



## Canacol Energy Ltd. Provides Development Drilling Update

CALGARY, ALBERTA- (January 27, 2012) 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 Rancho Hermoso 14 ("RH 14") development well. The RH 14 well has been placed on permanent production from the Ubaque reservoir at a stabilized gross rate of 7,666 barrels of oil per day ("bopd") (1,916 bopd net to Canacol). The RH 14 well encountered 125 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.

### Rancho Hermoso 14 Well Results

The RH 14 well was spud on December 23, 2011, and reached a total depth of 10,294 ft measured depth ("ft md") on January 6, 2012 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 125 ft of oil pay within the well: 22 ft of oil pay within the C7 reservoir with average porosity of 20%, 19 ft of oil pay in the Mirador reservoir with average porosity of 25%, 6 ft of pay within the Los Cuervos–Barco reservoir with average porosity of 20%, 14 ft of oil pay within the Guadalupe reservoir with average porosity of 23%, and 64 ft of oil pay within the Ubaque reservoir with average porosity of 20%.

### Production Results

The Corporation completed the Ubaque reservoir in three intervals 10052-72; 10086-96 and 10102-120 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 7,666 bopd (1,916 bopd net to Canacol) of 17o API oil with 20% water cut at a pump frequency of 55 Hz. Water cut continues to decline with time and management considers it to be completion fluid related to the drilling of the well and not formation water.

The Corporation spud the Rancho Hermoso 15 well on January 25, 2012. This well will be followed by the drilling of the Rancho Hermoso 16 and 17 wells.

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](http://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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