FORM 51-102F3

MATERIAL CHANGE REPORT

1. **Name and Address of Company**

Canacol Energy Ltd. ("**Canacol**" or the "**Corporation**")
Suite 2110, 333 - 7th Ave. S.W.
Calgary, Alberta
T2P 2Z1

2. **Date of Material Change**

January 26, 2011

3. **News Release**

A press release was disseminated on January 26, 2011 via Marketwire.

4. **Summary of Material Change**

The Corporation announced that it had 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., Citigroup Global Markets 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.

5.1 **Full Description of Material Change**

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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 approximately 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.

5.2 Disclosure for Restructuring Transactions

Not Applicable.

6. Reliance on Section 7.1(2) of National Instrument 51-102

Not Applicable.

7. Omitted Information

Not Applicable.

8. Executive Officer

The name of the Executive Officer of the Corporation who is knowledgeable about the material change and who can be contacted by the Commission is:

Brian Hearst - Chief Financial Officer
Telephone: (403) 237-9925

9. Date of Report

February 1, 2011