FOR IMMEDIATE RELEASE

TSX-Venture: CNE

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Canacol Energy Ltd. Announces December 31, 2008 Reserves Update for the Rancho Hermoso and Entrerrios Fields in Colombia

CALGARY, ***Date*** – Canacol Energy Ltd. ("Canacol" or the "Corporation", TSX-V: CNE) is pleased to provide the results of its mid-year reserves update for its wholly-owned subsidiary, Rancho Hermoso SA. The Corporation operates two producing oil fields, Rancho Hermoso and Entrerrios, located in the Llanos Basin, Colombia. Each field has two contracts governing the production. One contract, a Risk Service Contract, provides a tariff revenue for each barrel produced from the Mirador interval in the Rancho Hermoso field, and the remaining three contracts are production sharing type arrangements where the company is entitled to an equity share of the volumes produced net of a royalty payment to the government. The Corporation's share of gross production is 1,650 bopd, comprised of 1300 bopd of tariff production, and 350 bopd of net after royalty production.

The evaluations, effective December 31st, 2008, were conducted internally with the assistance of the company's independent reserve evaluator Ryder Scott Company, and are in accordance with National Instrument 51-101 - Standards of Disclosure for Oil and Gas Activities. The reserves are provided on a net after royalty basis in units of barrels of oil (bbl) using a forecast price deck in US dollars. The estimated values may or may not represent the fair market value of the reserve estimates.

Net After Royalty Reserves Summary

	12/31/08
Proven Reserves (Bbls)	545,229
Probable Reserves (Bbls)	743,711
Total Proven plus Probable Reserves (Bbls)	1,288,940

Tariff Production Summary

	12/31/08
Tariff Volumes (Bbls)	4,839,000

Net After Royalty Reserves and Tariff Production NPV10 Summary

	NPV10 ($US)
Proven Reserves plus Tariff Volumes	$32,994,948
Probable Reserves	$15,356,107
Total Proven Reserves plus Tariff Volumes plus Probable Reserves	$48,351,055

Net present valuations discounted at 10 per cent include the values for both the Risk Service Contract and the net after royalty reserves. . Valuations are modeled on this basis because of the commercial benefits that come from distributing field operating expenses between the tariff and net after royalty production in the Rancho Hermoso field. Economic limits for a particular field were inclusive of all contracts associated with that field.

The majority of the net after royalty oil production is currently hedged at a floor of US$55 and a ceiling of US$83 per barrel until late 2011 under a contact with Standard Bank Plc executed December 6, 2008. The net after royalty reserve valuations were derived using a forecast price deck as follows:

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
US$/Bbl WTI	54	65	73	82	91	93	95	97	99	101	103	105	107	109	111

For the tariff production valuation, the Corporation receives an operating tariff from Ecopetrol for each gross produced barrel of oil. The average tariff price for 2009 is US$9.63 per barrel, and is insensitive to West Texas Intermediate oil price fluctuation. Under an existing agreement with Ecopetrol, the tariff will increase through a series of steps each year to approximately US$17.56 per gross barrel in 2012 for the duration of life of field. The average tariff price for 2010 will be US$12.50 per barrel.

Management Comment

The Corporation plans to drill three development wells and work over three existing oil producers in the Entrerrios and Rancho Hermoso fields during the remainder of 2009. The new development wells include the drilling of the significant extension of the Entrerrios field, and the drilling of two infill development wells in the Rancho Hermoso field. The Corporation has completed the access road and surface location of the Entrerrios 5 well, and is in the process of contracting a drilling rig to spud the well in early June, with the development wells in Rancho Hermoso to follow. The Corporation also plans to workover three existing wells, two in the Entrerrios field, and one in the Rancho Hermoso field. Management anticipates that this activity will add an initial 3,150 gross bopd (1,050 net bopd) of net after royalty production and an initial 4,000 gross barrels a day of new tariff production. These volumes may increase the Corporation's share of production from the current 1,650 bopd to 6,700 bopd in 2009, which would then consist of 1,400 bopd net after royalty production and 5,300 bopd of tariff production, taking into account the expected decline associated with existing production. Total net cost of the activity is anticipated to be US$11.5 million. The Corporation is currently negotiating a series of agreements with a third party that will finance a portion of these activities, and will file a separate press release in the near future. Current outstanding common shares total approximately 130,000,000.

Charle Gamba, President and CEO of Canacol, was quoted as saying "We are very pleased with the reserves update for our Rancho Hermoso and Entrerrios fields in Colombia, which under the modeled oil pricing yields a 2P NAV of CAN$ 0.37 per share.. Coupled with our producing reserves base in Brazil, along with the reserves report currently in progress for our Capella discovery in Colombia, we are delivering very good value to Canacol share holders compared to current market capitalization".

Canacol is a Canadian based international oil and gas corporation with operations in Colombia, Brazil, Guyana, and Northern Ireland. Canacol is publicly traded on TSX Venture Exchange (TSXV: CNE). The Corporation's public filings may be found at www.sedar.com.

This press release may contain statements within the meaning of safe harbour provisions as defined under Securities Laws and Regulations. The above statements are based on the current expectations and beliefs of Canacol's management and are subject to a number of risks and uncertainties that may cause the actual results to differ materially from those described above.

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. 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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