



Canacol Energy Ltd. Awarded Contract for Associated Gas and Gas Liquids from the Rancho Hermoso Field in Colombia

CALGARY, ALBERTA- (August 31, 2011) Canacol Energy Ltd. ("Canacol" or the "Corporation") (TSX:CNE) (BVC:CNEC) is pleased to announce that Canacol Energy Colombia S.A., a subsidiary of the Corporation, has been awarded a contract by Ecopetrol S.A. for a 100% working interest in the associated gas and gas liquids stream from the Rancho Hermoso Field, located in the Llanos Basin of Colombia. Under the terms of the contract, awarded to Canacol by Ecopetrol S.A. on August 31, 2011, the Corporation will purchase the produced gas from Ecopetrol S.A. at a price of US\$ 6.50 per thousand British Thermal Units (US\$ 15.48 per thousand standard cubic feet per day), which includes the associated liquids, those being naphtha, propane and butane. The gas is very liquids rich, with 1 million standard cubic feet per day (mmscfpd) yielding approximately 160 barrels of naphtha, 126 barrels of propane, and 118 barrels of butane per day. In Colombia naphtha, propane, and butane all sell at a premium to West Texas Intermediate. The contract will be effective on January 1, 2012, and the Corporation anticipates adding approximately 2,300 net barrels per day of naphtha, propane and butane to its existing oil production stream from the approximately 5.7 mmscfpd of gas production forecast for January 2012.

Charle Gamba, President and CEO of the Corporation, commented "We are very pleased to have been awarded this contract for the associated gas at Rancho Hermoso, which will add a very healthy amount of liquids production to our oil production stream in Colombia. The Corporation will also be able to book proven, probable and possible reserves associated with the associated gas and gas liquids under the terms of the contract. Meanwhile, the Corporation has spudded the first of four new development wells to be drilled in the field during the remainder of 2011."

The Corporation anticipates awarding a contract for the construction of a gas and liquids separation facility in mid-September, 2011, which will be ready to receive the gas and associated liquids on January 1, 2012. The remaining dry gas will be utilized to generate electricity in the field, thereby lowering operating cost associated with the purchase of diesel, which is currently being used to generate electricity in the field.

The Corporation is also pleased to announce that the spud of the Rancho Hermoso 11 development well on August 29, 2011, approximately 1 month behind schedule due to a delay in obtaining the environmental license for the well. All of the relevant licenses for the remaining wells to be drilled in the field have been obtained.

Canacol is a Canadian-based international oil and gas corporation with operations in Colombia, Guyana, and Brazil. Canacol is publicly traded on the 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.

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. Prospective resources are defined as those quantities of petroleum estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects. Prospective resources have both an associated chance of discovery and a chance of development. There is no certainty that any portion of the resources will be discovered. If discovered, there is no certainty that it will be commercially viable to produce any portion of the resources.

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