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Canacol Energy Ltd. Announces C$ 50 Million Bought Deal Financing

CALGARY, ALBERTA- (January26, 2011) Canacol Energy Ltd. ("Canacol" or the "Corporation") (TSX VENTURE:CNE) (BVC:CNEC) is pleased to announce that it has entered into an agreement with a syndicate of underwriters to acquire, on a "bought deal" basis, 36,300,000 common shares at a price of C$1.38 per common share for gross proceeds of C$50,094,000. The syndicate will be led by Cormark Securities Inc. and Canaccord Genuity Corp., and includes FirstEnergy Capital Corp., Stifel Nicolaus Canada Inc., TD Securities Inc., and Mackie Research Capital Corporation, collectively (the "Underwriters"). In addition, the Corporation has granted the Underwriters an over-allotment option to acquire up to an additional 5,445,000 common shares at a price of C$1.38 per common share. This option is exercisable, in whole or in part, by the Underwriters, in their sole discretion, at any time up to 30 days after the closing date. If the over-allotment option is exercised in full, additional gross proceeds will be C$7,514,100 for total gross proceeds of C$57,608,100.

The offering is expected to be made in each of the provinces of Canada, other than Quebec, by way of short form prospectus. The offering is scheduled to close on or about February 15, 2011. The Corporation plans to use the proceeds of the raise to advance exploration and development programs in Colombia as outlined below.

Rancho Hermoso Field

Based upon the results encountered in the Rancho Hermoso 6, 7, 8, and 9 wells drilled in 2010, and the Rancho Hermoso 10 well drilled in 2011, the Corporation has identified significant upside within the field, and plans to drill 2 to 3 additional development wells in addition to the 5 scheduled for 2011. These new wells will target production from the Ubaque, Guadalupe and Barco reservoirs, all of which demonstrated high rates of production. The capital requirement associated with the drilling and completion of the 4 additional wells is approximately US$ 15 million.

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

The Corporation has also chosen to accelerate its exploration programs on the COR 11 and 39 E&P contracts that it successfully bid in the 2010 Colombian exploration bid round in 2010. On COR 39 the Corporation plans to drill one exploration well, and acquire 90 km of 2D seismic across the other leads identified on the block to prepare them for drilling in 2012. These activities will satisfy the majority of the Phase 1 exploration work program on the block. The capital requirement associated for this program is approximately US$ 10 million.

On COR 11 the Corporation will acquire 150 km of 2D seismic over the leads it has identified in order to prepare them for drilling in 2012. This activity will also satisfy part of the Phase 1 exploration work program for the block. The capital requirement associated with this program is US$ 10 million.

The remainder of the proceeds will be placed into treasury to fund general corporate needs, which may include execution of one or more exploration farm-in opportunities the Corporation is currently evaluating in Colombia and Brazil.

This press release shall not constitute an offer to sell or the solicitation of an offer to buy any securities, nor shall there be any sale of securities in any state in the United States in which such offer, solicitation or sale would be unlawful. The securities referred to herein have not been and will not be registered under the United States Securities Act of 1933, as amended, and may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements.

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.

For further information please contact:

Kevin Flick, Vice President of Capital Markets and Investor Relations
Toll Free: 1-877-272-4402 / Cell: 1-214-235-4798
Email: kflick@canacolenergy.com
www.canacolenergy.com