Canacol Energy Ltd. Announces US$ 106 Million Capital Program for 2011

CALGARY, ALBERTA- (December 29, 2010) Canacol Energy Ltd. ("Canacol" or the "Corporation") (TSX VENTURE:CNE) (BVC:CNEC) is pleased to announce a US$ 106 million capital budget in 2011 for exploration and development activities in Colombia, Guyana, and Brazil. The budget includes the drilling of 39 gross wells (13 net wells), which include 6 exploration wells and 33 appraisal and development wells. The budget also includes the acquisition of 650 kilometers ("km") of 2D exploration seismic, the building of an early production facility at the Capella discovery, the continued expansion of its operated Rancho Hermoso production facilities, and funding of the Corporations share of the OBC pipeline project in Colombia. The budget consists of US$ 52 million to fulfill exploration work program and pipeline commitments in Colombia, Guyana, and Brazil, and US$ 54 million in discretionary spending dedicated primarily to development drilling and production programs in Colombia. The Corporation anticipates to average between 10,000 to 11,000 barrels of oil per day ("bopd") of net after royalty production in 2011, which excludes any production resulting from exploration success.

The Corporation anticipates that it will have USS65 million in cash at the end of Q4, 2010, and the 2011 work program and budget is expected to be funded from a combination of cash on hand and cash-flow from operations. The budget is based on an average West Texas Intermediate oil price of US$85 per barrel of oil for 2011.

Charle Gamba, President and CEO of Canacol, stated "This year the focus was ramping up production, and I am pleased to announce that with current net after royalty production of 10,998 bopd we have exceeded our 2010 exit rate target of 7,000 bopd by a healthy margin, and have generated a 400% increase in production for 2010. For 2011, the Corporation is focused on executing its large exploration programs, both on its light oil asset in Guyana and its heavy oil assets in Colombia. The success of either of these programs will generate significant returns for shareholders. Also in 2011, the Corporation will focus on rebuilding its exploration portfolio in Brazil. On the production side, Canacol will continue recycling cash flow from its drilling programs at Rancho Hermoso and Capella heavy oil discovery into its exploration programs."

Colombia

Canacol has interests in 8 exploration and production contracts in Colombia, and plans to spend US$ 92 million on various exploration and development projects in 2011. These projects include the drilling of 5 development wells at its operated Rancho Hermoso Field, 28 appraisal and development wells at its heavy oil discovery at Capella, and 3 exploration wells on its heavy oil blocks adjacent to the Capella oil discovery. The budget also includes the acquisition of 650 km of 2D seismic on its heavy oil blocks, the expansion of facilities at the Rancho Hermoso Field, and the funding of its 0.5% working interest in the OBC pipeline project.

Llanos Basin

Canacol has operated interests in the Rancho Hermoso and Entrerrios producing fields in the Llanos Basin.

Rancho Hermoso Production Contract

The Corporation plans to continue drilling development wells at Rancho Hermoso, following up on its successful development drilling program there in 2010. The current drilling program will continue into January 2011 with the drilling of the RH 10 well, and will restart in late Q2/2011 with the drilling of the RH 11, 12, 13 and 14 wells. In addition to the new development wells, the Corporation plans to expand the fluid handling capacity of the existing facilities in order to process the additional production, which will be completed by March 2011. The expanded facility will have the capacity to handle 100,000 barrels of fluid per day.

Putumayo – Caguan Basin

Canacol is one of the largest exploration landholders in the Putumayo – Caguan Basin of southern Colombia, with working interests in three exploration and production contracts and one technical evaluation area.

Ombu E&P Contract – Capella Heavy Oil Discovery (10% non-operated working interest)

Since its discovery in 2008 the Corporation has participated in the drilling of 12 wells into the field, and the acquisition of 189 square kilometers of 3D seismic. In 2011, the Corporation intends to spend US$17 mm net to fund its share of the drilling and completion of 28 new wells and the construction of production facilities, as the development of the field commences. In addition, the cyclic steam injection pilot utilizing the Capella C5 and A1 wells will continue to further evaluate the role of steam injection and secondary recovery on enhanced reserves recovery.

Tamarin and Cedrela E&P Contracts (100% operated working interest)

The Tamarin and Cedrela contracts are located approximately 25 kilometers directly to the southwest of the Ombu contract, and were awarded to Canacol in 2009. Based upon the available geophysical and geological data in this frontier area, the Corporation has determined that the fault trend present at its Capella discovery to the northeast continues onto the Tamarin Block, setting up the potential for another Capella type heavy oil prospect. Together with the nearby Pacarana TEA, awarded to the Corporation in July 2009, Canacol now has a significant operated exploration position at 100% working interest immediately offsetting its Capella heavy oil discovery. Canacol acquired 60 km 2D exploration seismic on the Tamarin contract in May 2010, and plans to acquire 250 km of 2D seismic on the Cedrela block in January of 2011. The Corporation plans to drill 3 exploration wells on the Tamarin and Cedrela contracts commencing in Q3 of 2011.

Pacarana TEA (100% operated working interest)

The Pacarana TEA is a technical evaluation area awarded directly to Canacol in July 2009. The block is located immediately adjacent to the Ombu block and contains 2 structural trends of similar size and orientation to that forming the Capella discovery to the north. Canacol acquired 2,500 km of aeromag gravity data in March of 2010, and based upon those results applied to convert a portion of the TEA into the Sangretorro E&P contract, which the Corporation anticipates will be awarded in early Q1 2011. The Corporation plans to acquire 250 km of 2D exploration seismic on the contract in Q1 2011, followed by exploration drilling in early 2012.

Upper Magdalena Valley Basin

COR 11 and 39 E&P Contracts (100% operated working interest)

The Corporation was the successful bidder for the COR 11 and 39 contracts in the Ronda 2010 exploration bid round held in June 2010. The Corporation, along with the remainder of the successful bidders in the Ronda, is awaiting formal award of the contracts by the ANH.

The Corporation has mapped 7 prospects and leads on the two contracts, and is committed to spend US$ 28 million during the first phase of the exploration work program, which has a duration of 3 years from the date of formal award. The work program involves the acquisition of 245 km of 2D exploration seismic, and the drilling of 3 exploration wells. Although the Corporation has no plans with respect to doing any work on these contracts in 2011, these programs may be accelerated into 2011 should the Corporation choose, as many of the prospects are drill ready and do not require additional seismic control.

Guyana

Takutu PPL (65% non-operated working interest)

In 2011 the Company will participate in the drilling of 2 exploration wells in Guyana, the first being the Apoteri K-2 exploration well on the Karanambo discovery. The Corporation plans to spud the Apoteri K-2 well the last week of December 2010, as discussed in a separate press release. Gaffney Cline and Associates attributed gross mean recoverable prospective resources of 128 million barrels (83 million barrels net) of oil to the discovery in the December 2009 report compiled for the Corporation.

The Joint Venture also plans to drill a second exploration well on the block by May, 2011, and are formulating plans to drill either the Rewa or Pirara River prospects, depending on the outcome of the K-2 well. Gaffney Cline and Associates attributed gross mean recoverable prospective resources of 171 million barrels (111 million barrels net) and 133 million barrels (86 million barrels net) to each prospect respectively in the December 2009 report compiled for the Corporation. Total net cost for the 2 exploration wells is anticipated at US$ 11 million.

Brazil

Canacol has interests in 10 exploration and production blocks in Brazil, including a 47.5% non-operated working interest 5 producing oil fields located onshore in the Reconcavo Basin of Brazil, and a working interest of 38% in the REC170 contract also located in the Reconcavo Basin.

REC 170 E&P Contract (38% working interest)

The Corporation is currently in the process of acquiring the operators interest and operatorship in the REC170 contract, which upon completion will give the Corporation a 75% operated working interest and operatorship in the contract. The Corporation plans to drill 1 exploration well on the block in Q3 of 2011. Total net cost for the exploration well is anticipated at US$ 3 million, which assumes a 75% working interest in the contract.

Producing Assets (47.5% non-operated working interest)

The Corporation is currently in negotiations to divest its working interest in the 5 producing fields, and expects the transaction to be completed in Q1 of 2011. This divestment allows the Corporation to focus on building an exploration portfolio in Brazil going forward.

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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