

Canacol Energy Ltd. Provides Colombian Exploration Update

CALGARY, ALBERTA--(October 31, 2012) - Canacol Energy Ltd. ("Canacol" or the "Corporation") (TSX:CNE; BVC:CNEC) is pleased to provide the following update concerning its non-operated Mono Arana 1 exploration well currently drilling on the VMM2 Exploration and Production ("E&P") Contract located in the Middle Magdalena Valley of Colombia, as well as the status of its exploration drilling programs on the Cedrela and LLA23 E&P contracts located in the Caguan – Putumayo and Llanos Basins respectively.

Charle Gamba, President and CEO of the Corporation, stated "We are very pleased with the initial results of the Mono Arana exploration well, which has confirmed oil within the shallow conventional Lisama sandstone reservoir. This has a very positive implication for our adjacent Santa Isabel contract, which we operate with 100% working interest, where we have mapped 4 similar Lisama prospects on the basis of recently acquired 3D seismic. We plan to drill the largest prospect, Oso Pardo, in the first quarter of 2013 at Santa Isabel. We are looking forward to the results from the deeper part of the Mono Arana well, where we are testing the oil potential of the shales and carbonates of the La Luna and Tablazo formations. Meanwhile, our exploration drilling programs continue elsewhere in Colombia, targeting sizeable conventional heavy oil resources in the Caguan – Putumayo Basin, and smaller light oil conventional resources in the Llanos Basin located adjacent to our Rancho Hermoso field, with results anticipated in November 2012."

Mono Arana 1 (VMM2 Contract - 20% non-operated working interest)

Canacol acquired its interest in the VMM2 contract, along with interest in the adjacent VMM3 and Santa Isabel contracts, and interests in 5 other contracts in Colombia including the LLA23 contract in the Llanos Basin, via the corporate acquisition of Carrao Energy Ltd in November 2011. The consortium involved in the VMM2 exploration program includes ExxonMobil Exploration Colombia and Vetra Exploracion y Produccion Colombia, the operator of the contract. The Mono Arana 1 well was spud on September 23, 2012, and will test the oil potential of both the shallow conventional Lisama sandstone reservoir and deeper naturally fractured shale and carbonate reservoirs within the La Luna and Tablazo oil source rocks. The well has been drilled to a depth of 9,296 feet measured depth ("ft md") near the top of the La Luna Formation. Intermediate casing is currently being run prior to drilling onwards to a planned total depth of approximately 12,500 ft in the Tablazo Formation.

The Lisama reservoir was penetrated as anticipated at a depth of approximately 4,800 ft md. Based on Canacol's petrophysical analysis of the openhole logs run across the interval, the Lisama contains approximately 85 ft of potential net oil pay with an average porosity of 21%. The consortium plans to continue drilling the well to a total depth of approximately 12,500 ft md in order to reach the La Luna and Tablazo intervals. The consortium may conduct a number of production tests in La Luna and Tablazo, and afterwards will conduct a production test of the Lisama reservoir to measure flow rate and oil quality unless operating conditions dictate otherwise.

Upon completion of the production testing of the Mono Arana 1 well, the drilling rig will be mobilized to the El Cejudo 1 location to commence drilling the second exploration well. This well will target the oil potential of shales and carbonates of the La Luna and Tablazo source rocks, and will be drilled to a planned total depth of approximately 14,500 ft md.

Guarango 1 (Cedrela Contract – 100% operated working interest)

The Corporation spud the Guarango 1 stratigraphic test on October 29, 2012, after a lengthy delay related to inclement weather. Guarango 1 is planned to be drilled to a depth of approximately 3,000 ft md and will target potential heavy oil-bearing reservoirs in the Mirador sandstones, the main producing sandstones in the Corporation's Capella heavy oil field, and the same porous sandstones encountered in the Achote 1 stratigraphic test. The Guarango 1 stratigraphic test will be followed immediately by the drilling of a second stratigraphic test, the Cedrillo 1 well, on the Cedrela contract.

The results of the 2 stratigraphic tests will be used to pick the drilling location of a conventional exploration well on the Cedrela E&P contract in 2013.

Labrador Prospect (LLA23 Contract – 80% operated working interest)

The Corporation spud the Labrador prospect well, which is located approximately 5 kilometers directly north of the Rancho Hermoso Field, on October 30, 2012 after a lengthy delay related to heavy rains experienced in the Llanos Basin for the first half of October 2012. The exploration well is planned be drilled to a total depth of approximately 11,200 ft md and will take approximately 20 days to drill. This exploration well is targeting potential light oil resources in the same prolific reservoirs currently producing from the Rancho Hermoso Field immediately to the south. The Corporation has also completed the acquisition of an additional 31 square kms of 3D seismic on the northern part of the contract, where two well- developed leads have been identified on the basis of the existing 2D seismic along the same Rancho Hermoso fault trend. Canacol anticipates drilling a number of these prospects in 2013.

Canacol Energy is an exploration and production corporation with operations focused in Colombia and Ecuador. The Corporation's common stock trades on the Toronto Stock Exchange and the Colombia Stock Exchange under ticker symbol CNE and CNE.C, respectively.

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.

For further information please contact:

Investor Relations

1-214-235-4798

Email: info@canacolenergy.com

<http://www.canacolenergy.com>