Canacol Energy Ltd. Announces New Pool Discovery at Rancho Hermoso Field in Colombia

CALGARY, ALBERTA- (June 29, 2011) Canacol Energy Ltd. ("Canacol" or the "Corporation") (TSX:CNE) (BVC:CNE.C) is pleased to provide an operations update concerning its Rancho Hermoso Field located in the Llanos Basin of Colombia. The Corporation has completed production testing of the C7 sandstone reservoir in the Rancho Hermoso 4 ("RH 4") well, which after 1 week of testing flowed at an average rate of 1,786 barrels of oil per day ("bopd") gross (447 bopd net) of 34^{o} API light oil. No reserves are currently attributed to the C7 reservoir, and based upon the positive test results, the Corporation is formulating a plan to develop this new productive reservoir on a field wide basis, which will involve incorporating selective recompletions of the zone into a schedule of multiple workovers going forward over the next two years. The Corporation plans to commence a 4 well development drilling program at Rancho Hermoso commencing in July 2011, which will run through to year end. Canacol's average daily net production for May of 2011 was 11,799 bopd, the majority from the Rancho Hermoso Field.

Charle Gamba, President and CEO of the Corporation, commented "We are pleased with the discovery of a new light oil pool within the C7 reservoir at Rancho Hermoso. This reservoir will yield important production and reserve adds to our ongoing development program at the field."

Rancho Hermoso 4 C7 Production Test and New Pool Discovery

The C7 reservoir is present and oil bearing within all of the 10 wells drilled into the field to date. The C7 had previously been tested at a gross rate of 429 bopd of 34^{o} API oil in February 2011 in the Rancho Hermoso 10 well located approximately 2 kilometers to the south of the RH 4 well. Within the field, the sandstone varies in thickness between 8 and 14 feet, with an average porosity of 21%. The C7 reservoir in the RH 4 well was perforated between 8,602 and 8,614 feet measured depth ("ft md") and production tested over a period of one week. The average gross flow rate was 1,786 bopd (447 bopd net) with a 4% water cut using an electrical submersible pump ("ESP") set to a frequency of 70 Hz. Water cut dropped throughout the duration of the test, and based on the salinity of the water recovered the Corporation believes it to be filtrate related to the drilling and completion process, and not formation water. The C7 reservoir in the RH 4 well has been placed on permanent production, and the Corporation is planning to work with its auditors to book reserves in this formation, and formulate a schedule to complete this reservoir and bring it onto production in other existing wells.

Rancho Hermoso Drilling program

The Corporation plans to commence a four well development drilling program starting with the Rancho Hermoso 11 well, anticipated to spud in July 2011 and targeting production from the Ubaque reservoir. The Ubaque reservoir at the nearby Rancho Hermoso 10 well contains 45 feet of net oil pay, and was perforated between 10,192 and 10,221 ft md and production tested in February 2011. The well flowed at a final stable gross rate of 8,122 bopd (2,030 bopd net) of 18^{o} API oil with 6 % water cut using an ESP set to a frequency of 65 Hz during a 24 hour flow period. The RH 11 well will be followed by the drilling of the Rancho Hermoso 12 and 13 wells, which will target production from the same reservoir. The Rancho Hermoso 14 well will target production from the Barco reservoir, and the Corporation anticipates that the drilling of the fourth well will be completed by December 2011.

The Corporation, through its 100% owned Colombian subsidiary Rancho Hermoso 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 25% (after royalty) of gross production from the Los Cuervos–Barco, Guadalupe, Ubaque, and C7 reservoirs, with Ecopetrol S.A. receiving the remainder, 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 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 ant portion of the resources.

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