Canacol Energy Ltd. Tests 3,927 BOPD from the Los Cuervos – Barco Reservoir in the Rancho Hermoso 8 Well in Colombia

CALGARY, ALBERTA- (January17, 2011) 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 production testing of the Los Cuervos - Barco reservoir in the recently drilled Rancho Hermoso 8 ("RH 8") well. The RH 8 well encountered 93 feet ("ft") of net oil pay within 4 different reservoir intervals, which include, from top to bottom, the Mirador, Los Cuervos–Barco, Guadalupe, and Ubaque.

Charle Gamba, President and CEO of Canacol, stated "Drilling results from the Rancho Hermoso field continue to deliver as expected, and with 5 more new development wells planned for the field in 2011, we are on track to deliver on our target of between 10,000 and 11,000 bopd of net production for 2011. With a drilling program dominated by exploration wells in Colombia and Guyana, five of which each target 100 million barrel plus recoverable conventional oil prospects, 2011 should be a very exciting year for the Corporation, and for our shareholders."

Rancho Hermoso 8 Well Results

The Rancho Hermoso 8 well was spud on December 6, 2010 and reached a total depth of 10,191 ft measured depth ("md") on December 25, 2010, with good oil and gas shows encountered in the Mirador, Los Cuervos–Barco, Guadalupe, and Ubaque reservoirs. Petrophysical analysis of the open-hole logs indicates a total of 93 ft of oil pay within the well: 15 ft of oil pay within the Mirador reservoir with average porosity of 27%, 15 ft of pay within the Los Cuervos–Barco reservoir with average porosity of 21%, 11 ft of oil pay within the Guadalupe reservoir with average porosity of 25%, and 52 ft of oil pay within the Ubaque reservoir with average porosity of 26%.

Production Test Results

The Los Cuervos –Barco reservoir at RH 8 contains 15 ft of net oil pay, and was perforated between 9,349 and 9,364 ft md. The well flowed at a final stable gross rate of 3,927 bopd (982 bopd net) of 35^{o} API light gravity oil with 1.5% water cut using an electrical submersible pump ("ESP") set to a frequency of 75 Hz during a 24 hour flow period. Water cut decreased steadily throughout the course of the production test, and based upon the salinity of the water, management has concluded that the water is completion fluid related to the drilling of the well, and not formation water.

The well was tested with a relatively small ESP that has a total pumping capacity of only 4,000 barrels of total fluid per day ("bfpd"), and as such the true productive potential of the zone was not realized during the course of the test. The productivity of the zone indicates that higher rates are achievable, and the Corporation is currently installing a larger ESP with a pumping capacity of 10,000 bfpd to increase the producing rate of the well. It is anticipated that the well will be placed on permanent production with the larger ESP within one week.

Forward Plans

The Rancho Hermoso 10 ("RH 10") well was spud on January 4, 2011, and reached at total depth of 10,305 ft md on January 16, 2011 in the Ubaque reservoir, which is the primary producing target of the well. Good oil and gas shows were encountered in the C7, Mirador, Los Cuervos – Barco, Guadalupe, Gacheta and Ubaque reservoirs while drilling. The well is currently being logged and the Corporation shall provide the production testing results when they are available.

The Corporation plans to drill 4 additional development wells (Rancho Hermoso 11, 12, 13, and 14) commencing late in the second quarter 2011. These new wells will target production from the Los Cuervos–Barco, Guadalupe, and Ubaque reservoirs.

The Corporation, through its 100% owned Colombian subsidiary Rancho Hermoso S.A., operates the Rancho Hermoso field, located in the Casanare Area, under a Participation Contract with Ecopetrol S.A., whereby the Corporation receives approximately 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, Guyana, and Brazil. 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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