Canacol Energy Ltd. Tests 6,750 BOPD from the Mirador Reservoir in the Rancho Hermoso 9 Well in Colombia, with Corporate Net Production Currently at 10,993 BOPD

CALGARY, ALBERTA- (December 20, 2010) Canacol Energy Ltd. ("Canacol" or the "Corporation") (TSX VENTURE: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 commenced permanent production from the Mirador reservoir in the recently drilled Rancho Hermoso 9 ("RH 9") well. The RH 9 well encountered 109 feet ("ft") of net oil pay within 5 different reservoir intervals, which include, from top to bottom, the Mirador, Los Cuervos–Barco, Guadalupe, Gacheta, and Ubaque. The Corporation drilled the RH 9 well before the RH 8 well for scheduling purposes. Current Corporate net after royalty production, including production from the RH 9 well, is 10,993 barrels of oil per day ("bopd").

Charle Gamba, President and CEO of Canacol, stated "With production from this well, the third in a five well drilling program at Rancho Hermoso, the Corporation's current net production of 10,993 bopd after royalty has exceeded its exit rate target of 7,000 bopd for 2010 by a considerable margin. This well encountered the best Mirador section drilled in the field, and is flowing at a stable rate of 6,750 bopd through our permanent production facilities. The Corporation anticipates having the RH 8 well, currently drilling at 8,018 feet and targeting production from the Los Cuervos–Barco, tested early in the New Year, which will be followed by the drilling of the RH 10 well, which will target production from the Ubaque reservoir. Commencing in the second quarter of 2011, the Corporation plans to drill an additional 4 development wells targeting production from the Los Cuervos–Barco, Guadalupe, and Ubaque reservoirs."

Rancho Hermoso 9 Well Results

The Rancho Hermoso 9 well was spud on November 1, 2010 and reached a total depth of 10,150 ft measured depth ("md") on November 22, 2010, with good oil and gas shows encountered in the Mirador, Los Cuervos–Barco, Guadalupe, Gacheta, and Ubaque reservoirs. Petrophysical analysis of the open-hole logs indicates a total of 109 ft of oil pay within the well: 23 ft of oil pay within the Mirador reservoir with average porosity of 27%, 4 ft of pay within the Los Cuervos–Barco reservoir with average porosity of 20%, 15 ft of oil pay within the Guadalupe reservoir with average porosity of 26%, 19 ft of oil pay within the Gacheta reservoir with average porosity of 22%, and 48 ft of oil pay within the Ubaque reservoir with average porosity of 25%.

Production Results

The Mirador reservoir at RH 9 contains 23 ft of net oil pay, the thickest and best developed Mirador yet encountered in the field. The Mirador was perforated between 9,150 and 9,162 ft md and is flowing at a rate of 6,750 bopd of 36^{o} API light gravity oil with 1% water cut using an electrical submersible pump set to a frequency of 42 Hz during a 24 hour flow period. Water cut decreased steadily throughout the course of the production test, and based upon the salinity of the water, management has concluded that the water is completion fluid related to the drilling of the well, and not formation water. The well is tied into the permanent production facilities and is now on permanent production.

Forward Plans

The rig is currently drilling the Rancho Hermoso 8 ("RH 8") development well, which spud on December 6, 2010, and is drilling ahead at a depth of 8,018 ft md with a planned total depth of 10,374 ft md in the Ubaque reservoir. The RH 8 well is located approximately 3,000 ft to the northeast of the RH 6 well, and will target production from the Los Cuervos–Barco reservoir. Following the completion of the RH 8 well, the Corporation will commence drilling of the RH 10 well, targeting production from the Ubaque reservoir, in January 2011.

The Corporation plans to drill a minimum of 4 additional development wells at Rancho Hermoso commencing late in the second quarter 2011. These new wells will target production from the Los Cuervos–Barco, Guadalupe, and Ubaque reservoirs.

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, and Ubaque 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. The current tariff is US $13.89 per barrel, which will escalate to US $17.36 per barrel in August 2011 through to the commercial life of the field.

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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