



Canacol Energy Ltd. Provides Development Drilling and Production Update

CALGARY, ALBERTA- (December 28, 2011) Canacol Energy Ltd. (“Canacol” or the “Corporation”) (TSX: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 the drilling and casing of the third new development well it had planned to drill in calendar 2011. The Rancho Hermoso 13 (“RH 13”) well has been placed on permanent production from the Ubaque reservoir at a stabilized gross rate of 10,164 barrels of oil per day (“bopd”) (2,541 bopd net to Canacol). The RH 13 well encountered 110 feet (“ft”) of net oil pay within 5 different reservoir intervals, which include, from top to bottom, the C7, Mirador, Los Cuervos–Barco, Guadalupe, and Ubaque.

On December 24, 2011, the Corporation recorded its maximum production record, with net revenue production from the Rancho Hermoso, Entrerrios, and Capella fields, all located in Colombia, of 19,173 bopd, some 37% in excess of the Corporate guidance of 14,000 bopd exit rate target for calendar 2011. Average Corporate net revenue production for the month of December 2011 to date is 13,027 bopd.

Charle Gamba, President and CEO of the Corporation, commented “The strong performance of the wells drilled and worked over this year at Rancho Hermoso have provided us with an excellent finish to 2011, easily surpassing our exit rate target of 14,000 bopd as production continues to build into 2012. The Corporation plans to drill 4 new wells and work over a number of existing wells at Rancho Hermoso, and drill 22 new wells at its non-operated Capella oil field in calendar 2012 to ensure strong production revenues throughout next year and beyond. With cash and cash equivalents of US\$ 115 million as of our last reporting period and very strong production revenues, the Corporation is fully financed to execute its high impact development and exploration drilling programs throughout 2012, which consists of 14 exploration and 26 development wells.”

Rancho Hermoso 13 Well Results

The RH 13 well was spud on November 23, 2011, and reached a total depth of 10,447 ft measured depth (“ft md”) on December 16, 2011 in the Ubaque reservoir. Good oil and gas shows were encountered in the C7, Mirador, Los Cuervos – Barco, Guadalupe, and Ubaque reservoirs while drilling. Petrophysical analysis of the open-hole logs indicates a total of 110 ft of oil pay within the well: 5 ft of oil pay within the C7 reservoir with average porosity of 20%, 26 ft of oil pay in the Mirador reservoir with average porosity of 25%, 8 ft of pay within the Los Cuervos–Barco reservoir with average porosity of 20%, 15 ft of oil pay within the Guadalupe reservoir with average porosity of 23%, and 56 ft of oil pay within the Ubaque reservoir with average porosity of 20%.

Production Results

The Corporation completed the Ubaque reservoir between 10,218 – 10,250 ft md and equipped the well with an electro-submersible pump. The well has been placed on permanent production at a stable gross rate of approximately 10,164 bopd (2,541 bopd net to Canacol) of 17° API oil with 1% water cut at a pump frequency of 62.5 hz.

The Corporation, through its 100% owned Colombian subsidiary Canacol Energy Colombia S.A., operates the Rancho Hermoso field under two Contracts with Ecopetrol S.A., those being 1) a Participation Contract in the Casanare Area whereby the Corporation receives approximately 25% (after royalty) of gross production from the C7, Los Cuervos–Barco, Guadalupe, Gacheta, and Ubaque reservoirs, and the remainder (approximately 75%) to Ecopetrol S.A., and 2) a Risked Service Production Contract for the Mirador reservoir, whereby the Corporation is paid a tariff for each barrel of oil produced and Ecopetrol S.A. receives the oil.

Canacol is a Canadian-based international oil and gas corporation with operations in Colombia, Guyana, and Brazil. Canacol is publicly traded on Toronto Stock Exchange (TSX: 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.

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