the contract.

Convertible Unsecured Subordinated Debenture Financing

The Offering shall be comprised of up to 20, $100,000 par value convertible unsecured subordinate debentures (the "Debentures") subject to a coupon interest rate of 12% per annum, payable quarterly in arrears through the issuance of common shares of the Corporation at a price equal to a 10% discount to the volume weighted average trading price of the Corporation's common shares for the 10 trading days immediately preceding the quarterly interest payment date or such higher price as any regulatory body shall require. The Debentures will have a term of 24 months with maturity on September 4, 2011, and will be convertible into common shares of the Corporation at the holder's option at a conversion price equal to $0.36 per common share. Canaccord will be paid a commission equal to 10% of aggregate gross proceeds raised from the Offering, which will be satisfied through the issuance of common shares of the Corporation at a price equal to $0.345 per common share. The Offering will also include an over-allotment option of up to 20 Debentures, which will be granted to Canaccord Capital Corporation.

The Company expects the Offering to close on or around September 4, 2009. The net proceeds of the Offering will be used to fund the Corporation's remaining commitment to acquire an additional 35% working interest on its onshore exploration block in Guyana and for its Tamarin E&P Contract.

Completion of the private placement is subject to certain conditions including, but not limited to, the receipt of all necessary regulatory approvals including the approval of the TSX Venture Exchange.

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). 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.

For further information please contact:

Charle Gamba
Phone: 281-210-8456
Email: charlegamba@canacolenergy.com
www.canacolenergy.com