

Canacol Energy Ltd.
(Formerly BrazAlta Resources Corp.)

Consolidated Financial Statements

Third Quarter Interim Report, Fiscal 2009

For the Three and Nine Months Ended March 31, 2009
(Unaudited)

June 1, 2009

Canacol Energy Ltd.

(formerly BrazAlta Resources Corp.)

Consolidated Balance Sheets

As at

(\$000s) (unaudited)

	March 31, 2009	June 30, 2008 (note 17)
Assets		
Current Assets:		
Cash and cash equivalents	1,668	9,983
Cash - restricted (note 4)	494	668
Accounts receivable	4,059	7,818
Prepaid expenses and deposits	150	489
Financial derivative asset, net (note 11)	101	-
Asset held for sale (note 18)	2,500	975
	8,972	19,933
Deferred acquisition costs	-	733
Cash call receivable	857	2,009
Cash reserved for asset retirement (note 8)	631	324
Future income tax asset	-	159
Property, plant, and equipment (note 5)	77,498	88,455
Goodwill (note 3)		
Discontinued operations (note 17)		
	87,958	111,613
Liabilities and Shareholders' Equity		
Current Liabilities:		
Line of credit (note 6c)	5,609	-
Accounts payable and accrued liabilities	9,459	7,540
Liabilities held for sale (note 18)	-	132
Interest payable	133	2,799
Current portion of capital lease obligations (note 7)	18	974
Current portion of long term debt (note 6)	3,536	6,960
Financial derivative liability, net (note 11)	-	263
Reclassified portion of long term debt (note 6)	18,071	18,786
	36,826	37,454
Capital lease obligations (note 7)	39	487
Long term debt (note 6)	-	2,080
Future income tax liability	11,369	-
Asset retirement obligation (note 8)	2,420	420
Financial derivative liability, net (note 11)	-	724
Convertible debenture (note 17)	-	36,191
	50,654	77,356
Going concern (note 1)		
Commitments and guarantees (note 16)		
Subsequent events (note 19)		
Non-controlling interest (note 17)	-	2,757
Shareholders' equity:		
Share capital (note 9)	65,278	58,604
Contributed surplus (note 10)	9,045	6,127
Accumulated other comprehensive income	554	-
Deficit	(37,573)	(33,231)
	37,304	31,500
	87,958	111,613

See accompanying notes to the consolidated financial statements.

Canacol Energy Ltd.

(formerly BrazAlta Resources Corp.)

Consolidated Statements of Loss and Comprehensive Loss and Deficit

Three and nine months ended March 31,

(\$000s, except per share amounts) (unaudited)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2009	2008	2009	2008
		(note 19)		(note 19)
Revenues:				
Petroleum and natural gas, net of royalties of \$188 (2008 - \$152)	1,967	1,495	5,083	3,391
Tariff revenue	1,069	-	2,039	-
Interest and other	123	101	490	232
	3,159	1,596	7,612	3,623
Expenses:				
Operating expenses	2,368	1,359	5,666	2,772
Depletion, depreciation, and accretion	1,362	876	4,118	1,839
General and administrative	1,696	962	4,967	2,795
Interest and financial expenses (note 6e)	838	214	1,947	573
Foreign exchange (gain) loss, net (note 11)	1,355	101	2,220	(428)
Realized loss (gain) on financial derivatives, net (note 11)	(2,131)	145	(4,123)	271
Unrealized loss (gain) on financial derivatives, net (note 11)	1,783	(2)	(101)	583
Stock compensation expense (note 9d)	214	561	377	1,391
Impairment on goodwill (note 3)	-	-	5,123	-
Impairment on long-term assets (note 5)	591	-	4,146	-
	8,076	4,216	24,340	9,796
Loss before income taxes	(4,917)	(2,620)	(16,728)	(6,173)
Current income tax expense (recovery)	103	-	(173)	-
Future income tax expense (recovery)	30	-	(13)	-
	133	-	(186)	-
Net loss before discontinued operations	(5,050)	(2,620)	(16,542)	(6,173)
Discontinued operations and gain on sale, net of tax (note 17)	-	(3,032)	12,200	(2,929)
Net loss	(5,050)	(5,652)	(4,342)	(9,102)
Deficit, beginning of period	(32,523)	(19,100)	(33,231)	(15,650)
Deficit, end of period	(37,573)	(24,752)	(37,573)	(24,752)
Net loss per share from continuing operations (note 9e)	(0.04)	(0.03)	(0.16)	(0.07)
Net loss per share from discontinued operations - basic and diluted (note 9e)	-	-	0.12	-
Net loss per share - basic and diluted (note 9e)	(0.04)	(0.06)	(0.04)	(0.11)
Net loss	(5,050)	(5,652)	(4,342)	(9,102)
Other comprehensive income:				
Foreign currency translation adjustment	674	-	554	-
Comprehensive loss	(4,376)	(5,652)	(3,788)	(9,102)

See accompanying notes to the consolidated financial statements.

Canacol Energy Ltd.

(formerly BrazAlta Resources Corp.)

Consolidated Statements of Loss and Comprehensive Loss and Deficit

(\$000s, except per share amounts) (unaudited)

	Three Months Ended March 31,	
	2009	2008
Accumulated other comprehensive income (loss), beginning of period	(120)	-
Foreign currency translation adjustment	674	-
Accumulated other comprehensive income, end of the period	554	-

Canacol Energy Ltd.

(formerly BrazAlta Resources Corp.)

Consolidated Statements of Cash Flows

Three and nine months ended March 31,

(\$000s) (unaudited)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2009	2008	2009	2008
		(note 19)		(note 19)
Cash provided by (used in):				
Operating Activities:				
Net loss from continuing operations	(5,050)	(2,620)	(16,542)	(6,173)
Adjustments for non-cash items:				
Non-cash interest expense	254	123	591	285
Non-cash income include in interest and other	-	-	(185)	(1)
Depletion, depreciation, and accretion	1,362	876	4,118	1,839
Stock compensation expense	214	561	377	1,391
Future income tax recovery	30	-	(13)	-
Impairment on goodwill	-	-	5,123	-
Impairment on long-term assets	591	-	4,146	-
Unrealized foreign exchange loss (gain), net	(63)	128	549	136
Unrealized financial derivatives loss (gain), net	1,783	(2)	(101)	583
	(879)	(934)	(1,937)	(1,940)
Change in non-cash operating working capital, net of effects of acquisition and disposition (note 15)	(1,567)	961	3,673	275
Cash flow from (used in) continuing operations	(2,446)	27	1,736	(1,665)
Cash flow from (used in) discontinued operations	-	(1,566)	(289)	(5,145)
Total cash flow from (used in) operating activities	(2,446)	(1,539)	1,447	(6,810)
Financing Activities:				
Issue of common shares	-	30	-	9,092
Draws (repayment) on line of credit	(650)	-	1,846	4,554
Borrowing (repayment) of long term debt and capital leases	(336)	(10)	(13,903)	(20)
Issue secured debenture	500	-	500	-
Financing and share issue costs	-	(31)	-	(652)
Cash flow from (used in) continuing operation	(486)	(11)	(11,557)	12,974
Cash flow from (used in) discontinued operations	-	33,700	1,767	61,784
Total cash flow from (used in) financing activities	(486)	33,689	(9,790)	74,758
Investing Activities:				
Property, plant, and equipment purchases, net	(1,652)	(1,355)	(5,702)	(7,503)
Cash assumed on acquisition of Canacol Energy Inc.	-	-	1,602	-
Proceeds on sale of subsidiary	122	-	122	-
Cash reserved for asset retirement	20	(25)	(3)	(43)
Cash - restricted	384	(6)	404	(9)
Investment in BCH	-	26,284	-	17,572
Change in non-cash investing working capital, net of effects of acquisition and disposition (note 15)	2,778	(4,451)	(1,234)	(1,314)
Cash flow from (used in) continuing operation	1,652	20,447	(4,811)	8,703
Cash flow from (used in) discontinued operations	-	(34,965)	3,923	(58,821)
Total cash flow from (used in) investing activities	1,652	(14,518)	(888)	(50,118)
Foreign exchange gain on cash and cash equivalents held in foreign currency	47	429	916	408
Net increase (decrease) in cash and cash equivalents	(1,233)	18,061	(8,315)	18,238
Cash and cash equivalents, beginning of period	2,901	3,128	9,983	2,951
Cash and cash equivalents, end of period	1,668	21,189	1,668	21,189
Supplementary disclosure of cash flow information:				
Interest paid	742	111	1,915	229
Taxes paid	-	-	-	-

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the three and nine months ended March 31, 2009 and March 31, 2008

(Unless otherwise stated, amounts presented are in thousands of Canadian dollars) (unaudited)

1. BASIS OF PRESENTATION AND GOING CONCERN

Canacol Energy Ltd. (“Canacol” or the “Corporation”) (formerly BrazAlta Resources Corp. (“BrazAlta”)) and its subsidiaries are primarily engaged in core petroleum and natural gas exploration and development activities in Colombia, Brazil and Guyana. The Corporation’s head office is located in Calgary, Alberta, Canada and the Corporation’s shares are traded on the TSX Venture Exchange.

These interim consolidated financial statements do not include all disclosures required for annual financial statements and should be read in conjunction with the most recent audited annual consolidated financial statements and the notes thereto for the year ended June 30, 2008. With the exception of the new accounting policies adopted by the Corporation (note 2), the significant accounting policies applied are consistent with those in the audited annual consolidated financial statements except for the changes described herein in note 2.

These consolidated financial statements are stated in Canadian dollars and have been prepared by management in accordance with Canadian Generally Accepted Accounting Principles (“GAAP”) on a going concern basis. The going concern basis presumes the realization of assets and settlement of liabilities as they come due in the normal course of operations.

As at March 31, 2009, the Corporation had negative working capital and a history of recurring net losses. During the nine months ended March 31, 2009, the Corporation reduced its overall debt levels by selling its remaining interest in its subsidiary, BCH Ltd. (note 17), by monetizing a forward commodity contract (note 11a) and applying the proceeds from these transactions towards the repayment of its mezzanine debt facility (note 6a) for a total of US\$10,266, and by selling the majority of its Canadian petroleum properties for the proceeds of \$122. In addition, through the disposition of BCH Ltd., the Corporation further reduced its debt exposure as the remaining long-term debt facility and the convertible debenture held by BCH Ltd. were assumed by Allis-Chalmers Energy Inc. following the disposition. Furthermore, the Corporation has sold its final rig for proceeds of US\$2,000 after the quarter, and also repaid the remaining US\$1,333 mezzanine debt in full.

The Company has also executed a series of agreements with Gemini Oil and Gas Fund II, L.P. (“Gemini”), the Jersey based oil and gas investment fund, whereby Gemini will, subject to certain preconditions, invest up to US\$9,000 to fund a portion of the Corporation’s development and appraisal programs on its producing assets in Colombia in 2009. In return, Gemini will be entitled to receive payments equivalent to a percentage of Canacol’s gross revenues from production. Gemini has indicated that at its discretion the total investment may be increased up to a maximum of US\$12,000. The Corporation requires the approval of the lender of its Rancho Hermoso reserves based revolving line credit facility (note 6a) to incorporate the Gemini investment into the Corporation’s financial structure.

The Corporation’s Rancho Hermoso reserves based revolving line credit facility (note 6a) contains non-financial and financial covenants. As of the date of these statements, the Corporation is in compliance with all non-financial covenants including the borrowing base of the credit facility. Certain financial covenants have taken effect for the periods ending on or after March 31, 2009. There is a risk that economic or other circumstances such as low commodity prices could create a situation in which the Corporation would not be able to meet its financial or non-financial covenants in upcoming periods. Failure to meet the covenants could, at the discretion of the lender, constitute an event of default giving the lender the right to demand repayment of some, or all, of the loan, such as which occurred under the W. Washington facility (note 6b), which was successfully resolved and repaid.

Notes to the Consolidated Financial Statements

For the three and nine months ended March 31, 2009 and March 31, 2008

(Unless otherwise stated, amounts presented are in thousands of Canadian dollars) (unaudited)

Management reviews such situations with the lender and may need to request a modification or waiver from the lender, or address any deficiencies as required by the lender. The Corporation is currently working with the lender for approval to obtain the Gemini investment, including modification or waiver of financial covenants for future periods following receipt of the Gemini investment. The financial covenants as drafted in the original agreement were not met at March 31 but the lender has given verbal deferral of compliance as these current negotiations involving Gemini will substantially modify major aspects of the credit facility. Under EIC 122 the credit facility, which matures in August, 2011, has been reclassified on the balance sheet under current liabilities that are or may be payable within one year.

The lender of the W. Washington reserves based revolving line credit facility (note 6b) reduced the maximum draw on the facility from US\$7,100 (net US\$3,373) to US\$4,000 (net US\$1,900). The Corporation, and its joint venture partner W. Washington, received a notice of an Event of Default from the lender. As of the date of these statements, the Corporation has remedied the default on the senior credit agreement in Brazil with the lender, resulting in the elimination of the Corporation's debt facility in Brazil. The Corporation paid approximately US\$3,300, or 47.5% of the outstanding balance of US\$7,100 and W. Washington was liable for the remaining 52.5% of the balance. These amounts were paid in full. In connection with the repayment of the Brazilian Facility, the Corporation increased its debt on its senior loan facility in Colombia by \$3,500. As part of this process, the Colombia mezzanine facility was repaid in full from its original amount of US\$11,600 in August 2008, which was repaid in full subsequent to March 31. The increase in the senior loan facility was accomplished as a result of the increase in proven reserves in Colombia since the initial establishment of the Colombia Facilities. The Colombia Facilities include Rancho Hermoso S.A and Canacol Colombia.

Furthermore, the Company entered into an agreement with Canaccord Capital Corporation ("Canaccord") to issue, on a private placement "best efforts" agency basis, up to \$6,000 in units at a price of \$0.125 per unit. Each unit consists of one common share of the Corporation and one-half common share warrant of the Corporation at a price of \$0.20 for a period of 24 months from the closing date of Offering. To date an amount of approximately \$4,500 has been closed. The balance of \$1,500 was closed on May 28, 2009.

Based on the above items, there is a risk regarding the Corporation's ability to continue as a going concern. These financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Corporation not be able to continue in business and therefore be unable to realize its assets and discharge its liabilities in the normal course of business. Such adjustments could be material.

2. NEW ACCOUNTING POLICIES AND FUTURE CHANGES IN ACCOUNTING POLICIES

The following new accounting policies were adopted by the Corporation upon the acquisition of Canacol Energy Inc. on October 30, 2008. These policies are in addition to significant accounting policies outlined in the audited annual consolidated financial statements for the year ended June 30, 2008.

Currency translation

The accounts of the self-sustaining Colombian subsidiaries are translated using the current rate method, whereby assets and liabilities are translated at the period-end exchange rates and revenues and expenses are translated using average period exchange rates. Translation gains and losses relating to the self-sustaining operations are included as part of accumulated other comprehensive income. The Corporation continues to use the temporal method to translate the operations of its Brazilian subsidiaries as detailed in the Corporation's June 30, 2008 consolidated financial statements.

Notes to the Consolidated Financial Statements

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Revenue recognition

The Corporation receives tariff revenue under a risk service contract with Ecopetrol S.A. (“Ecopetrol”) in which a tariff price per barrel of tariff oil production is paid to the Corporation. Ecopetrol is a Mixed Economy Company, with a commercial orientation, organized as an “Anonymous Society” (equivalent to a Corporation), under the Ministry of Mines and governed by the Social Statutes. Ecopetrol carries out hydrocarbon exploration, production, and transportation activities in Colombia both directly and through participation agreements with other companies operating in Colombia. The Corporation recognizes revenue based on production of tariff oil and collection is reasonably assured.

The following represent the changes in accounting policies as a result of new GAAP pronouncements:

Capital disclosures

On July 1, 2008, the Corporation applied CICA Section 1535, “Capital Disclosures”. The main features of this section are to establish requirements for an entity to disclose qualitative information about its objectives, policies, and processes for managing capital, quantitative data about what it regards as capital, and whether it has complied with any externally imposed capital requirements and, if not, the consequences of such non-compliance. These disclosures may be found in note 12.

Financial instruments

On July 1, 2008, the Corporation adopted two additional CICA Handbook requirements relating to financial instruments, section 3862 “Financial Instruments – Disclosures” and section 3863 “Financial Instruments – Presentations”. The effect of these standards are incremental disclosures regarding the significance of financial instruments for the entity’s financial position and performance, the nature, the extent, and management of risks to which the entity is exposed to arising from financial instruments as detailed in note 11.

Inventories

On July 1, 2008, the Corporation adopted section 3031 “Inventories”. The adoption has had no impact on the Corporation.

Business combinations

In January 2009, the Accounting Standards Board (“AcSB”) issued Section 1582, “Business Combinations”, which replaces former guidance on business combinations. Section 1582 establishes principles and requirements of the acquisition method for business combinations and related disclosures. This statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 2011 with earlier application permitted. The Corporation plans to adopt this standard July 1, 2011 and does not expect the adoption of this statement to have a material impact on our results of operations or financial position.

Consolidated financial statements and Non-controlling interests

In January 2009, the AcSB issued Sections 1601, “Consolidated Financial Statements”, and 1602, “Non-controlling Interests”, which replaces existing guidance. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are effective on or after the beginning of the first annual reporting period beginning on or after January 2011 with earlier application permitted. The Corporation plans to adopt these standards effective July 1, 2011 and does not expect the adoption will have a material impact on our results of operations or financial position.

Goodwill and intangible assets

In February 2008, the CICA issued Section 3064, “Goodwill and Intangible Assets”, replacing Section 3062, “Goodwill and Other Intangible Assets” and Section 3450, “Research and Development Costs”. Various changes have been made to other sections of the CICA Handbook for consistency purposes. The new Section will be

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For the three and nine months ended March 31, 2009 and March 31, 2008

(Unless otherwise stated, amounts presented are in thousands of Canadian dollars) (unaudited)

applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company will adopt the new standards for its fiscal year beginning July 1, 2009. It establishes standards for the recognition, measurement, presentation, and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062.

International Financial Reporting Standards (IFRS)

On February 13, 2008, the AcSB confirmed that effective for interim and annual financial statements related to fiscal years beginning on or after January 1, 2011, International Financial Reporting Standards (IFRS) will replace Canada's current Generally Accepted Accounting Principles for all publicly accountable profit oriented enterprises.

3. BUSINESS ACQUISITION

Business acquisitions are accounted for using the purchase method. The results of acquired businesses have been included in the consolidated financial statements since the acquisition closing date.

Effective October 30, 2008, Canacol Energy Ltd. (operating as BrazAlta Resources Corp. at the time of acquisition) acquired all of the issued and outstanding shares and warrants of Canacol Energy Inc. Canacol Energy Inc. was a private Alberta based company with petroleum and natural gas interests in Colombia and Guyana. The purchase price of \$8,000 was paid through the issuance of 39,999,994 common shares of Canacol Energy Ltd. at a fair value of \$0.20 per share based on the five day weighted average share price on the date of measurement. In addition, acquisition costs of \$1,028 were incurred resulting in aggregate consideration of \$9,028.

The Corporation continues to review the net assets acquired in the acquisition but the preliminary fair values of the net assets acquired and aggregate consideration given are as follows:

<i>Consideration given</i>	\$
Common shares	8,000
Acquisition costs	1,028
Total consideration	9,028
<i>Allocation of purchase price</i>	\$
Current assets	8,478
Property, plant, and equipment	51,977
Other long-term assets	2,563
Goodwill	5,123
Total assets	68,141
Current liabilities	19,443
Long-term liabilities	26,475
Asset retirement obligation	1,813
Future income tax liability	11,382
Total liabilities	59,113
Net assets acquired	9,028

The above purchase price allocations are preliminary and have been allocated based upon a preliminary evaluation of the fair value of the assets and liabilities acquired. The purchase price allocations will remain preliminary until the Corporation finalizes it as part of the Corporation's year-end audit.

As part of the acquisition of Canacol Energy Inc., the Corporation recognized \$5,123 of goodwill. Following the acquisition, the significant decrease in oil prices combined with the global economic and financial crisis has resulted

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For the three and nine months ended March 31, 2009 and March 31, 2008

(Unless otherwise stated, amounts presented are in thousands of Canadian dollars) (unaudited)

in a change in the value of Canacol Energy Inc. During the period ended March 31, 2009, the Corporation recorded impairment on the goodwill relating to its purchase of Canacol Energy Inc. of \$5,123.

4. CASH - RESTRICTED

As at March 31, 2009, a total of \$494 (June 30, 2008 - \$668) in cash assets were restricted in conjunction with a reserve for interest instalments due within the next three months on the Corporation's debt facilities described in note 6. The balance at June 30, 2008 relates to discontinued operations.

5. PROPERTY, PLANT AND EQUIPMENT

	Nine Months Ended March 31, 2009			Year Ended June 30, 2008		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Petroleum and natural						
gas properties	90,866	(13,764)	77,102	29,549	(5,484)	24,065
Drilling rig	-	-	-	62,046	(1,819)	60,227
Service rig equipment	-	-	-	1,579	(83)	1,496
Vehicles	-	-	-	2,025	(344)	1,681
Office Equipment	339	(213)	126	841	(191)	650
Building & Leasehold	73	(4)	69	88	-	88
Equipment & Other	209	(8)	201	248	-	248
	91,487	(13,989)	77,498	96,376	(7,921)	88,455

The costs excluded from the depletion calculation include undeveloped land costs, completion equipment inventory, and drilling in progress. As at March 31, 2009, the total costs excluded from the depletion calculation and ceiling test were \$20,775 (June 30, 2008 - \$2,507). No indirect overhead costs were capitalized during the nine month periods ended March 31, 2009 and 2008. During the nine month period ended March 31, 2009, the Corporation recorded an impairment of \$4,146 (2008- \$Nil) relating to long-term assets. The impairment charges recorded by the Corporation relate to the impairment recorded on the Corporation's non-core assets including its Canadian petroleum and natural gas properties, the remaining drilling rig held by the Corporation following the sale of BCH Ltd., and a provision for the Corporation's Ireland properties. Management determined that given the dramatic decline in commodity prices and the current financial crisis, the Corporation would not likely be able to realize the carrying value of the assets in future periods. The impairment recorded was to adjust the carrying value of these long-term assets to the expected value to be realized.

6. LONG TERM DEBT

As at March 31, 2009, Canacol had two reserves based revolving line credit facilities; the Rancho Hermoso reserves based revolving line credit facility and the W. Washington reserves based revolving line credit facility.

Notes to the Consolidated Financial Statements

For the three and nine months ended March 31, 2009 and March 31, 2008

(Unless otherwise stated, amounts presented are in thousands of Canadian dollars) (unaudited)

	March 31, 2009	June 30, 2008
	\$	\$
Reserves based revolving line credit facility - opening balance	3,049	-
Reserves based revolving line credit facility issued or assumed	31,142	4,554
Transaction costs	(1,215)	(1,740)
Repayment of long-term debt facility	(13,543)	-
Total long-term debt	19,433	2,814
Accretion of transaction costs	579	433
Unrealized foreign exchange (gain) loss	1,595	(198)
	21,607	3,049
Current portion, revolving line credit facility	(3,536)	(969)
Long-term reserves based revolving line credit facility - ending balance	18,071	2,080

Long-term reserves has been reclassified on the balance sheet under current liabilities.

a. Rancho Hermoso reserves based revolving line credit facility

On August 29, 2008, Canacol Energy Inc. (note 3) closed the acquisition of a private Colombian exploration and production Company, Rancho Hermoso S.A. for US\$28,600. A debt facility from Standard Bank Plc totalling US\$25,600 was put in place in order to finance the acquisition of Rancho Hermoso S.A. The original loan was comprised of two credit facilities:

- a US\$50,000 three year senior secured borrowing base revolving credit facility with current availability of US\$14,000; and
- b) a US\$11,600 mezzanine facility.

The security package and terms for the Standard Bank Loan comprise of a lien on the shares of Rancho Hermoso S.A., a guarantee from each of Canacol Energy Ltd. and Canacol Energy Inc., and a hedge of a percentage of Rancho Hermoso S.A. production. The revolving credit facility is payable in full on August 27, 2011 and the mezzanine facility is payable in six equal semi-annual payments beginning on February 27, 2009. During the nine month period ended March 31, 2009, US\$10,266 has been repaid on the mezzanine facility to reduce the balance outstanding to US\$1,333 as at March 31, 2009. The revolving credit facility bears interest at LIBOR plus 4.00% while the mezzanine facility bears interest at LIBOR plus 12.00%.

In conjunction with the financing, Canacol issued to Standard Bank warrants to acquire 10,000,000 Canacol Common Shares at a price of C\$0.80 per Canacol Common Share for a period of five years and cancelled 3,500,000 warrants previously issued to Standard Bank at US\$2.00 as part of the issuance of the W. Washington reserves based revolving credit facility. Refer to note 9c for additional details regarding the warrants.

In connection with the repayment of the Brazilian Facility, the Corporation increased its debt on its senior loan facility with Standard Bank Plc in Colombia by \$3,500. As part of this process, the Colombia mezzanine facility was repaid in full from its original amount of US\$11,600 in August 2008. The increase in the senior loan facility was accomplished as a result of the increased proven reserves in Colombia since the initial establishment of the Colombia facilities. Subsequent to March 31, the Corporation repaid the outstanding balance in full.

b. W. Washington reserves based revolving line credit facility

Canacol and its Brazil Joint Venture partner, W. Washington Petroleo S.A. ("W. Washington") have entered into a reserves based revolving line of credit facility for up to US\$50,000. The facility limit is based on the lender's evaluation of reserves estimates, and currently has a maximum draw of gross US\$4,000 (net US\$1,900). As of March 31, 2009, there was a gross draw of US\$7,100 (net US\$3,373) (June 30, 2008 - gross US\$9,000 (net

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US\$4,275)) drawn on the facility. The Corporation and its joint venture partner W. Washington had received a notice of an Event of Default from the lender in accordance with provisions of the credit facility. The reserves based revolving line of credit facility is secured by a first charge on all of W. Washington's assets, as well as W. Washington's and Canacol's interests in oil and gas concession contracts in Brazil and the receivables from any corresponding oil sales. In addition, the shares of BrazAlta Brasil Norte Comercializacao de Petroleo Ltda. ("BrazAlta Norte") owned by Canacol have been pledged as security. Furthermore, the loan has been guaranteed by Canacol and BrazAlta Norte and is cross guaranteed by the Corporation as a 47.5% joint-interest partner.

The revolving facility requires interest payments only for three years with repayment of the outstanding principal due in full in August 2010. The facility bears interest at LIBOR plus 3.50%.

The Corporation has remedied the default on the senior credit agreement in Brazil with Standard Bank Plc, resulting in the elimination of the Corporation's debt facility in Brazil. The Corporation paid approximately US\$3,300 (47.5%) of the outstanding US\$7,100 and W. Washington was liable for the remaining 52.5%. This amount has been paid in full.

c. Revolving operating line of credit

The Corporation, through its wholly owned subsidiary Ranch Hermoso SA, has revolving operating lines of credit. These lines of credit bear interest at the Depósitos a Término Fijo ("DTF") interest rate, a Colombian benchmark interest rate, plus spreads of 3.6% to 12.65% per annum on the balance outstanding resulting in an average rate of 15.36%. At March 31, 2009, a total of \$5,609 had been drawn on these facilities (June 30, 2008 – \$Nil). The operating lines of credit are unsecured.

d. Secured debenture

On February 15, 2009, the corporation obtained financing of a secured debenture ("Secured Debenture") in the amount of \$500. The Secured Debenture will bear an interest rate of 15% per annum and is secured by a security interest in a remaining drilling rig owned by Canacol (formerly BrazAlta) after the sale of its BCH Ltd subsidiary on December 31, 2008. The Secured Debenture is payable by the Corporation at the earlier of (i) 180 days or (ii) the day when the proceeds from the sale of the rig is received by the Corporation. The Corporation will use the proceeds from the Secured Debenture for continuing working capital purposes. As part of the financing, the Corporation paid a 7% cash commission to an individual who is an arm's-length party to the Corporation for his part in introducing lenders to the Corporation. On May 28, 2009, the Corporation retired \$343,900 of the Secured Debenture through the issue of 2,751,200 shares at a price of \$0.125 per share as part of the May 2009 private placement. The amount of the debenture is included in line of credit.

e. Interest and financial expense

Interest and financial expense is comprised of both cash and non-cash components. The non-cash components relate to accretion of deferred financing charges incurred on the Corporation's debt facilities which are accreted over the life of the respective loans using the effective interest rate method. Details of the cash and non-cash components of interest and financial expense are as follows:

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	Three Months Ended March 31,		Nine Months Ended March 31,	
	2009	2008	2009	2008
	\$	\$	\$	\$
Cash interest expense	584	91	1,356	288
Accretion of transaction costs	254	123	591	285
Total interest and financial expense	838	214	1,947	573

As outlined in note 4, the Corporation maintains a reserve in cash which is restricted relating to interest instalments due within the next three months on the Corporation's debt facilities.

f. Principal repayments

Future repayments on the Corporation's outstanding debt facilities for the next five years are as follows:

	2009 - 9 Months	2010	2011	2012	2013	Total
Rancho Hermoso facility	-	-	17,643	-	-	17,643
	-	-	US\$14,000	-	-	US\$14,000
Secured debenture ⁽¹⁾	500	-	-	-	-	500
	US\$397	-	-	-	-	US\$397
Line of credit	5,109	-	-	-	-	5,109
	US\$4,053	-	-	-	-	US\$4,053
Mezzanine facility ⁽²⁾	1,680	-	-	-	-	1,680
	US\$1,333	-	-	-	-	US\$1,333
W. Washington facility ⁽²⁾	1,856	2,394	-	-	-	4,250
	US\$1,473	US\$1,900	-	-	-	US\$3,373
	9,145	2,394	17,643	-	-	29,182
	US\$7,256	US\$1,900	US\$14,000	US\$0	US\$0	US\$23,156

1. Retired \$344 subsequent to March 31, 2009

2. Repaid subsequent to March 31, 2009.

7. CAPITAL LEASE OBLIGATIONS

	March 31, 2009	June 30, 2008
	\$	\$
Capital leases secured by the related assets	70	1,642
Imputed interest	(13)	(181)
	57	1,461
Amounts due within one year	(18)	(974)
	39	487

The Corporation's capital leases primarily relate to a building in Colombia. The leases bear interest at 12.5% and have a remaining term of 2 years. Assets under capital lease at March 31, 2009 totalled \$66 (June 30, 2008 - \$2,025). Accumulated depreciation of these assets at March 31, 2009 totalled \$4 (June 30, 2008 - \$344). Amortization expense related to the capital leases for the period ended March 31, 2009 totalled \$4 (2007 - \$344).

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8. ASSET RETIREMENT OBLIGATION

	Nine Months Ended March 31, 2009	Year Ended June 30, 2008
	\$	\$
Asset retirement obligation, opening balance	420	343
Liabilities incurred and acquired	1,842	51
Liabilities settled	(23)	(11)
Revision of estimates	-	1
Accretion expense	114	36
Variance due to foreign exchange	67	-
Asset retirement obligation, ending balance	2,420	420

As at March 31, 2009, the estimated total undiscounted amount required to settle the asset retirement obligation was \$3,096 (June 30, 2008 - \$711) and these costs are expected to be settled over the useful lives of the underlying assets which currently extend up to 15 years into the future. The estimated cash flow has been computed using a credit-adjusted risk free discount rate of 9.5% and a country inflation rate as follows: Canada 2.0%, Brazil 5.0%, and Colombia 5.5%. In accordance with Brazilian and Colombian regulations, as of March 31, 2009, a total of \$631 (June 30, 2008 - \$324) of cash has been reserved for future asset retirement.

9. SHARE CAPITAL

a. Authorized

The Corporation is authorized to issue an unlimited number of common shares.

b. Issued

	Nine Months Ended March 31, 2009		Year Ended June 30, 2008	
	Number of Securities	\$	Number of Securities	\$
Issued and outstanding				
Common Shares				
Common shares outstanding, opening balance	90,084,661	57,278	75,556,663	47,245
Issued on private placement	-	-	10,000,000	5,500
Issued on acquisition of Canacol Energy Inc. (note 3)	39,999,994	8,000	-	-
Stock options exercised	-	-	91,700	43
Contributed surplus related to stock options exercised	-	-	-	28
Warrants exercised	-	-	4,436,298	3,549
Fair value of warrants exercised	-	-	-	1,243
Share issue costs	-	-	-	(330)
Common shares outstanding, ending balance	130,084,655	65,278	90,084,661	57,278
Warrants				
Warrants outstanding, opening balance	9,172,000	1,326	10,136,633	2,569
Issued during debt financing arrangement (note 9c)	10,000,000	-	3,500,000	-
Exercised	-	-	(4,436,298)	(1,243)
Cancelled (note 9c)	(3,500,000)	-	-	-
Expired	(5,672,000)	(1,326)	(28,335)	-
Warrants outstanding, ending balance	10,000,000	-	9,172,000	1,326

Notes to the Consolidated Financial Statements

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c. Warrants

Previously, in conjunction with entering into the W. Washington reserves based revolving credit facility (note 6), the Corporation issued 3,500,000 warrants which were exercisable for a period of five years at an exercise price of US\$2.00 per common share. These warrants were cancelled and replaced with new warrants as part of the Rancho Hermoso debt financing (note 6). They were replaced with 10,000,000 new warrants with an exercise price of C\$0.80 per common share and an expiry of August 29, 2013. The warrants have a mandatory exercise clause in which they must be exercised if the closing price of Canacol's shares exceeds C\$0.95 per share for 60 consecutive trading days. At the date of issuance, the net fair value of the new warrants issued was calculated to be \$1,215 using a Black-Scholes pricing model based on the following assumptions: risk-free rate of 3.0%, expected life of five years, no dividends, and an expected volatility of 84% and have been included as part of financing costs.

	Nine Months Ended March 31, 2009		Year Ended June 30, 2008	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Opening	9,172,000	\$1.87	10,136,633	\$1.35
Issued	10,000,000	\$0.80	3,500,000	US \$2.00
Exercised	-	-	(4,436,298)	\$0.80
Cancelled	(3,500,000)	US \$2.00	-	-
Expired	(5,672,000)	\$1.79	(28,335)	\$0.80
Ending	10,000,000	\$0.80	9,172,000	\$1.87

Exercisable warrants as at March 31, 2009 had the following exercise prices and expiry dates:

Number of Warrants	Exercise Price	Expiry Date
10,000,000	\$0.80	August 29, 2013
10,000,000	\$0.80	4.42 years

d. Stock Options

The Corporation has a stock option plan for the purpose of aligning the interest of its directors, officers, employees, and consultants in the growth and development of the Corporation by providing them with the opportunity, through share options, to acquire an interest in the Corporation. The outstanding options expire at various dates between March 2010 and December 2013. At March 31, 2009, a total of 5,977,001 options were exercisable at a weighted average exercise price of \$0.59 per common share.

	Nine Months Ended March 31, 2009			Year Ended June 30, 2008		
	Number of Stock Options	Weighted Average Exercise Price \$	Fair Value Assigned \$	Number of Stock Options	Weighted Average Exercise Price \$	Fair Value Assigned \$
Opening	7,571,334	0.91	4,098	7,301,700	0.97	4,311
Exercised	-	-	-	(91,700)	0.46	(28)
Cancelled	(4,596,668)	0.76	(1,029)	(1,381,666)	1.05	(848)
Granted	6,710,000	0.10	453	1,743,000	0.77	663
Ending	9,684,666	0.42	3,522	7,571,334	0.91	4,098

Note: Subsequent to March 31, 2009, 2,903,333 options were cancelled at a weighted average exercise price of \$0.77.

Compensation expense for stock options is recognized using the fair value method when the stock options are

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granted and is amortized over the options' vesting periods. As at March 31, 2009, \$261 (June 30, 2008 - \$220) of stock based compensation expense remains unrecognized. During the three and nine month periods ended March 31, 2009, \$214 and \$377 respectively (2008 - \$561 and \$1,391 respectively) has been recognized in the consolidated statement of loss using the Black-Scholes pricing model based on the following assumptions at the time of the option grant:

	Nine Months Ended March 31, 2009	Year Ended June 30, 2008
Risk-free interest rate	1.88%	3.4% - 4.4%
Expected life of options	5 years	5 years
Dividend yield	Nil	Nil
Expected volatility	108%	72%
Weighted average fair value price	\$0.05	\$0.37

e. Per share amounts

Basic loss per share calculations are based on the loss attributable to common shares for the period divided by the weighted average number of common shares issued and outstanding during the period. The diluted loss per share calculation is based on the weighted average number of common shares outstanding during the period, plus the effects of dilutive common share equivalents. This method requires that the dilutive effect of outstanding options and warrants issued should be calculated using the treasury stock method. This treasury stock method assumes that all common share equivalents have been exercised and that the funds obtained thereby were used to purchase common shares of the Company at the average trading price of common shares during the period.

For the three and nine months ended March 31, 2009, the diluted loss per share from continuing operations is the same as basic loss per share as the effect of the exercise of options and warrants on loss per share would be anti-dilutive. In calculating the basic and diluted income per share from discontinued operations and net income per share for the three and nine months ended March 31, 2009, the weighted average number of common shares used in the calculation of basic and diluted net income per share is shown below.

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2009	2008	2009	2008
Basic	117,041,179	90,031,090	103,562,920	83,580,545
Diluted	117,041,179	90,031,090	104,911,158	83,580,545

10. CONTRIBUTED SURPLUS

The following table reconciles the Corporation's contributed surplus:

	March 31, 2009 \$	June 30, 2008 \$
Contributed surplus, opening	6,127	3,136
Fair value of warrants issued during debt financing (note 9c)	1,215	1,425
Stock compensation expense	377	1,594
Warrants expired	1,326	-
Stock options exercised	-	(28)
Contributed surplus, ending	9,045	6,127

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11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Classifications of financial instruments remain consistent at March 31, 2009 with those at June 30, 2008. The carrying value and respective fair value of financial assets and liabilities are summarized as follows:

	March 31, 2009		
	Carrying Value	Fair Value	Gain ¹
Assets held for trading			
Cash, restricted cash, and cash reserved for asset retirement	2,793	2,793	-
Financial derivative asset	101	101	4,660
Loans and receivables			
Accounts and cash call receivable	4,916	4,916	-
Liabilities held for trading			
Financial derivatives	-	-	-
Other liabilities			
Accounts and interest payable	9,610	9,610	-
Debt facilities and line of credit	27,255	27,255	-

¹ Gain relates to realized and unrealized gain on financial derivatives for the nine months ended March 31, 2009

Credit risk

Credit risk reflects the risk of loss if counterparties do not fulfill their contractual obligations. The majority of the Corporation's accounts receivable balances relate to oil and gas sales. The Corporation's policy is to enter into agreements with customers that are well established and well-financed entities in the oil and gas industry such that the level of risk is mitigated. To date, the Corporation has not experienced any material credit loss in the collection of accounts receivable. All Brazilian oil sales made through the Joint Venture are to a single customer who is the government energy Company, while in Colombia all oil sales revenue and tariff oil revenue comes from two customers who are also government entities. For the nine months ended March 31, 2009, this represents approximately 41%, 36%, and 23% respectively of operating revenue. The Corporation's net share of the outstanding accounts receivable from these customers totalled \$1,720 at March 31, 2009 (June 30, 2008 - \$596). The Corporation's aged receivables primarily relate to tax receivable balances that can be applied to future required tax payments. No provision has been recorded for these balances. Details of the Corporation's accounts receivable balances are as follows.

Trade and other receivable aging balances	As at	
	March 31, 2009	June 30, 2008
Current < 30 days	3,364	5,395
30 to 60 days	524	977
60 to 90 days	1	871
Over 90 days	170	575
Total	4,059	7,818

During 2007, Ecopetrol did not accept some oil deliveries from the Corporation. These deliveries were sold to other customers at the prevailing market price, with revenue being recognized at the time. No liability was recorded relating to the production owed to Ecopetrol at the time, however as the Corporation still owes the oil deliveries to Ecopetrol, it has accrued this as a liability.

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In addition, the Corporation has cash call receivables of \$857 (June 30, 2008 - \$2,009) relating to its joint venture operations in Colombia and Brazil. These balances are due from three partners and as such there is concentration of credit risk.

Market risk

Market risk is the risk or uncertainty that changes in price, such as commodity prices, foreign exchange rates, and interest rates will affect the Corporation's net earnings and the value of financial instruments.

a) Commodity price risk

Commodity price risk is the risk that the fair value of the future cash flows will fluctuate as a result of changes in commodity prices. Significant changes in commodity prices can also materially impact the Corporation's borrowing base under its reserve based credit facilities. Commodity prices are significantly impacted by world economic events impacting the supply and demand of oil and natural gas.

In December 2008, the Corporation sold its Financial WTI oil collar entered into with the acquisition of Rancho Hermoso S.A. by Canacol Energy Inc. on August 29, 2008 for proceeds of US\$5,000. The proceeds were used to pay down the Corporation's mezzanine debt facility. At the time, a new Financial WTI oil collar was entered into with the following terms:

Period	Volume	Type	Price Range
Jan – Dec 2009	185 bbls/day	Financial WTI Oil Collar	US\$55.00 - US\$80.25
Jan – Dec 2010	140 bbls/day	Financial WTI Oil Collar	US\$55.00 - US\$80.25
Jan – Aug 2011	114 bbls/day	Financial WTI Oil Collar	US\$55.00 - US\$80.25

On March 12, 2009, the Corporation sold its Financial Brent oil collar entered into with its joint venture partner on June 29, 2007 for net proceeds of US\$313. The gross proceeds of US\$604 were used to reduce the outstanding credit facility of US\$7,100 (net US\$3,373) with Standard Bank.

For the nine months ended March 31, 2009, the Corporation recognized a realized gain of \$4,123 (2008 – loss of \$271) and an unrealized gain of \$101 (2008 - loss of \$583) relating to its oil collar financial derivatives. The total fair value of these risk management assets at March 31, 2009 was \$101 (June 30, 2008 – liability of \$987). During the three and nine month period ended March 31, 2009, if oil prices had been US\$1.00 higher/lower, with all other variables held constant, the change in fair value would have resulted in a decrease/increase in earnings of approximately \$21.

b) Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign currency exchange rates. Many of the Corporation's business transactions and commitments occur in currencies other than Canadian dollars. The Corporation's activities in Brazil use the Brazilian Real (BRL) as its functional currency and the Corporation's activities in Colombia use the Colombian Peso (COP) as its functional currency. Therefore it is exposed to the risk of fluctuations in foreign exchange rates. In addition, the majority of the Corporation's sales purchase contracts for the oil produced is based on a US dollar reference price, but paid in the local respective currency with the remainder paid in US dollars. As at March 31, 2009, the Corporation has not entered into any foreign currency derivatives to manage its exposure to currency fluctuations.

At March 31, 2009, the Corporation held \$1,152 (BRL\$ 2,105) on deposit in Brazilian Real (June 30, 2008 – \$2,064 (BRL\$ 3,234)), \$107 (COP 217,097) on deposit in Colombian Pesos (June 30, 2008 – \$Nil (COP \$NIL)) and \$415

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(US\$ 330) on deposit in US dollars (June 30, 2008 - \$6,957 (US\$ 6,830)). In addition, the majority of the Corporation's accounts receivables and accounts payable balances are denominated in currencies other than Canadian dollars including US dollars, Brazilian Real, and Colombian Pesos. As of March 31, 2009, the Corporation had the following accounts receivable balances: \$223 (BRL\$407) in Brazilian Real (June 30, 2008 - \$3,610 (BRL\$5,655)), \$1,972 (US\$1,565) in US dollars (June 30, 2008 - \$3,436 (US\$3,373)), \$1,682 (COP\$3,4 billion) in Colombian Peso (June 30, 2008 - \$Nil). As of March 31, 2009, the Corporation had the following accounts payable and accrued liabilities balances: \$1,360 (BRL\$ 2,485) in Brazilian Real (June 30, 2008 - \$3,547 (BRL\$5,557)), \$121(US\$96) in US dollars (June 30, 2008 - \$3,021 (US\$2,966) and \$4,262 (COP\$8.6 billion) in Colombian Pesos (June 30, 2008 - \$Nil).

For the nine month period ended March 31, 2009, the Corporation had a foreign exchange loss of \$2,220 (2008 - gain of \$428) primarily due to fluctuations in the Canadian dollar compared to the US dollar for which the long term debt is denominated and depreciation of the Brazilian Real. During the nine month period ended March 31, 2009, a 1% increase/decrease in the Canadian dollar vis-à-vis the US dollar and Brazilian Real is estimated to increase/decrease the earnings of the Corporation by \$376 and \$107 respectively.

c) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in prevailing market interest rates. The Corporation is exposed to interest rate risk on certain variable interest rate US dollar denominated debt instruments which are based upon an underlying three month LIBOR reference rate. The remainder of the Corporation's financial assets and liabilities are not exposed to interest rate risk. During the nine month periods ended March 31, 2009, the Corporation did not enter into any interest rate swaps or other financial arrangements that mitigate the Corporation's exposure to interest rate fluctuations. The effects of a 1% increase/decrease in LIBOR interest rates is estimated to have \$60 decrease/increase in earnings for the nine month period ended March 31, 2009.

d) Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they become due and describes the Corporation's ability to access cash. The Corporation requires sufficient cash resources in order to finance operations, fund capital expenditures, and to repay debt and other liabilities of the Corporation as they come due.

As at March 31, 2009, the Corporation had negative working capital. In addition, the lender of the W. Washington reserve facility (note 6b) has reduced the maximum draw on the facility from US\$7,100 (net US\$3,373) to US\$4,000 (net US\$1,900). The Corporation, and its joint venture partner W. Washington, have received a notice of an Event of Default from the lender. The Corporation has remedied the default on the senior credit agreement in Brazil with Standard Bank Plc, resulting in the elimination of the Corporation's debt facility in Brazil. The Corporation paid approximately US\$3,300, or 47.5% of the outstanding US\$7,100 and W. Washington was liable for the remaining 52.5%. This amount has been paid in full. In connection with the repayment of the Brazilian Facility, the Corporation increased its debt on its senior loan facility with Standard Bank Plc in Colombia by \$3,500.

The following table outlines the contractual maturities of the Corporation's financial liabilities as of March 31, 2009.

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	Recognized on Financial Statements	Payments Due By Period ^{1,2}				Total
		Less than 1 year	1 -2 years	2-5 years	After 5 years	
Accounts payable and accrued liabilities	Yes - Liability	9,459	-	-	-	9,459
Capital leases	Yes - Liability	18	39	-	-	57
Interest payable	Yes - Liability	133	-	-	-	133
Operating line of credit	Yes - Liability	5,609	-	-	-	5,609
Reserves based credit facility	Yes - Liability	3,536	2,394	17,643	-	23,573
Work program commitments	No	10,586	1,260	-	-	11,846
Office and equipment leases	No	23	97	81	-	201
Round 7 minimum exploration commitments	Yes - Liability	408	-	-	-	408
Other minimum exploration commitments ³	No	-	1,514	-	-	1,514
Total		29,772	5,304	17,724	-	52,800

¹ Payments exclude ongoing operating costs and interest on debt facilities

² Payments denominated in foreign currencies have been translated at the respective March 31, 2009 exchange rate

³ Minimum work commitments reflect financial settlement liability if not satisfied through the completion of exploration work

Derivatives

The fair value of these transactions are based upon the estimated amounts that would have been paid to or received from counter parties in order to settle the transactions outstanding with reference to the estimated forward prices as of the date of the consolidated balance sheet. The contracts are transacted with counter parties with whom management has assessed credit risk and deemed no adjustment for credit risk is required in determining the estimated settlement price. The actual amounts realized will be based on the settlement prices at the time of settlement and may differ from these estimates. The Corporation has not designated any of these financial contracts as hedges and has therefore recorded the unrealized gains and losses on these contracts in the balance sheet as assets or liabilities with changes in their fair value recorded in net earnings for the period.

12. CAPITAL DISCLOSURES

The Corporation's objectives when managing capital are to ensure the Corporation will have sufficient financial capacity, liquidity, and flexibility to fund the Corporation's operations, growth, and ongoing exploration and development commitment activities of its oil and gas assets. The Corporation is dependent upon funding these activities through a combination of debt and equity financings. Due to operational shortfalls and long lead cycles of some of its exploration and developments activities, the Corporation's capital requirements currently exceed its operational cash flow generated. As such, the Corporation is dependent upon financing in order to maintain its financial flexibility and liquidity.

The Corporation regularly monitors its capital structure and as necessary adjusts to changing economic circumstances and the underlying risk characteristics of its assets in order to meet current and upcoming obligations and investments by the Corporation. The Corporation is currently reviewing and assessing alternate financing options and arrangements to meet its current and upcoming commitments and obligations.

Current development plans include:

- For development of the Ombu and Rancho Hermosa fields in Colombia, the Corporation will use financing provided by Gemini Oil and Gas Fund II, L.P., as well as funds raised through a private placement and credit facilities.
- For Guyana, the Corporation is seeking a farmout partner for financing, as well as utilizing funds raised

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through its private placement.

- For Brazil, the Corporation will seek a farmout arrangement as well as utilizing funds raised through its private placement.

As at the date of these financial statements the Corporation has closed a private placement of \$6,000.

The Corporation defines and computes its capital as follows:

	March 31, 2009	June 30, 2008
	\$	\$
Shareholder's equity	37,304	31,500
Long-term debt, including current portion	21,607	27,826
Line of credit facilities	5,609	-
Convertible debenture	-	36,191
Cash	(1,668)	(9,983)
	62,852	85,534

The Corporation's financial objectives and strategy as described above have remained substantially consistent with previous periods. The objectives and strategy of the Corporation are reviewed on a regular basis.

Through its debt facilities, the Corporation is subject to financial covenants. The key financial covenants relating to its various debt facilities are as follows:

a) Senior reserves based revolving line of credit

The following debt covenants are based on the consolidated financial statements of the Corporation's subsidiary Canacol Energy Inc. for quarterly periods occurring on or after March 31, 2009.

- Current ratio (current assets to current liabilities) of greater than 1.25 to 1.0.
- Leverage ratio of less than 3.0 to 1.0 calculated as aggregate indebtedness of the borrowers to EBITDA.
- Interest coverage ratio of less than 4.0 to 1.0 measured as EBITDA less non-recurring capital expenditures to total debt interest expense.

For the purposes of the above financial covenant calculations, EBITDA means consolidated net income before interest, income taxes, depreciation and amortization, amortization of intangible assets, any extraordinary unusual or non-recurring non-cash expenses, losses or gains, and any non cash charges or income.

As noted above, the Corporation's debt covenants take effect on periods occurring on or after March 31, 2009. There is a risk that the Corporation will not be able to meet its debt covenants in upcoming periods. Failure to meet the debt covenants could, at the discretion of the lender, constitute an event of default giving the lender the right to demand repayment of some, or all, of the loan. If management does not feel that it is likely that the Corporation will be able to achieve all covenants, it will review the situation with the lender and request a modification or waiver, or address any deficiencies as required by the lender (Note 1).

b) W. Washington reserves based revolving line of credit

The financial covenants relating to the reserves based revolving line of credit are based upon those of the Corporation's Brazilian Joint Venture partner W. Washington Petroleo S.A. As noted above, the lender of the W. Washington reserve facility (note 6b) has reduced the maximum draw on the facility from US\$7,100 (net US\$3,373) to US\$4,000 (net US\$1,900). The Corporation and its joint venture partner W. Washington have received a notice of an Event of Default from the lender. The Corporation has remedied the default on the senior credit agreement in Brazil with Standard Bank Plc, resulting in the elimination of the Corporation's debt facility in Brazil. The

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Corporation paid approximately US\$3,300, or 47.5% of the outstanding US\$7,100 and W. Washington was liable for the remaining 52.5%. This amount has been paid in full. In connection with the repayment of the Brazilian Facility, the Corporation increased its debt on its senior loan facility with Standard Bank Plc in Colombia by US\$3,500 to a total of US\$17,500.

13. RELATED PARTY TRANSACTIONS

During the nine month period ended March 31, 2009, companies controlled by a director of the Corporation were paid a total \$91 (2008 - \$163) in professional and consulting fees and office rent. All of the transactions were completed on normal industry terms. None of these amounts remained outstanding at each respective period end. Effective February 6, 2009, this individual ceased to be a director of the Corporation.

During the three months ended March 31, 2009 the Company has paid a total of \$15 (2008 – Nil) in consulting fees to an officer of the Corporation.

Canacol has an operating agreement under standard industry terms on the properties in Brazil with W. Washington. Previously, W. Washington was considered a related party by virtue that it was controlled by a director of the Corporation. Following the changes in the composition of the Corporation's Board of Directors after the acquisition of Canacol Energy Inc., effective October 30, 2008, W. Washington ceased to be considered a related party of the Corporation. Total management fee payments made to W. Washington as a related party for the nine month period ended March 31, 2009 totalled \$812 (2008 - \$330) and is included in general and administrative expenses. These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

14. SEGMENTED INFORMATION AND INTEREST IN JOINT VENTURE

The Corporation's reportable operating segments, as determined by management, are based on the core strategic business operations. Following the disposition of BCH Ltd. (note 17), the Services division is no longer a reporting segment of the Corporation. Details of the reporting segments are as follows:

- Brazil includes the Corporation's exploration for, and development and production of, oil and natural gas in the Recôncavo, Sergipe, and Tucano basins of Brazil. Note that substantially all of the operating activities of the Brazil E&P segment are carried out through a joint venture;
- Colombia includes the Corporation's exploration for, and development and production of, oil and natural gas through Rancho Hermoso and the Corporation's interest in the Capella conventional heavy oil project (Ombu);
- Guyana includes the Corporation's exploration for, and development and production of, oil and natural gas in Guyana; and
- The Corporate segment provides management and administrative services to all of its subsidiaries and their respective operations as well as the non-core operations exploration for, and development and production of, oil and natural gas associated with the Corporation's activities in South Larne, Ireland and Canada.

Notes to the Consolidated Financial Statements

For the three and nine months ended March 31, 2009 and March 31, 2008

(Unless otherwise stated, amounts presented are in thousands of Canadian dollars) (unaudited)

	Three Months Ended March 31, 2009				Total \$
	E&P Brazil \$	E&P Colombia \$	E&P Guyana \$	E&P Other, Corporate & Eliminations \$	
	REVENUE				
Petroleum and natural gas sales	861	1,309	-	(32)	2,138
Sales tax	(20)	-	-	5	(15)
Royalties	(73)	(83)	-	-	(156)
Petroleum and natural gas, net	768	1,226	-	(27)	1,967
Tariff revenue	-	1,069	-	-	1,069
Interest income	(1)	123	-	1	123
Total Revenues	767	2,418	-	(26)	3,159
EXPENSES					
Operating - petroleum and natural gas	612	1,756	-	-	2,368
Depletion, depreciation and accretion	856	487	-	19	1,362
General and administrative	354	367	-	975	1,696
Interest on long term debt	323	178	-	337	838
Foreign exchange loss (gain)	528	(387)	-	1,214	1,355
Realized gain on financial derivatives	(1,885)	-	-	(246)	(2,131)
Unrealized gain on financial derivatives	1,632	-	-	151	1,783
Stock compensation expense	-	-	-	214	214
Impairment on goodwill	-	-	-	-	-
Impairment on long-term assets	-	-	-	591	591
Impairment on asset held for sale	-	-	-	-	-
Total Expenses	2,420	2,401	-	3,255	8,076
EARNINGS (LOSS)					
Loss before income taxes	(1,653)	17	-	(3,281)	(4,917)
Current income tax	-	103	-	-	103
Future income tax	-	30	-	-	30
Net Income (Loss)	(1,653)	(116)	-	(3,281)	(5,050)
Total assets	32,553	45,326	2,336	7,743	87,958
Capital expenditures¹	39	1,875	-	(262)	1,652

¹ Intersegment sales have been netted against exploration and production capital expenditures on consolidation

Notes to the Consolidated Financial Statements

For the three and nine months ended March 31, 2009 and March 31, 2008

(Unless otherwise stated, amounts presented are in thousands of Canadian dollars) (unaudited)

	Nine months ended March 31, 2009				
	E&P	E&P	E&P	E&P Other,	Total
	Brazil	Colombia	Guyana	Corporate & Eliminations	
\$	\$	\$	\$	\$	
REVENUE					
Petroleum and natural gas sales	3,352	2,260	-	47	5,659
Sales tax	(131)	-	-	(4)	(135)
Royalties	(278)	(163)	-	-	(441)
Petroleum and natural gas, net	2,943	2,097	-	43	5,083
Tariff Revenue	-	2,039	-	-	2,039
Interest and other	19	455	-	16	490
Total Revenues	2,962	4,591	-	59	7,612
EXPENSES					
Operating - petroleum and natural gas	2,159	3,487	-	20	5,666
Depletion, depreciation and accretion	2,653	1,272	-	193	4,118
General and administrative	1,628	596	-	2,743	4,967
Interest and financial expenses	789	316	-	842	1,947
Foreign exchange (gain) loss	2,142	(382)	-	460	2,220
Realized loss (gain) on financial derivatives	(1,675)	-	-	(2,448)	(4,123)
Unrealized gain on financial derivatives	-	-	-	(101)	(101)
Stock compensation expense	-	-	-	377	377
Impairment on goodwill	5,123	-	-	-	5,123
Impairment on long-term assets	-	-	-	4,146	4,146
Impairment on asset held for sale	-	-	-	-	-
Total Expenses	12,819	5,289	-	6,232	24,340
EARNINGS (LOSS)					
Loss before income taxes	(9,857)	(698)	-	(6,173)	(16,728)
Current income tax	-	(173)	-	-	(173)
Future income tax	-	(13)	-	-	(13)
Net income (loss)	(9,857)	(512)	-	(6,173)	(16,542)
Total assets	32,553	45,326	2,336	7,743	87,958
Capital expenditures¹	1,803	4,689	-	(790)	5,702

¹ Intersegment sales have been netted against exploration and production capital expenditures on consolidation

Notes to the Consolidated Financial Statements

For the three and nine months ended March 31, 2009 and March 31, 2008

(Unless otherwise stated, amounts presented are in thousands of Canadian dollars) (unaudited)

	Three Months Ended March 31, 2008				Total \$
	E&P Brazil \$	E&P Colombia \$	E&P Guyana \$	E&P Other, Corporate & Eliminations \$	
	REVENUE				
Petroleum and natural gas sales	1,768	-	-	20	1,788
Sales tax	(143)	-	-	-	(143)
Royalties	(138)	-	-	(12)	(150)
Petroleum and natural gas, net	1,487	-	-	8	1,495
Tariff revenue	-	-	-	-	-
Interest income	-	-	-	101	101
Total Revenues	1,487	-	-	109	1,596
EXPENSES					
Operating - petroleum and natural gas	1,341	-	-	18	1,359
Depletion, depreciation and accretion	853	-	-	23	876
General and administrative	630	-	-	332	962
Interest and financial expenses	214	-	-	-	214
Foreign exchange (gain) loss	143	-	-	(42)	101
Realized loss on financial derivatives	145	-	-	-	145
Unrealized loss on financial derivatives	(2)	-	-	-	(2)
Stock compensation expense	-	-	-	561	561
Impairment on goodwill	-	-	-	-	-
Impairment on petroleum properties	-	-	-	-	-
Impairment on asset held for sale	-	-	-	-	-
Total Expenses	3,324	-	-	892	4,216
EARNINGS (LOSS)					
Loss before income taxes	(1,837)	-	-	(783)	(2,620)
Current income tax	-	-	-	-	-
Future income tax	-	-	-	-	-
Net Income (Loss)	(1,837)	-	-	(783)	(2,620)
Total assets	33,424	-	-	17,236	50,660
Capital expenditures¹	1,370	-	-	(15)	1,355

¹ Intersegment sales have been netted against exploration and production capital expenditures on consolidation

Notes to the Consolidated Financial Statements

For the three and nine months ended March 31, 2009 and March 31, 2008

(Unless otherwise stated, amounts presented are in thousands of Canadian dollars) (unaudited)

	Nine months ended March 31, 2008				Total \$
	E&P Brazil \$	E&P Colombia \$	E&P Guyana \$	E&P Other, Corporate & Eliminations \$	
	REVENUE				
Petroleum and natural gas sales	3,899	-	-	160	4,059
Sales tax	(325)	-	-	-	(325)
Royalties	(289)	-	-	(54)	(343)
Petroleum and natural gas, net	3,285	-	-	106	3,391
Tariff Revenue	-	-	-	-	-
Interest and other	99	-	-	133	232
Total Revenues	3,384	-	-	239	3,623
EXPENSES					
Operating - petroleum and natural gas	2,683	-	-	89	2,772
Depletion, depreciation and accretion	1,699	-	-	140	1,839
General and administrative	1,393	-	-	1,402	2,795
Interest and financial expenses	573	-	-	-	573
Foreign exchange (gain) loss	(371)	-	-	(57)	(428)
Realized loss on financial derivatives	271	-	-	-	271
Unrealized loss on financial derivatives	583	-	-	-	583
Stock compensation expense	-	-	-	1,391	1,391
Impairment on goodwill	-	-	-	-	-
Impairment on long-term assets	-	-	-	-	-
Impairment on asset held for sale	-	-	-	-	-
Total Expenses	6,831	-	-	2,965	9,796
EARNINGS (LOSS)					
Loss before income taxes	(3,447)	-	-	(2,726)	(6,173)
Current income tax	-	-	-	-	-
Future income tax	-	-	-	-	-
Net income (loss)	(3,447)	-	-	(2,726)	(6,173)
Total assets	33,424	-	-	17,236	50,660
Capital expenditures¹	7,227	-	-	276	7,503

¹ Intersegment sales have been netted against exploration and production capital expenditures on consolidation

Notes to the Consolidated Financial Statements

For the three and nine months ended March 31, 2009 and March 31, 2008

(Unless otherwise stated, amounts presented are in thousands of Canadian dollars) (unaudited)

Included in the Corporation's balance sheet for the Brazilian Joint Venture are the following balances:

	March 31, 2009	June 30, 2008
	\$	\$
Assets		
Current	2,558	3,981
Long-term	24,751	23,358
Liabilities		
Current	2,482	690
Long-term	2,405	4,355

Geographic information related to the Corporation's activities:

	Revenue		Property, plant, and equipment	
	Nine Months Ended March 31,		As At	
	2009	2008	March 31, 2009	June 30, 2008
	\$	\$	\$	\$
Brazil	2,962	3,384	22,165	81,575
Colombia	4,591	-	52,966	-
Guyana	-	-	2,336	-
Canada & Other	59	239	31	6,880
	7,612	3,623	77,498	88,455

15. SUPPLEMENTAL INFORMATION

The changes in non-cash working capital are as follows:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2009	2008	2009	2008
	\$	\$	\$	\$
Operating Activities				
Decrease (increase) in current assets				
Accounts receivable	(2,081)	(84)	(169)	(394)
Prepaid expenses and deposits	(39)	(97)	5	(52)
Commodity contracts	-	-	4,209	-
Increase (decrease) in current liabilities				
Accounts payable and accrued liabilities	547	1,152	93	668
Interest payable	6	(10)	(465)	53
	(1,567)	961	3,673	275
Investing activities				
Decrease (increase) in current assets				
Cash call and notes receivable	1,137	(3,945)	(4,052)	(1,412)
Increase (decrease) in current liabilities				
Accounts payable and accrued liabilities	1,641	(506)	2,818	98
	2,778	(4,451)	(1,234)	(1,314)

Notes to the Consolidated Financial Statements

For the three and nine months ended March 31, 2009 and March 31, 2008

(Unless otherwise stated, amounts presented are in thousands of Canadian dollars) (unaudited)

As at March 31, 2009, a total of \$40 of the cash and cash equivalents balance was held in cash equivalents consisting of short-term investments (June 30, 2008 - \$8,433). All investments had a maturity of less than 90 days and the investments were convertible into cash at any time by the Corporation. Details of the cash balances and the interest rates earned on those balances at March 31, 2009 and June 30, 2008 are as follows:

March 31, 2009		June 30, 2008	
Balance	Average Interest Rate	Balance	Average Interest Rate
US\$0	N/A	US\$4,999	1.90%
C\$0		C\$5,092	
COP\$80,972	10.27%	COP\$0	N/A
C\$40		C\$0	
BRL\$0	N/A	BRL\$5,234	11.33%
C\$0		C\$3,341	
C\$40		C\$8,433	

16. COMMITMENTS AND GUARANTEES

Minimum exploration program

As at March 31, 2009, the Corporation had minimum exploration program (“MEP”) work unit commitments to complete negotiated exploration work on its onshore blocks awarded by the Agência Nacional do Petróleo, Gás Natural e Biocombustível (“ANP”), Brazil’s National Petroleum Agency. MEP work units are satisfied through completion of exploration wells, seismic programs, and other exploration survey methods all of which have prescribed work units for completion. Therefore, although actual dollars spent on projects do not directly correlate to reducing the MEP work units, the financial guarantees related to non-performance are shown in the table below. The commitment will be reduced as work is performed.

Bid Round	Basin	Commitment Date	Gross Remaining MEP Work Units	Gross Financial Guarantee	Net Remaining MEP Work Units	Net Financial Guarantee ¹
7	Recôncavo & Sergipe	August 26, 2008	1,258	\$2,066 BRL \$3,774	249	\$409 BRL \$747
9	Recôncavo	March 12, 2010	1,600	\$2,628 BRL \$4,800	320	\$526 BRL \$960
9	Espirito Santo	March 12, 2011	1,020	\$1,675 BRL \$3,060	408	\$670 BRL \$1,224

¹Net financial guarantee based on BrazAlta’s net working interest.

The Corporation and W. Washington have cross-guaranteed the working interest of the other partner for the non-performance guarantee placed with a Brazilian insurance company which has insured the performance of the MEP work units or the corresponding financial payment in lieu thereof to the ANP on certain of Round 7 exploration blocks. A large percentage of the Round 7 exploration commitments have been farmed-out and as such the Net Remaining MEP Work Units attributable to the Corporation for Round 7 in the table above is 249 units which, at March 31, 2009, equated to approximately \$409 (June 30, 2008 – 1,867 units or \$3,576). Based on actual work performed, the Corporation has made an accrual for the outstanding liability of \$409 (June 30, 2008 - \$1,119), relating to its net share of expected MEP work units yet to be fulfilled by means of financial settlement.

Notes to the Consolidated Financial Statements

For the three and nine months ended March 31, 2009 and March 31, 2008

(Unless otherwise stated, amounts presented are in thousands of Canadian dollars) (unaudited)

Reserves based revolving line of credit

As discussed in note 6b, the Corporation and its Brazil Joint Venture partner, W. Washington have jointly entered into a reserves based revolving line of credit facility. The revolving line of credit facility is cross guaranteed by the Corporation. The Corporation records its 47.5% net share of revolving line of credit facility in the consolidated financial statements, however, is guarantor on the gross balance of the facility. At March 31, 2009, there was a total draw on the facility of gross US\$7,100 (net US\$3,373) (June 30, 2008 gross US\$9,000 (net US\$4,275)).

The Corporation paid approximately US\$3,300 (47.5%) of the outstanding US\$7,100 and W. Washington was liable for the remaining 52.5%. This amount has been paid in full.

Other

In Colombia and Guyana, the Corporation has work program commitments totalling approximately \$10,585 for calendar 2009 and \$1,260 in calendar 2010. In addition, the Corporation has commitments for leases and its office premises. As of March 31, 2009, the payments required in each of the next five years are as follows:

	\$
2009 - 3 Months	24
2010	97
2011	81
2012	Nil
2013	Nil

17. DISCONTINUED OPERATIONS

On December 31, 2008, the Company closed the sale of its remaining interest in its oilfield services subsidiary, BCH Ltd., for proceeds of US\$5,000. Summary details for the three and nine month periods ended March 31, 2009 and March 31, 2008 from discontinued operations are as follows:

Notes to the Consolidated Financial Statements

For the three and nine months ended March 31, 2009 and March 31, 2008

(Unless otherwise stated, amounts presented are in thousands of Canadian dollars) (unaudited)

	Three months ended March		Nine months ended March	
	2009	2008	2009	2008
Revenue - drilling services, net of tax	-	7,036	18,711	13,393
Expenses:				
Operating drilling services	-	5,132	13,854	9,463
Depreciation and amortization	-	634	2,102	1,086
General and administrative expenses	-	501	2,445	2,373
Interest expenses	-	2,162	6,079	3,113
Foreign exchange loss (gain), net	-	1,381	11,609	510
Realized loss on financial derivative	-	-	640	-
Unrealized loss (gain) on financial derivatives	-	34	1,498	9
Stock compensation expense	-	153	17	153
	-	9,997	38,244	16,707
Gain (loss) from discontinued operations, before taxes	-	(2,961)	(19,533)	(3,314)
Current income taxes	-	967	1,380	1,301
Future income taxes (recovery)	-	(896)	(3,877)	(1,686)
	-	71	(2,497)	(385)
Non controlling interest	-	-	(2,116)	-
Gain on sale of BCH	-	-	27,120	-
Discontinued operations and gain on sale of discontinued operations	-	(3,032)	12,200	(2,929)

The net book value of Canacol's interest in BCH Ltd. and the related assets that were sold on December 31, 2008 was -\$10,662. However the gain of the disposition of BCH Ltd. is based on the carrying value of the investment in BCH Ltd. The net investment in BCH Ltd was a deficit of \$18,284 plus the cash proceeds of \$5,000 plus the removal of non controlling interest of \$2,116, resulting in a net gain of \$27,120 (\$27,120 net of tax). Included in the assets and liabilities at June 30, 2008 were the following balances related to BCH Ltd.:

Notes to the Consolidated Financial Statements

For the three and nine months ended March 31, 2009 and March 31, 2008

(Unless otherwise stated, amounts presented are in thousands of Canadian dollars) (unaudited)

	June 30, 2008
Current Assets:	
Cash and cash equivalents	803
Cash - restricted	668
Accounts receivable	6,669
Financial derivative asset	501
Prepaid expenses and deposits	374
Total current assets	9,015
Long Term Assets:	
Property, plant, and equipment	58,583
Future income tax asset	159
Total long-term assets	58,742
Total Assets	67,757
Current Liabilities:	
Operating line of credit	1,444
Accounts payable and accrued liabilities	4,672
Current portion of long-term debt	5,992
Reclassification of long-term debt	18,786
Current portion of capital lease obligations	943
Interest payable	239
Total long-term liabilities	32,076
Long Term Liabilities:	
Interest payable	2,512
Capital lease obligations	487
Convertible debenture	36,191
Total current liabilities	39,190
Total Liabilities	71,266

18. ASSET HELD FOR SALE

During the nine months ended March 31, 2009, the Corporation had a drilling rig which was not required in its operations and a decision was made to sell the rig. The drilling rig was subsequently sold after March 31, 2009 for net proceeds of US\$2,000. For the period ended March 31, 2009, the Corporation recorded an impairment relating to the disposition of drilling rig totalling \$3,203 (2008 - \$Nil). The following table provides additional information with respect to the amounts included in the balance sheet as assets and liabilities held for sale.

	March 31, 2009 \$	June 30, 2008 \$
Assets held for sale	2,500	975
Total assets held for sale	2,500	975
Liabilities held for sale	-	132
Total liabilities held for sale	-	132

Notes to the Consolidated Financial Statements

For the three and nine months ended March 31, 2009 and March 31, 2008

(Unless otherwise stated, amounts presented are in thousands of Canadian dollars) (unaudited)

19. SUBSEQUENT EVENTS

On April 17, 2009, the Corporation executed a series of agreements with Gemini Oil and Gas Fund II, L.P., a Jersey based oil and gas investment fund, whereby Gemini will, subject to certain preconditions, invest up to US\$9,000, to be used to fund a portion of the Corporation's development and appraisal programs on its producing assets in Colombia in 2009.

Under the terms the agreements, Gemini will invest:

- a) Up to US\$3,000 towards the drilling of a development well and the workover of 2 existing wells in the Entrerrios Field;
- b) Up to US\$3,000 towards the drilling of 2 development wells and the workover of one existing well in Rancho Hermoso Field; and
- c) Up to US\$3,000 towards the drilling of additional delineation wells in the Capella Field, its new heavy oil discovery on the Ombu E&P contract.

In return Gemini will be entitled to receive payments equivalent to a percentage of Canacol's gross revenue from production. Gemini has indicated that at its discretion the total investment may be increased up to maximum of US\$12,000.

In addition, the Corporation also announced that the default on the senior credit agreement in Brazil with Standard Bank Plc had been remedied, resulting in the elimination of the Corporation's debt facility in Brazil. Brazalta Brazil paid approximately US\$3,300, or 47.5% of the outstanding balance of US\$7,100. W. Washington was liable for the remaining balance of 52.5%. The balance has now been paid in full. In connection with the repayment of the Brazilian facility, the Corporation increased its debt on its senior loan facility with Standard Bank Plc in Colombia increased by \$3,500. As part of this process the Colombia mezzanine facility was repaid in full from its original amount of US\$11,600 in August 2008. The increase in the senior facility was accomplished as a result of the increased proven reserves in Colombia since the initial establishment of the Colombia facilities.

On April 22, 2009, the Corporation sold its drilling rig for proceeds of US\$2,000.

On April 24, 2009, the Corporation renewed a short-term loan (the "Loan") in the amount of \$535. The Loan bears interest at a rate of 15% per annum, compounded annually. The Loan will become payable in full on June 4, 2009 ("Maturity Date"). The Lender received a bonus of common shares of Canacol equivalent to 10% of the value of the Loan based upon the closing price of such shares on the day immediately preceding the date of renewal the Loan. Further, in the event that Canacol does not repay the loan on the Maturity Date, the Lender will be issued common shares of Canacol equivalent to 16% of the value of the Loan based upon the closing price of such shares on the Maturity Date. As part of the Loan, the Corporation will pay a 5% commission by way of cash and common shares in the Corporation to a firm who is an arm's-length party to the Corporation.

On May 12, 2009, Canacol announced that it increased its previously announced private placement financing with Canaccord Capital Corporation from \$5,000 to \$6,000 based on the continued market demand. The Corporation also announced that the offering has two closings. The first closing was made on May 14, 2009 and the second closing is expected on or around May 28, 2009. The additional capital will be used to fund contingent development activity in Colombia to increase production and revenues from the Company's producing assets in 2009 as well as to advance exploration projects in Guyana and Brazil for 2010 drilling and seismic acquisitions.

Notes to the Consolidated Financial Statements

For the three and nine months ended March 31, 2009 and March 31, 2008

(Unless otherwise stated, amounts presented are in thousands of Canadian dollars) (unaudited)

On May 15, 2009, Canacol announced that it has entered into a conditional share purchase agreement to acquire from Groundstar Resources Limited ("Groundstar" or the "Vendor") all of the shares of a Guyana company which holds the 7,800 square kilometre Petroleum Prospecting Licence ("PPL") in the Takutu Basin, onshore Guyana (the "Transaction"). In connection with the closing of the Transaction, the Vendor would be granted a 10% carried interest which will be carried by the Corporation to first commercial production on the PPL, and be repaid commencing with first production. The closing of the Transaction remains conditional on the consent and approval of the Guyanese Government to: (a) an extension of the PPL to July 2012 in exchange for additional work commitments acceptable to Canacol; (b) the transfer of the shares of the Guyana company holding the PPL to Canacol; and (c) such other parts of the Transaction which require government consent. In addition, the Transaction remains subject to the consent of the TSX Venture Exchange and ordinary closing conditions.

20. COMPARITIVE FIGURES

Certain of the prior period figures have been reclassified to reflect the discontinued operations of BCH Ltd.

Corporate Information

Management Team

Charle Gamba – President & Chief Executive Officer

Mark Holliday - Chief Operating Officer

Mark Teare – Vice President Exploration

Brian Hearst – Chief Finance Officer

Board of Directors

Luis Baena

Alvaro Barrera

Jason Bednar

Charle Gamba

Stuart Hensman

Michael Hibberd

David Winter

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Deloitte & Touché LLP Calgary, Alberta

Bankers

HSBC Bank Canada – Calgary, Canada

HSBC Bank Brasil - Rio de Janeiro, Brazil

Banco de Credito, Bogota, Colombia

Independent Reserve Engineers

DeGolyer and MacNaughton Canada Limited

Ryder Scott Company LP

Legal Counsel

Davis & Company LLP - Canada

Heenan Blaikie LLP - Canada

Schmidt, Valois, Miranda, Ferreira & Agel – Brazil

Gamboa Chalela Salazar Abogados - Colombia

Stock Exchange Listing

TSX Venture Exchange: CNE

Transfer Agent & Registrar

Olympia Trust Company

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