Canacol Energy Ltd.

(Formerly BrazAlta Resources Corp.)

Consolidated Audited Financial Statements

October 26, 2009

Management's Report

The accompanying consolidated financial statements of Canacol Energy Ltd. (Formerly BrazAlta Resources Corp.) are the responsibility of Management. The financial statements have been prepared in Canadian dollars in accordance with Canadian generally accepted accounting principles and include certain estimates that reflect Management's best judgments.

Management has overall responsibility for internal controls and has developed and maintains an extensive system of internal controls that provides reasonable assurance that all transactions are accurately recorded, that the financial statements realistically report the Corporation's operating and financial results and that the Corporation's assets are safeguarded.

The Corporation's Board of Directors has approved the information contained in the financial statements. The Board of Directors fulfills its responsibility regarding the financial statements mainly through its Audit Committee, which consists of three independent directors and has a written mandate that complies with the current requirements of Canadian securities legislation.

External auditors appointed by the shareholders have performed an audit of the consolidated financial statements and provided an independent opinion.

"Charle Gamba"

President and Chief Executive Officer
October 26, 2009

"Brian Hearst"

Chief Financial Officer
October 26, 2009

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Auditors' Report

To the Shareholders of Canacol Energy Ltd. (formerly known as BrazAlta Resources Corp.):

We have audited the consolidated balance sheets of Canacol Energy Ltd. as at June 30, 2009 and 2008 and the consolidated statements of loss and comprehensive loss and deficit, accumulated other comprehensive income (loss) and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2009 and 2008 and the results of its operations and its cash flows for the years then ended, in accordance with Canadian generally accepted accounting principles.

(Signed "*Deloitte & Touche LLP*")

October 26, 2009

Chartered Accountants

Canacol Energy Ltd.

Consolidated Balance Sheets

As at June 30, 2009 and 2008
($000s) (audited)

	June 30, 2009	June 30, 2008
		(note 20)
Assets		
Current Assets:		
Cash and cash equivalents	**194**	9,983
Cash - restricted (note 5)	**320**	668
Accounts receivable	**3,816**	7,818
Prepaid expenses and deposits	**285**	489
Promissory note receivable (note 21)	**1,058**	-
Assets held for sale (note 19)	**-**	975
	5,673	19,933
Deferred acquisition costs	**-**	733
Cash call receivable	**288**	2,009
Cash reserved for asset retirement (note 9)	**388**	324
Future income tax asset (note 10)	**-**	159
Property, plant and equipment (note 6)	**78,860**	88,455
	85,209	111,613
Liabilities and Shareholders' Equity		
Current Liabilities:		
Operating line of credit (note 7b)	**5,686**	-
Accounts payable and accrued liabilities	**5,566**	7,540
Cash call payable	**3,488**	-
Liabilities held for sale (note 19)	**-**	132
Interest payable	**162**	2,799
Current portion of capital lease obligations (note 8)	**45**	974
Current portion of long term debt (note 7)	**5,813**	6,960
Financial derivative liability, net (note 13)	**175**	263
Reclassified portion of long term debt (note 7)	**-**	18,786
	20,935	37,454
Capital lease obligations (note 8)	**8**	487
Future income tax liability (note 10)	**11,378**	-
Long term debt (note 7)	**12,943**	2,080
Asset retirement obligation (note 9)	**2,316**	420
Financial derivative liability, net (note 13)	**322**	724
Convertible debenture (note 7)	**-**	36,191
	47,902	77,356
Basis of presentation (note 1)		
Commitments and guarantees (note 18)		
Subsequent events (note 21)		
Non-controlling interest (note 20)	**-**	2,757
Shareholders' equity:		
Share capital (note 11)	**70,894**	58,604
Contributed surplus (note 12)	**9,391**	6,127
Accumulated other comprehensive loss	**(156)**	-
Deficit	**(42,822)**	(33,231)
	(42,978)	(33,231)
	37,307	31,500
	85,209	111,613

See accompanying notes to the consolidated financial statements.

Canacol Energy Ltd.

Consolidated Statements of Loss and Comprehensive Loss and Deficit

For the year ended June 30,

($000s, except per share amounts) (audited)

	Year Ended June 30,	
	2009	2008
		(note 20)
Revenues:		
Petroleum and natural gas, net of royalties of $665 (2008 - $498)	**7,384**	4,940
Tariff revenue	**3,040**	-
Interest and other	**986**	464
	11,410	5,404
Expenses:		
Operating expenses	**7,376**	4,079
Depletion, depreciation and accretion	**6,535**	2,891
General and administrative	**7,518**	3,907
Interest and financial expenses (note 7e)	**3,028**	941
Foreign exchange (gain) loss, net (note 13)	**2,699**	(1,053)
Realized loss (gain) on financial derivatives, net (note 13)	**(4,427)**	573
Unrealized loss (gain) on financial derivatives, net (note 13)	**497**	1,488
Stock compensation expense (note 11e)	**743**	1,594
Impairment on goodwill (note 4)	**5,123**	-
Impairment on assets held for sale and petroleum properties (note 6)	**4,300**	715
	33,392	15,135
Loss before income taxes	**(21,982)**	(9,731)
Current income tax recovery (note 10)	**(186)**	-
Future income tax recovery (note 10)	**(5)**	-
	(191)	-
Net loss before discontinued operations	**(21,791)**	(9,731)
Discontinued operations and gain on sale, net of tax (note 20)	**12,200**	(7,850)
Net loss	**(9,591)**	(17,581)
Deficit, beginning of year	**(33,231)**	(15,650)
Deficit, end of year	**(42,822)**	(33,231)
Net loss per share from continuing operations (note 11f)	**(0.18)**	(0.12)
Net income (loss) per share from discontinued operations - basic and diluted (note 11f)	**0.10**	(0.10)
Net loss per share - basic and diluted (note 11f)	**(0.08)**	(0.22)
Net loss	**(9,591)**	(17,581)
Other comprehensive income (loss)		
Foreign currency translation adjustment	**(156)**	-
Comprehensive loss	**(9,747)**	(17,581)

See accompanying notes to the consolidated financial statements.

Canacol Energy Ltd.

Consolidated Statements of Other Accumulated Comprehensive Income (Loss)

($000s, except per share amounts) (audited)

	Year Ended June 30,	
	2009	2008
Accumulated other comprehensive income (loss), beginning of the year	**-**	-
Foreign currency translation adjustment	**(156)**	-
Accumulated other comprehensive loss, end of the year	**(156)**	-

See accompanying notes to the consolidated financial statements.

Canacol Energy Ltd.

Consolidated Statements of Cash Flows

For the year ended June 30,

($000s) (audited)

	2009	2008
		(note 20)
Cash provided by (used in):		
Operating Activities:		
Net loss from continuing operations	**(21,791)**	(9,731)
Adjustments for non-cash items:		
Non-cash interest expense	**1,004**	462
Non-cash issue of share capital	**79**	-
Depletion, depreciation, and accretion	**6,535**	2,891
Stock compensation expense	**743**	1,594
Future income tax recovery	**(5)**	-
Impairment on goodwill	**5,123**	-
Impairment on assets held for sale and petroleum properties (note 6)	**4,300**	715
Unrealized foreign exchange loss (gain), net	**(725)**	(608)
Unrealized financial derivatives loss (gain), net	**497**	1,488
	(4,240)	(3,189)
Change in non-cash operating working capital, net of effects of acquisition and disposition (note 17)	**1,883**	188
Cash flow used in continuing operations	**(2,357)**	(3,001)
Cash flow used in discontinued operations	**(288)**	(3,761)
Total cash flow used in operating activities	**(2,645)**	(6,762)
Financing Activities:		
Issue of share capital	**6,046**	9,092
Draws on line of credit	**2,460**	4,554
Repayment of long term debt and capital leases	**(14,444)**	(30)
Financing and share issue costs	**(509)**	(652)
Cash flow (used in)/from continuing financing activities	**(6,447)**	12,964
Cash flow from discontinued financing activities	**1,767**	61,552
Total cash flow (used in)/from financing activities	**(4,680)**	74,516
Investing Activities:		
Property, plant, and equipment purchases, net	**(8,814)**	(15,381)
Cash assumed on acquisition of Canacol Energy Inc.	**1,602**	-
Net cash relinquished on sale of subsidiary	**122**	-
Proceeds on sale of subsidiary	**-**	-
Cash reserved for asset retirement	**(155)**	(79)
Cash - restricted	**593**	148
Investment in BCH	-	12,485
Change in non-cash investing working capital, net of effects of acquisition and disposition (note 17)	**(688)**	(24)
Cash flow used in continuing investing activities	**(7,340)**	(2,851)
Cash flow from (used in) discontinued investing activities	**3,923**	(58,126)
Total cash flow used in investing activities	**(3,417)**	(60,977)
Foreign exchange gain on cash and cash equivalents held in foreign currency	**953**	255
Net increase (decrease) in cash and cash equivalents	**(9,789)**	7,032
Cash and cash equivalents, beginning of year	**9,983**	2,951
Cash and cash equivalents, end of year	**194**	9,983
Supplementary disclosure of cash flow information:		
Interest paid	**2,024**	479
Taxes paid	**-**	-

See accompanying notes to the consolidated financial statements.

1. BASIS OF PRESENTATION

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.

The Corporation's Rancho Hermoso reserves-based revolving line credit facility (note 7a) contains covenants. As of the date of these statements, the Corporation is in compliance with all non-financial and financial covenants including the borrowing base of the credit facility. 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, which was successfully resolved and repaid. Management has reviewed such situations with the lender and on October 22, 2009, the Corporation's credit agreement was amended, modifying financial covenants for future periods (note 14a).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) *Principles of consolidation*

The consolidated financial statements include the financial position, results of financial performance and cash flows of the Corporation and its wholly owned subsidiaries and are prepared in accordance with GAAP. Investments in joint ventures are accounted for using the proportionate consolidation method, whereby the Corporation's proportionate share of revenues, expenses, assets, and liabilities are included in the accounts. All inter-company transactions and balances have been eliminated upon consolidation. In these financial statements, all dollar amounts, unless otherwise indicated, are expressed in Canadian dollars and all dollar amounts are in thousands (000s) for both Canadian and United States Dollars unless otherwise indicated. All references to C$ or $ are to Canadian dollars, references to US$ are United States (US) dollars, and references to BRL$ are to Brazilian Real and references to COP$ are Colombian Pesos.

b) *Financial instruments*

The Corporation's financial assets and liabilities consist of cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities, convertible debentures, currency and commodity derivatives, and long-term debt.

c) *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 monetary assets and liabilities are translated at the respective rates of exchange in effect at the balance sheet date and non-monetary assets and liabilities are translated at applicable historical rates. Average rates of exchange are used for revenues and expenses except for depletion, depreciation, and amortization which are translated at the rates of exchange applicable to the related assets. Gains or losses resulting from these translation adjustments are included in the consolidated income.

d) *Measurement uncertainty*

The timely preparation of the consolidated financial statements in accordance with GAAP requires that management make estimates and assumptions and use judgment regarding the measured amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Such estimates relate primarily to unsettled transactions and events as of the date of the consolidated financial statements. Accordingly, actual results may differ from estimated amounts as future confirming events occur.

Amounts recorded for depletion, depreciation, and amortization, accretion, asset retirement costs and obligations, future income taxes, equity component of the convertible debenture, the valuation of the warrants, and the valuation of stock options are based upon expected useful lives and other relevant assumptions. Further, the amounts used for ceiling test and impairment calculations are based on estimates of crude oil and natural gas reserves, production rates, oil and natural gas prices, estimated future costs required to develop those reserves, and other relevant assumptions. By their nature, these estimates of reserves and the related future cash flows are subject to measurement uncertainty and the impact in the consolidated financial statements of future periods could be material.

e) Revenue recognition

Revenue associated with the sale of the Corporation's crude oil, natural gas liquids, and natural gas is recognized when the title passes from the Corporation to the customer and the underlying risks and rewards of ownership have been substantially passed and the amount of the revenue can be reasonably estimated.

Revenue from contract drilling prior to the sale of BCH (note 20) was recognized upon delivery of services to customers and when collection was reasonably assured. Customer contract terms do not include provisions for significant post-service delivery obligations.

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 Colombian government entity.

f) Royalties

Royalties paid to government and land owners based on production of crude oil, natural gas, and natural gas liquids are recognized when the revenue is recognized.

g) Operating costs

Costs paid by the Corporation for the selling of crude oil, natural gas, and natural gas liquids and for the performance of drilling services prior to the sale of BCH (note 20) are recognized when the costs are incurred.

h) Income taxes

The Corporation uses the liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are based on the differences between asset and liability balances reported for financial accounting purposes and those reported for income tax. Future income tax assets and liabilities are measured using the substantively enacted tax rates expected to apply in the years in which the temporary differences are expected to be recovered or settled. Future income tax assets are recognized to the extent that they are more likely than not to be realized.

i) *Per share amounts*

Basic net income and loss per common share amounts are computed by dividing the net income or loss by the weighted average number of shares outstanding during the reporting period. Diluted net income per share amounts are computed giving effect to the potential dilution that would occur if stock options, warrants, and other contracts to issue common shares were exercised or converted to common shares. The treasury stock method assumes that any proceeds obtained on the exercise of "in-the-money" options and other dilutive contracts and securities to issue common shares would be used to purchase common shares at the average market price during the period.

j) Cash and cash equivalents

Cash and cash equivalents include cash on deposit with the bank and short-term investments such as banker's acceptance notes or similar investments having an initial maturity date of three months or less.

k) Property, plant, and equipment

Petroleum and natural gas properties

Petroleum and natural gas properties are recorded in accordance with the Canadian Institute of Chartered Accountants' ("CICA") guideline on full cost accounting for the oil and gas industry whereby all costs relating to the exploration and development of petroleum and natural gas reserves are capitalized on a country-by-country basis. Such costs include land acquisition costs, geological and geophysical costs, costs of drilling both productive and non-productive wells, production equipment, and overhead charges directly related to acquisition, exploration, and development activities. Gains or losses on disposal of properties are recognized only when crediting the proceeds to the recorded costs would result in a change of 20% or more in the depletion and depreciation rate.

Drilling and service rigs and equipment (prior to the sale of BCH – note 20)

Drilling rig and service rig equipment were carried at cost less accumulated depreciation. Where costs are incurred to extend the useful life of the property, plant and equipment or increase its capabilities, the amounts were capitalized to the related asset. Costs incurred to repair or maintain property, plant, and equipment were expensed as incurred.

l) Depletion, depreciation, and accretion

Depletion and depreciation – Petroleum and natural gas properties

Petroleum and natural gas assets and properties based on the net reserves are depreciated and depleted using the unit-of-production method based on estimated proven reserves as determined by independent petroleum engineers. For purposes of this calculation, natural gas is converted to equivalent volumes of crude petroleum based on the approximate energy equivalent ratio of six thousand cubic feet of natural gas to one barrel of crude oil. Capitalized costs subject to depletion include estimated future costs to be incurred in developing proved reserves. The costs of undeveloped properties are excluded from the costs subject to depletion and depreciation until it is determined whether proved reserves are attributable to the properties or impairment occurs.

Depreciation and amortization – Drilling and service rigs and equipment (prior to the sale of BCH – note 20)

Drilling rig and service rigs and equipment were depreciated on the basis of unit-of-production over a useful life of 5,000 utilization days and 3,500 utilization days respectively, both with a salvage value of 15%. Utilization days included both operating days and rig move days.

Depreciation and amortization – Other equipment

Other equipment is amortized based on its expected useful life.

Vehicles	5 years
Building	20 years
Leasehold improvements	Over the term of the leasing agreement
Other equipment	3 to 5 years

m) Ceiling test and unproved properties

An impairment loss is recognized in net earnings when the carrying amount of a cost centre of petroleum and natural gas assets and properties is not recoverable and the carrying amount of the cost centre exceeds its fair value. The carrying amount of the cost centre is tested for recoverability by determining if the carrying amount exceeds the sum of the undiscounted cash flows from proved reserves. If the sum of the cash flows is less than the carrying amount, the impairment loss is limited by the amount by which the carrying amount exceeds the sum of the fair value of the proved and probable reserves and the costs of unproved properties that are subject to a separate impairment test.

Certain costs related to unproved properties and major development projects are excluded from costs subject to depletion and depreciation until the earliest of a portion of the property becomes capable of production, development activity ceases, or impairment occurs. These properties are reviewed quarterly and are subject to a separate impairment test. Any impairment is transferred to the costs being depleted. If the properties are located in a cost centre where there is no reserve base, the impairment is charged directly to earnings.

n) Long-lived assets

On a periodic basis, management assesses the carrying value of long-lived assets for indications of impairment. Such indications may include an ongoing lack of profitability or significant changes in technology. When an indication of impairment is present, the Corporation tests for impairment by comparing the carrying value of the asset to its net recoverable amount. If the carrying amount is greater than the net recoverable amount, the asset is written down to its estimated fair value.

o) Convertible debenture

The Corporation's convertible subordinated secured debenture was classified as debt with a portion of the proceeds representing the value of the conversion option classified as equity. The debt balance accreted over time using the effective interest rate method such that upon maturity the liability balance recorded will equal the maturity value of the debenture. This increase in the debt balance was reflected as non-cash interest expense in the consolidated statement of loss. Where the Corporation's subsidiary had issued convertible debentures, the fair value of the conversion right was presented within non-controlling interests in the consolidated balance sheet. Upon conversion of the debenture into common shares by the holder, the debt and equity components were transferred to common share capital.

p) Asset retirement obligations

The fair value of the estimated asset retirement obligations is recognized in the consolidated balance sheet in the period which the liability is identified and incurred and a reasonable estimate of the fair value can be made. The obligations recognized are the legal obligations of the Corporation to retire and perform site restoration on tangible long-lived assets such as well sites. The obligations are discounted to their present value using the Corporation's credit adjusted risk-free interest rate. The corresponding amount increases the carrying amount of the related asset. The liability is accreted over time for changes in the fair value of the liability through charges to accretion expense. The amounts capitalized to the related assets are amortized to earnings over the expected remaining life of the underlying resources using the unit of production method. Actual costs incurred upon settlement of the asset retirement obligations are charged against the obligation to the extent of the liability recorded.

q) Stock-based compensation plan

The Corporation records compensation expense in the consolidated financial statements for stock options granted to employees, directors, and consultants using the fair value method. Fair values are determined using the Black-Scholes option pricing model with compensation costs recognized over their vesting or contract period as appropriate. Any consideration paid to the Corporation on the exercise of stock options, along with amounts previously credited to contributed surplus, is credited to share capital.

r) Derivative financial instruments

Derivative financial instruments are currently used by the Corporation to manage its exposure to market risk associated with currency fluctuations and market risk associated with fluctuations in commodity prices. The Corporation's policy is not to utilize derivative financial instruments for speculative or trading purposes. These derivative instruments do not qualify as hedges under hedge accounting guidelines. These derivative instruments are recorded at fair values in which the value of the instruments is recorded on the consolidated balance sheet as either an asset or liability with changes in fair value recognized in the consolidated statement of loss. Realized gains and losses from financial derivatives are recognized as they occur. Unrealized gains and losses are recognized in the consolidated statement of loss at each respective reporting period. The fair value and credit risk of these transactions is based upon the estimated amounts that would have been paid to or received from counter parties to settle the transactions outstanding within reference to the estimated forward prices as of the date of the consolidated balance sheet.

s) Embedded Derivatives

Embedded derivatives are components within a host contract that have features that are similar to a derivative based contract. Under current accounting standards, embedded derivatives are to be accounted for separately from the host contract as a derivative when their economic characteristics and risks are not clearly and closely related to those of the host instrument, the terms of the embedded derivative are the same as those of a standalone derivative, and the combined contract is not held for trading or designated at fair value. Embedded derivatives are designated as held for trading and are measured at fair value with subsequent gains or losses recognized in earnings. Prior to the sale of BCH Ltd. the Corporation had embedded derivatives associated within several of its drilling rig lease contracts with its customers, whereby revenues from these contracts are denominated in the US dollar which was neither the reporting or the functional currency of the Corporation nor the host currency of the customer.

t) Leased Assets

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee. All other leases are classified as operating leases.

u) Inventory

Inventory is recorded at the lower of weighted average cost or net realizable value, measured by replacement cost. Inventory consists of produced oil not yet sold to customers, is carried at the lower of weighted average cost or net realizable value. For the year ended June 30, 2009, there were no write downs or reversals of previously written down amounts.

v) Goodwill

Goodwill is the excess purchase price over the fair value of identifiable assets and liabilities acquired. Goodwill is not amortized. However, goodwill impairment is assessed annually, or as economic events dictate, by comparing the fair value of the net assets to its carrying value, including goodwill. If the fair value of the net assets is less than its carrying value, the fair value of the goodwill is compared with its carrying value to measure the amount of the goodwill impairment loss.

3. CHANGE IN ACCOUNTING POLICIES

RECENT ACCOUNTING PRONOUNCEMENTS

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 14.

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 13.

Inventories

On July 1, 2008, the Corporation adopted section 3031 "Inventories". The adoption had no material 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 was applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Corporation has adopted 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)

In April 2008, the CICA published the exposure draft ''Adopting IFRSs in Canada''. The exposure draft proposes to incorporate IFRS into the CICA Accounting Handbook effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. At this date, publicly accountable enterprises will be required to prepare financial statements in accordance with IFRS. The Corporation is preparing the diagnostic analysis that identifies differences between the Corporation's current accounting policies and IFRS to determine the impact of these differences and assess the need for amendments to existing accounting policies in order to comply with IFRS.

Credit Risk and the Fair Value of the Financial Assets and Financial Liabilities

Effective January 1, 2009 the Corporation adopted the CICA issued EIC-173 ''Credit Risk and the Fair Value of Financial Assets and Financial Liabilities''. EIC-173 provides guidance on how to take into account the credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments. The adoption of EIC-173 did not have a material impact on the consolidated financial statements of the Corporation.

4. 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 fair values of the net assets acquired and liabilities assumed and aggregate consideration given are as follows:

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

Consideration given	**$**
Common shares	8,000
Acquisition costs	1,028
Total consideration	**9,028**

Allocation of purchase price	**$**
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 allocation has been allocated based upon an evaluation of the fair value of the assets and liabilities acquired.

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 in an adjustment to the fair value of Canacol Energy Inc's underlying business. During the year ended June 30, 2009, the Corporation recorded impairment on the goodwill relating to its purchase of Canacol Energy Inc. of $5,123.

5. CASH – RESTRICTED

As at June 30, 2009, a total of $320 (June 30, 2008 - $668) in cash assets were restricted in connection with a reserve for interest instalments due within the next three months on the Corporation's debt facilities described in note 7. The restricted cash balance at June 30, 2008 relates to discontinued operations.

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

6. PROPERTY, PLANT AND EQUIPMENT

	Year Ended June 30, 2009			Year Ended June 30, 2008		
	Cost	**Accumulated Depreciation**	**Net Book Value**	Cost	Accumulated Depreciation	Net Book Value
Petroleum and natural gas properties	**92,923**	**(15,689)**	**77,234**	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	**276**	**(171)**	**105**	841	(191)	650
Building & leasehold improvements	**69**	**(7)**	**62**	88	-	88
Equipment & other	**1,462**	**(3)**	**1,459**	248	-	248
	94,730	**(15,870)**	**78,860**	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 June 30, 2009, the total costs excluded from the depletion calculation and ceiling test were $22,973 (June 30, 2008 - $2,507). No indirect overhead costs were capitalized during the years ended June 30, 2009 and 2008. During the year ended June 30, 2009, the Corporation recorded an impairment of $4,300 (2008- $715) 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. The increase in accumulated depreciation for the year ended June 30, 2009 consisted of $6,535 in depletion and amortization, $4,300 in impairment and $2,886 in net disposals.

The prices used in the ceiling test evaluation of the Corporation's crude oil and natural gas reserve at June 30, 2009 were based on the prices in Corporation's reserve report dated June 30, 2009 (the annual escalation rate used thereafter is 2% for crude oil):

	2010	**2011**	**2012**	**2013**	**2014**
Crude oil (US$/bbl)	70.38	74.91	79.59	84.43	88.33

As at June 30, 2009 the ceiling test evaluation on the Corporation's Colombian and Brazilian properties required no write-down.

7. LONG TERM DEBT

As at June 30, 2009, Canacol had one reserve-based revolving line of credit facility; the Rancho Hermoso reserves-based revolving line of credit facility.

During the year ended June 30, 2009, the Corporation also had a reserve-based revolving line of credit facility with its partner W. Washington to which Canacol was a guarantor. The partners reached an agreement for the repayment of the Brazil Facility ("revolving line of credit facility based on the Brazilian reserves") which included a series of transactions, including the sale of a hedge on Brazil production for the gross proceeds of US$660 (net US$313). As a result, the Corporation and W. Washington have paid the amount owing of US$7,000 in full. In connection, with the repayment of the Brazil Facility, the Corporation increased its reserves based revolving line of credit facility with Standard Bank Plc. in Colombia (the "Senior Colombian Facility") by US$3,500 to US$17,500. The increase of the Senior Colombian Facility by Standard Bank Plc. was supported by increased proven reserves in Colombia since the initial establishment of the Senior Colombian Facility in August 2008.

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

	June 30, 2009	June 30, 2008
	$	$
Reserves-based revolving line of credit facility, opening balance	**27,826**	-
Less reclassification portion of long term debt, discontinued operations (note 20)	**(18,786)**	-
Less current portion, revolding line of credit facility, discontinued operations (note 20)	**(5,992)**	-
Reserves-based revolving line of credit facility issued or assumed	**35,356**	33,489
Transaction costs (note 11c)	**(1,215)**	(2,726)
Repayment of long-term debt facility	**(19,195)**	(3,231)
Total long-term debt	**17,994**	27,532
Accretion of transaction costs	**1,004**	709
Unrealized foreign exchange gain	**(242)**	(415)
	18,756	27,826
Current portion, revolving line of credit facility	**(5,813)**	(6,960)
Reclassified portion of long term debt	-	(18,786)
Long-term reserves-based revolving line of credit facility, ending balance	**12,943**	2,080

	June 30, 2009	June 30, 2008
	$	$
Total gross long-term reserves based revolving line of credit facility debt facility	**20,344**	30,551
Financing charges	**(1,588)**	(2,725)
Total net long-term reserves based revolving line of credit facility	**18,756**	27,826
Short term	**(5,813)**	(6,960)
Reclassified portion of long-term debt	-	(18,786)
	12,943	2,080

a. *Rancho Hermoso reserves-based revolving line credit facility (Senior Credit Facility)*

On August 29, 2008, Canacol Energy Inc. (note 4) 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 loan was comprised of two credit facilities:

a) a three year senior secured borrowing base revolving credit facility on which was drawn US$ 14,000 (increased by US$3,500 through transfer of the Corporation's share of the Brazil debt facility) and
b) a mezzanine facility on which was drawn US$11,600, (repaid in full during the year ended June 30, 2009.)

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 was payable in six equal semi-annual payments beginning on February 27, 2009. During the year ended June 30, 2009, the Corporation repaid in full its original amount on the mezzanine debt of US$11,600. The revolving credit facility bears interest at LIBOR plus 4.00% while the mezzanine facility bore interest at LIBOR plus 12.00%. Covenants are disclosed in note 14.

In conjunction with the financing, Canacol issued to Standard Bank warrants to acquire 10,000,000 Canacol common shares at a price of $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 11c for additional details regarding the warrants.

b. Revolving operating line of credit

The Corporation, through its wholly owned subsidiary Ranch Hermoso S.A., 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 5.8% to 12.70% per annum on the balance outstanding resulting in an average rate of 14.65%. At June 30, 2009, a total of $5,686 had been drawn on these facilities (June 30, 2008 – $Nil). The operating lines of credit are unsecured. The limits on the line of credits are based on negotiations with the Colombian banks.

c. Secured debenture ("short-term loan")

On February 4, 2009, the Corporation obtained financing in the form of a short-term loan in the amount of $500. The short-term loan bore interest rate of 15% annual per annum, compounded annually and was secured by the interest in the remaining drilling rig owned by the Corporation after the sale of its BCH subsidiary on December 31, 2008. On April 24, 2009, the Corporation renewed and increased the short-term loan to $535. The short-term loan bore the same interest loan as previous short-term loan entered by the Corporation. However, the renewed short-term loan is no longer secured by the drilling rig. The short-term loan became payable in full on June 4, 2009. On May 28, 2009, the Corporation retired $344 of the short-term loan through the issuance of 2,751,200 shares at a price of $0.125 per share as part of the May 2009 private placement (note 11d). The remaining balance outstanding of the short-term loan was repaid in full prior to June 30, 2009. In addition to the shares issued in connection with the May 2009 private placement, the Corporation also issued 445,834 shares at a price of $0.15 for the payment of commission fees.

d. Convertible debenture

On January 31, 2008 the Corporation issued a US$40 million Convertible Subordinated Secured Debenture (the "Debenture") to Allis Chalmers through the Corporation's wholly owned service company BCH. The Debenture bore interest at a rate of 15%, payable annually, maturing January 31, 2010. It was convertible at any time prior to maturity, at the holder's option, into Common Shares of BCH at a conversion price of US$4.163 per BCH Common Share. On December 31, 2008 the Corporation sold BCH to the holder of the Convertible Debenture resulting in its cancellation (note 20).

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:

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

	Year ended June 30, 2009 $	2008 $
Cash interest expense	**2,024**	479
Accretion of transaction costs	**1,004**	462
Total interest and financial expense	**3,028**	941

As outlined in note 5, 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	2010	2011	2012	2013	Total
Rancho Hermoso facility	5,813	3,805	5,707	5,019	-	**20,344**
	US$5,000	*US$3,273*	*US$4,909*	4,318	-	***US$17,500***
Operating line of credit	5,686	-	-	-	-	**5,686**
	US$4,891	-	-	-	-	***US$4,891***
Total	11,499	3,805	5,707	5,019	-	**26,030**
	US$9,891	*US$3,273*	*US$4,909*	*US$4,318*	*US$0*	***US$22,391***

8. CAPITAL LEASE OBLIGATIONS

	2009 $	2008 $
Capital leases secured by the related assets	**60**	**1,642**
Imputed interest	**(7)**	**(181)**
	53	**1,461**
Amounts due within one year	**(45)**	**(974)**
	8	**487**

The Corporation's capital leases primarily relate to the office building in Colombia. The leases bear interest at 12.5% and have a remaining term of 14 months. Assets under capital lease at June 30, 2009 totalled $62 (June 30, 2008 - $2,025). Accumulated depreciation of these assets at June 30, 2009 totalled $8 (June 30, 2008 - $344). Amortization expense related to the capital leases for the period ended June 30, 2009 totalled $4 (2008 - $344).

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

9. ASSET RETIREMENT OBLIGATION

	Year Ended June 30, 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	**343**	36
Variance due to foreign exchange	**(266)**	-
Asset retirement obligation, ending balance	**2,316**	420

As at June 30, 2009, the estimated total undiscounted amount required to settle the asset retirement obligation was $2,910 (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 June 30, 2009, a total of $388 (June 30, 2008 - $324) of cash has been reserved for future asset retirement.

10. INCOME TAXES

The current year income tax provision for the year ended June 30, 2009 comprises Brazilian and Colombian withholding taxes. The following table reconciles consolidated income taxes calculated at the Canadian statutory rate with the recorded income taxes for the years ended June 30, 2009 and 2008.

	June 30, 2009 $	June 30, 2008 $
Loss before income taxes	**(21,982)**	(9,731)
Expected income tax rate	**29.25%**	31.00%
Expected income tax recovery	**(6,430)**	(3,017)
Effect on taxes resulting from:		
Tax differential on foreign jurisdictions	**(555)**	127
Non-deductible expenses	**7**	(410)
Valuation allowance	**6,787**	3,300
Income tax expense (recovery)	**(191)**	-

The components of the net future income tax liability/assets are as follows:

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

	June 30, 2009 $	June 30, 2008 $
Excess tax base over net book value of property, plant, and equipment	**(11,593)**	(1,804)
Non-capital losses carried forward	**8,466**	6,352
Deferred financing charges	**378**	190
Other	**227**	103
	(2,522)	4,841
Valuation allowance	**(8,856)**	(4,682)
Net future income tax (liability) /asset	**(11,378)**	159

A valuation allowance has been recorded for the net future tax asset created from Canadian and Brazilian non capital losses carried forward due to the uncertainty of realization. As at June 30, 2009, the Corporation had unused Brazilian tax pools of $16.8 million (June 30, 2008 - $24.7 million, net of BCH $13.7 million), unused Canadian tax pools of $7.0 million (June 30, 2008 - $60.9 million, net of BCH $13.9 million) and in Colombia there are no tax pools as the depreciation for accounting purpose is the same as for tax purpose. The Corporation had Canadian net capital losses available for carry forward of $0.1 million (June 30, 2008 - $0.1 million). In addition, the Corporation had Brazilian non-capital losses available for carry forward of $19.2 million (June 30, 2008 - $8.6 million, net of BCH $4.6 million) and Canadian non-capital losses available for carry forward of $7.0 million and will expire in 2026 and after (June 30, 2008 - $6.1 million, net of BCH $6.1million), the Colombian non-capital losses available for carry forward of $0.4 million (June 30, 2008 - $Nil). The Brazilian and Colombian non-capital losses available for carry forward do not expire.

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

11. SHARE CAPITAL

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

b. Issued

	Year Ended June 30, 2009		Year Ended Monday, June 30, 2008	
Issued and outstanding	**Number of Securities**	**$**	Number of Securities	$
Common shares				
Common shares outstanding, opening balance	**90,084,661**	**57,278**	75,556,663	47,245
Issued on acquisition of Canacol Energy Inc. (note 4)	**39,999,994**	**8,000**	-	-
Issued on private placement (note 11d)	**48,000,000**	**4,747**	10,000,000	5,500
Issued to consultants	**67,013**	**12**	-	-
Issued on secured debenture (note 7c)	**445,834**	**67**	-	-
Stock options exercised	**276,667**	**46**	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 issuance costs	-	**(509)**	-	(330)
Common shares outstanding, ending balance	**178,874,169**	**69,641**	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 11c)	**10,000,000**	**-**	3,500,000	-
Issued on private placement (note 11d)	**24,000,000**	**1,253**		
Exercised	-	-	(4,436,298)	(1,243)
Cancelled (note 11c)	**(3,500,000)**	-	-	-
Expired	**(5,672,000)**	**(1,326)**	(28,335)	-
Warrants outstanding, ending balance	**34,000,000**	**1,253**	9,172,000	1,326
Total share capital, ending balance		**70,894**		58,604

c. Warrants
Previously, in conjunction with entering into the W. Washington reserves-based revolving credit facility, 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 7a). They were replaced with 10,000,000 new warrants with an exercise price of $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 $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 (note 7).

d. Private Placement:

(i) May 14, 2009, the Corporation completed the first closing of its $6,000 private placement financing. The Corporation, through Canaccord Capital Corporation ("Canaccord") issued a total of 34,820,000 units at a price of $0.125 per unit for gross proceeds of $4,353 in this initial closing.

(ii) On May 28, 2009, the Corporation completed the second closing of its $6,000 private placement financing. The Corporation, through Canaccord, issued an additional 13,180,000 units at a price of $0.125 per units for gross proceeds of $1,647.

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

(iii) Each unit issued pursuant to the private placements consisted of one common share of the Corporation and one-half of one common share purchase warrant, with each whole warrant entitling the holder to acquire one common share at a price of $0.20 until May 14, 2011 (first closing) and May 28, 2011 (second closing). The fair value of the warrants was calculated to be $1,253. The fair value was calculated using the Black Scholes pricing model based on the following assumptions: risk-free rate of 2.58%, expected life of two years, no dividends, and an expected volatility of 99.64%

(iv) Share issuance costs of $399 (first closing) and $110 (second closing) were incurred in the offering.

	Year Ended June 30, 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	**34,000,000**	**$0.38**	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	**34,000,000**	**$0.38**	9,172,000	$1.87

Exercisable warrants as at June 30, 2009 had the following exercise prices and expiry dates:

Number of Warrants	**Exercise Price**	**Expiry Date**
10,000,000	$0.80	August 29, 2013
17,410,000	$0.20	May 14, 2011
6,590,000	$0.20	May 28, 2011
34,000,000	**$0.38**	**2.55 years**

e. 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 June 2014. At June 30, 2009, a total of 5,096,333 options were exercisable (vested) at a weighted average exercise price of $0.32 per common share and a total of 12,494,334 options were issued and outstanding at a weighted average exercise price of $0.26.

	2009			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	**(276,667)**	**0.10**	**(20)**	(91,700)	0.46	(28)
Cancelled	**(7,468,334)**	**0.72**	**(3,135)**	(1,381,666)	1.05	(848)
Granted	**12,668,001**	**0.14**	**1,526**	1,743,000	0.77	663
Ending	**12,494,334**	**0.26**	**2,469**	7,571,334	0.91	4,098

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

Compensation expense for stock options is recognized using the fair value method when the stock options are granted and is amortized over the options' vesting periods for employees, deemed employees, directors and officers. As at June 30, 2009, $732 (June 30, 2008 - $220) of stock based compensation expense remains unrecognized. During 2009, $743 (2008 - $1,594) 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:

	2009	2008
Risk-free interest rate	1.85% - 2.58%	3.4% - 4.4%
Expected life of options	5 years	5 years
Dividend yield	Nil	Nil
Expected volatility	100%	72%
Weighted average fair value price	$0.18	$0.37

f. Per share amounts

In calculating the basic and diluted income per share from discontinued operations and net income per share for the years ended June 30, the weighted average number of common shares used in the calculation of basic and diluted net income per share is shown below.

	Year Ended June 30,	
	2009	2008
Basic	**122,490,232**	85,197,688
Diluted	**122,490,232**	85,197,688

12. CONTRIBUTED SURPLUS

The following table reconciles the Corporation's contributed surplus:

	June 30, 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	**743**	1,594
Warrants expired	**1,326**	-
Stock options exercised	**(20)**	(28)
Contributed surplus, ending	**9,391**	6,127

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

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

	June 30, 2009			June 30, 2008		
	Carrying Value	Fair Value	Gain [1]	Carrying Value	Fair Value	Gain [1]
Assets held for trading						
Cash, restricted cash, and cash reserved for asset retirement	902	902	-	10,975	10,975	-
Financial derivative asset	-	-	(4,427)	-	-	
Loans and receivables						
Accounts, promissory note, cash call receivable and prepaid expenses	5,447	5,447	-	10,316	-	-
Liabilities held for trading						
Financial derivatives	497	497	-	987	987	-
Other liabilites						
Account, interest, lease payable and cash call payable	9,269	9,269	-	11,800	11,800	-
Debt facilities and operating line of credit	24,442	24,442	-	20,866	20,866	-

[1] Gain relates to realized and unrealized gain on financial derivatives for the year ended June 30, 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 (Petrobras), while in Colombia all oil sales revenue and tariff oil revenue comes from three customers of which two are also government entities (Petrobras Colombia and Ecopetrol) and one is a public company in Colombia (Hocol). For the year ended June 30, 2009, approximately 57%, 33%, and 10% of the outstanding receivables balances are owed by Petrobras, Ecopetrol, and Hocol respectively. The Corporation's net share of the outstanding accounts receivable from these customers totalled $2,476 at June 30, 2009 (June 30, 2008 - $596). The Corporation has cash call receivable relating its joint venture operation in Colombia of $288 at June 30, 2009 (June 30, 2008 - $2,009). The Corporation's aged receivables primarily relate to account receivable balances from customers and 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:

	As at	
Trade and other receivable aging balances	**June 30, 2009**	June 30, 2008
Current < 30 days	**3,029**	5,395
30 to 60 days	**-**	977
60 to 90 days	**-**	871
Over 90 days	**787**	575
Total	**3,816**	7,818

In addition, the Corporation has cash call payable of $3,488 (June 30, 2008 – cash call receivable of $2,009) relating to its joint venture operations in Colombia, Brazil and Canada. These balances were due from three partners and as such there was a concentration of credit risk in 2008.

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.

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

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 conjunction with the reserves-based revolving line credit facility (note 7a), the Corporation has the following financial WTI oil collars outstanding on June 30, 2009 under 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

For the year ended June 30, 2009, the Corporation recognized a realized gain of $4,427 (2008 – loss of $573) and an unrealized loss of $497 (2008 - loss of $1,488) relating to its oil collar financial derivatives. The total fair value of these risk management liability at June 30, 2009 was $497 (June 30, 2008 – liability of $987). During the year ended June 30, 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 $131.

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 June 30, 2009, the Corporation has not entered into any foreign currency derivatives to manage its exposure to currency fluctuations.

At June 30, 2009, the Corporation held $13 (BRL$22) on deposit in Brazilian Real (June 30, 2008 – $2,064 (BRL$ 3,234)), $31 (COP$ 58,285) on deposit in Colombian Pesos (June 30, 2008 – $Nil (COP $Nil)) and $84 (US$ 72) 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 June 30, 2009, the Corporation had the following accounts receivable balances: $318 (BRL$537) in Brazilian Real (June 30, 2008 - $3,610 (BRL$5,655)), $217 (US$187) in US dollars (June 30, 2008 – $3,436 (US$3,373)), $2,668 (COP$4.9 billion) in Colombian Pesos (June 30, 2008 – $Nil)). As of June 30, 2009, the Corporation had the following accounts payable and accrued liabilities balances: $253 (BRL$ 428) in Brazilian Real (June 30, 2008 - $3,547 (BRL$5,557), $143(US$122) in US dollars (June 30, 2008 – $3,021 (US$2,966) and $3,399 (COP$6.3 billion) in Colombian Pesos (June 30, 2008 – $Nil).

For the year ended June 30, 2009, the Corporation had a foreign exchange loss of $2,262 (2008 – gain of $1,053) 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 as compared to the Canadian dollar. During the year ended June 30, 2009, a 1% increase/decrease in the Canadian dollar vis-à-vis the US dollar, Brazilian Real and Colombian pesos is estimated to increase/decrease the earnings of the Corporation by $142, $125 and $104 respectively.

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

Country currency		United States		Colombia		Brazil
Year end exchange rate per CAD	$	1.1625	$	1,845	$	0.5914

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 (note 7a). The remainder of the Corporation's financial assets and liabilities are not exposed to interest rate risk. During the year ended June 30, 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 year ended June 30, 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.

The following table outlines the contractual maturities of the Corporation's financial liabilities as of June 30, 2009.

		Payments Due By Period [1, 2]				
	Recognized on Financial Statements	Less than 1 year	1 -2 years	2-5 years	After 5 years	**Total**
Accounts payable and accrued liabilities	Yes - Liability	5,566	-	-	-	**5,566**
Cash call payable	Yes - Liability	3,488	-	-	-	**3,488**
Capital leases	Yes - Liability	45	8	-	-	**53**
Interest payable	Yes - Liability	162	-	-	-	**162**
Operating line of credit	Yes - Liability	5,686	-	-	-	**5,686**
Reserves based credit facility	Yes - Liability	-	-	20,344	-	**20,344**
Work program commitments	No	19,089	6,975	-	-	**26,064**
Office and equipment leases	No	97	81	-	-	**178**
Round 7 minimum exploration commitments	Yes - Liability	139	-	-	-	**139**
Other minimum exploration commitments [3]	No	3,757	1,292	-	-	**5,049**
Total		38,029	8,356	20,344	-	**66,729**

[1] Payments exclude ongoing operating costs and interest on debt facilities
[2] Payments denominated in foreign currencies have been translated at the respective June 30, 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.

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

14. 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 frequently reviews alternate financing options and arrangements to meet its current and upcoming commitments and obligations.

Current plans include:

- For development of the Ombu and Rancho Hermoso fields in Colombia, the Corporation will use financing provided by Gemini, as well as funds raised through equity private placements, credit facilities, issuance of secured debentures, and the financings completed subsequent to June 30, 2009 (note 21).
- For Guyana, the Corporation is seeking a farmout partner for financing, as well as utilizing funds raised through equity private placements and the financings completed subsequent to June 30, 2009 (note 21).
- For Brazil, the Corporation will seek a farmout arrangement as well as utilizing funds raised through equity private placements and the financings completed subsequent to June 30, 2009 (note 21).

The Corporation defines and computes its capital as follows:

	June 30, 2009	June 30, 2008 [1]
	$	$
Shareholders' equity	**37,307**	31,500
Long-term debt, including current portion	**18,756**	27,826
Line of credit facilities	**5,686**	-
Convertible debenture	**-**	36,191
Cash	**(194)**	(9,983)
	61,555	85,534

[1] 2008 comparatives are based on 2008 audited financial statements, and do not exclude the discontinued operations (note 20).

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 at June 30, 2009 are as follows:

a) *Senior reserves- based revolving line of credit*

The following debt covenants are based on certain components of the consolidated financial statements of the Corporation's subsidiary Canacol Energy Inc. for quarterly periods occurring on or after March 31, 2009, prior to being amended as noted below.

- 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.

On October 22, 2009, the Corporation's credit agreement was amended and restated in its entirety as follows:

a) Current ratio has been deleted.
b) Leverage ratio should not be greater than:
   i. 6.5 to 1.00 as of the last day of the measurement period ending on March 31, 2009, June 30, 2009, September 30, 2009 and December 31, 2009.
   ii. 4.00 to 1.00 as of the last day of the measurement period occurring on or after March 31, 2009, June 30, 2009 and September 30, 2009.
c) Interest coverage ratio should not be less than 1.00 to 1.00 as of the last day of any measurement period occurring on or after March 31, 2009, June 30, 2009 and September 30, 2009 and 1.50 to 1.00 as of the last day of any measurement period ending on or after December 31, 2009.

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 the 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). As at June 30, 2009, the Corporation is in compliance with the amended financial covenants calculations.

15. RELATED PARTY TRANSACTIONS

During the year ended June 30, 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.

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 year ended June 30, 2009 totalled $1,062 (2008 - $330) and are 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.

16. 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 20), 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. 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 and includes 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. The Corporation intends to dispose of its assets in Canada. In relation to the Ireland assets, the Corporation is evaluating its alternatives and does not intend to conduct further activities thereon.

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

	Year ended June 30, 2009				
	E&P Brazil $	E&P Colombia $	E&P Guyana $	E&P Other, [2] Corporate & Eliminations $	**Total $**
REVENUE					
Petroleum and natural gas sales	3,592	4,658	-	48	**8,298**
Sales tax	(250)	-	-	(4)	**(254)**
Royalties	(320)	(340)	-	-	**(660)**
Petroleum and natural gas, net	3,022	4,318	-	44	**7,384**
Tariff Revenue	-	3,040	-	-	**3,040**
Interest and other	289	680	-	17	**986**
Total Revenues	3,311	8,038	-	61	**11,410**
EXPENSES					
Operating - petroleum and natural gas	1,857	5,499	-	20	**7,376**
Depletion, depreciation and accretion	2,987	3,341	-	206	**6,535**
General and administrative	2,239	1,119	-	4,160	**7,518**
Interest and financial expenses	1,211	578	-	1,239	**3,028**
Foreign exchange (gain) loss	3,046	865	-	(1,212)	**2,699**
Realized loss (gain) on financial derivatives	(1,947)	-	-	(2,480)	**(4,427)**
Unrealized gain on financial derivatives	-	-	-	497	**497**
Stock compensation expense	-	-	-	743	**743**
Impairment on goodwill	-	-	-	5,123	**5,123**
Impairment on long-term assets	-	-	-	1,020	**1,020**
Impairment on assets held for sale	-	-	-	3,280	**3,280**
Total Expenses	9,393	11,402	-	12,596	**33,392**
EARNINGS (LOSS)					
Loss before income taxes	(6,082)	(3,364)	-	(12,535)	**(21,982)**
Current income tax	-	(186)	-	-	**(186)**
Future income tax	-	(5)	-	-	**(5)**
Net loss	(6,082)	(3,173)	-	(12,535)	**(21,791)**
Total assets	36,334	45,601	3,745	(471)	**85,209**
Capital expenditures[1]	3,607	7,089	859	(2,741)	**8,814**

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

[2] Canada and Ireland

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

	Year Ended June 30, 2008				
	E&P Brazil $	E&P Canada $	E&P Ireland $	Corporate & Eliminations $	**Total $**
REVENUE					
Petroleum and natural gas sales	5,721	197	-	-	5,918
Sales tax	(480)	-	-	-	(480)
Royalties	(441)	(57)	-	-	(498)
Petroleum and natural gas, net	4,800	140	-	-	**4,940**
Interest and other	140	-	-	324	**464**
Total Revenues	4,940	140	-	324	**5,404**
EXPENSES					
Operating - petroleum and natural gas	3,983	96	-	-	**4,079**
Depletion, depreciation and accretion	2,705	154	-	32	**2,891**
General and administrative	2,002	-	-	1,905	**3,907**
Interest and financial expenses	941	-	-	-	**941**
Foreign exchange (gain) loss	(1,135)	-	-	82	**(1,053)**
Realized loss on financial derivatives	573	-	-	-	**573**
Unrealized loss on financial derivatives	1,488	-	-	-	**1,488**
Stock compensation expense	-	-	-	1,594	**1,594**
Impairment on petroleum properties	-	423	-	-	**423**
Impairment on assets held for sale	-	-	-	292	**292**
Total Expenses	10,557	673	-	3,905	**15,135**
EARNINGS (LOSS)					
Loss before income taxes	(5,517)	(533)	-	(3,681)	**(9,731)**
Current income tax	-	-	-	-	-
Future income tax	-	-	-	-	-
Net loss	(5,517)	(533)	-	(3,681)	**(9,731)**
Total assets	29,801	417	656	14,928	**45,802**
Capital expenditures[1]	9,748	269	13	7,656	**17,686**

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

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

Included in the Corporation's balance sheet, income statement and cash flows for the Brazilian Joint Venture are the following balances:

	June 30, 2009	June 30, 2008
	$	$
Assets		
Current	**1,204**	3,981
Long-term	**20,836**	23,358
Liabilities		
Current	**177**	690
Long-term	**-**	4,355
Revenues	**3,177**	3,540
Expenses	**5,523**	1,353
Net (loss) income	**(2,346)**	2,187
Cash Flows		
Used in Operating activities	**(976)**	(19)
(Used in)/ from Investing activities	**(5,324)**	24,513
Used in Financing activities	**(3,241)**	(23,429)
Net Cash Flows	**(9,541)**	1,064

Geographic information related to the Corporation's activities:

	Revenue		Property, plant, and equipment	
	Year Ended June 30,		Year ended June 30,	
	2009	2008	**2009**	2008
	$	$	**$**	$
Brazil	**3,311**	4,940	**23,046**	81,575
Colombia	**8,038**	-	**52,046**	-
Guyana	**-**	-	**3,745**	-
Canada & Other	**61**	464	**23**	6,880
	11,410	5,404	**78,860**	88,455

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

17. SUPPLEMENTAL INFORMATION

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

	Year Ended June 30, **2009** $	2008 $
Operating Activities		
Decrease (increase) in current assets		
Accounts receivable	**(804)**	(488)
Prepaid expenses and deposits	**(131)**	9
Commodity contracts	**4,209**	-
Increase (decrease) in current liabilities		
Accounts payable and accrued liabilities	**(1,079)**	618
Interest payable	**(312)**	49
	1,883	188
Investing activities		
Decrease (increase) in current assets		
Cash call and promissory notes receivable	**6**	(1,653)
Increase (decrease) in current liabilities		
Accounts payable and accrued liabilities	**(694)**	1,629
	(688)	(24)

As at June 30, 2009, a total of $27 of the cash and cash equivalents balance were 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 June 30, 2009 and June 30, 2008 are as follows:

June 30, 2009		June 30, 2008	
Balance	Average Interest Rate	Balance	Average Interest Rate
C$0 C$0	N/A	C$0 C$0	N/A
US$72 C$84	N/A	US$4,999 C$5,092	1.90%
COP$47,086 C$32	10.27%	COP$0 C$0	N/A
BRL$23 C$13	N/A	BRL$5,234 C$3,341	11.33%
C$129		**C$8,433**	

18. COMMITMENTS AND GUARANTEES

Minimum exploration program

As at June 30, 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.

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

The commitment is 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	595	$1,056 BRL $1,785	79	$139 BRL $237
9	Recôncavo	March 12, 2010	1,600	$2,839 BRL $4,800	320	$568 BRL $960
9	Espirito Santo	March 12, 2011	1,020	$1,810 BRL $3,060	408	$724 BRL $1,224

[1]Net financial guarantee based on Canacol'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 79 units which, at June 30, 2009, equated to approximately $139 (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 $139 (June 30, 2008 - $1,119), relating to its net share of expected MEP work units yet to be fulfilled by means of financial settlement.

The round 7 commitments have been to be satisfied through a financial settlement of MEP work units by the Operator. The round 9 (Reconcavo Basin) commitments are planned to be satisfied through a combination of the execution of an exploration drilling program and through financial settlement of MEP work units and the round 9 (Espirito Santo Basin) commitments are planned to be satisfied through a combination of seismic acquisition and through financial settlement of MEP work units.

Gemini Oil and Gas Funds

The Corporation executed a series of agreements with Gemini Oil and Gas Fund II, L.P. ("Gemini"), a Jersey based oil and gas investment fund, on April 17, 2009, 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 it would consider, at the request of management, increasing the total investment to a maximum of US$12,000.

As at June 30, 2009 the Corporation had not drawn any funds from the agreements with Gemini. US$4,500 has been drawn since June 30, 2009.

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

Other

In Colombia and Guyana, the Corporation has work program commitments totalling approximately $16,358 for calendar 2009 and $6,975 for calendar 2010. In addition, the Corporation has commitments for leases and its office premises. As of June 30, 2009, the payments required in each of the next five years are as follows:

	$
2010	97
2011	81
2012	Nil
2013	Nil
2014	Nil

19. ASSETS HELD FOR SALE

During the year ended June 30, 2008 the Corporation had equipment not required in operations and a decision was made to sell the equipment. The equipment was subsequently sold after the year ended June 30, 2008 for proceeds of US$950 (CAD$975). For the year ended June 30, 2008, the Corporation recorded an impairment relating to the relating to the disposition of the equipment totalling $292. The following table provides additional information with respect to the amount included in the balance sheet as assets and liabilities held for sale. As at June 30, 2009, the Corporation had no assets held for sale recorded as the sale of its remaining rig in BCH occurred before June 30, 2009.

	June 30, 2009	June 30, 2008
	$	$
Assets held for sale	-	975
Total assets held for sale	-	975
Liabilities held for sale	-	132
Total liabilities held for sale	-	132

20. DISCONTINUED OPERATIONS

On December 31, 2008, the Corporation closed the sale of its remaining interest in its oilfield services subsidiary, BCH Ltd., for proceeds of US$5,000 (CAD$6,123). Summary details for the year ended June 30, 2009 and June 30, 2008 from discontinued operations are as follows:

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

	2009	2008
Revenue - drilling services, net of tax	**$18,711**	$23,181
Expenses:		
Operating drilling services	**13,854**	16,833
Depreciation and amortization	**2,102**	2,028
General and administrative expenses	**2,445**	4,111
Interest expenses	**6,079**	5,954
Foreign exchange loss, net	**11,609**	321
Realized loss (gain) on financial derivatives	**640**	(51)
Unrealized loss (gain) on financial derivatives	**1,498**	(501)
Stock compensation expense	**17**	164
	38,244	28,859
Loss from discontinued operations, before taxes	**(19,533)**	(5,678)
Current income taxes	**1,380**	1,948
Future income taxes (recovery)	**(3,877)**	224
	(2,497)	2,172
Non controlling interest	**(2,116)**	-
Gain on sale of BCH	**27,120**	-
Discontinued operations and gain on sale of discontinued operations	**$12,200**	($7,850)

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 at a deficit of $18,284. The removal of non controlling interest of $2,116, resulted 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.:

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

	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 current liabilities	**32,076**
Long Term Liabilities:	
Interest payable	2,512
Capital lease obligations	487
Convertible debenture	36,191
Total long term liabilities	**39,190**
Total Liabilities	**71,266**

21. SUBSEQUENT EVENTS

On July 2, 2009, Canacol was awarded the Pacarana Technical Evaluation Area in Colombia, immediately adjacent and to the south of the Ombu E&P contract. Canacol has a 100% working interest in this block, which is approximately 470,022 hectares in size and is located in the Caguan-Putumayo Basin. The work obligations associated with this block include acquiring 2,240km of aeromagnetic and gravity data and conducting geotechnical studies over a period of 24 months for an anticipated cost of approximately US$467.

On July 7, 2009, Canacol sold a US$1,000 promissory note payable to Canacol for proceeds of US$910 (CAD$1,058) to an arm's length party. Canacol also issued to the lender 1,500,000 warrants, with each being exercisable at a price of $0.30 for 18 months. The promissory notes had the following terms:

a) Payments should be made by twelve consecutive monthly instalments of $83 commencing on October 30, 2009. If the promissory note is paid in full on or before October 29, 2009, no interest shall be accrued or be payable on the principal amount.

The fair value of the warrants was calculated to be $72. The fair value was calculated using the Black Scholes pricing model based on the following assumptions: risk-free rate of 2.42%, expected life of two years, no dividends, and an expected volatility of 99.64%.

On July 23, 2009, Canacol completed a $1,500 private placement financing. Canacol issued a total of 2,219,048 units, each consisting of one common share and one-half common share purchase warrant with a strike price of $0.30 for gross proceeds of $377.

On August 11, 2009, the Corporation received as an advance US$4,500 from the Gemini to execute its planned drilling and workover activities in Colombia.

On August 31, 2009, the Corporation was awarded the Tamarin Exploration and Production Contract "Tamarin E&P Contract" by the Agencia Nacional de Hidrocarburos ("ANH") of Colombia. The Corporation has a 100% working interest in the Tamarin E&P Contract, which is approximately 27,500 hectares in size and is located in the Putumayo – Caguan Basin of Colombia.

On August 31, 2009, the Corporation entered into an underwriting agreement with Canaccord to raise gross proceeds of up to $4,000 through a convertible unsecured subordinate debenture financing (the "Debenture"). On September 4, 2009, the Corporation completed the first closing for $2,700 and on September 10, 2009, the Corporation issued the remaining $1,300. The Debentures bear interest at 12% per annum, payable quarterly through the issue of common shares at a price equal to a 10% discount to the volume weighted average trading price of the Corporation's common shares for the 10 trading days immediately preceding the quarterly interest payment date or such higher price as any regulatory body shall require. The Debentures mature within 24 months on the issuance, and are convertible into common shares of the Corporation at the holder's option at a conversion price equal to $0.36 per common share. Canaccord has received commissions of 10%, in respect to this financing.

On September 23, 2009, the Corporation entered into an agreement with a syndicate of underwriters, led by Canaccord (the "Underwriter"), to place 107,143,000 shares at $0.28 per share for gross proceeds of $30,000 (the "Offering"). The Underwriter was also entitled to an option (the "Over-Allotment Option"), exercisable in whole or in part to purchase up to an additional 35,715,00 common shares at a price of $0.28 per common shares prior to closing date of the Offering, for gross proceeds of $10,000. The Offering was closed on October 15, 2009 with the Underwriter exercising their Over-Allotment Option. Financing costs related to this raising are approximately $2,000.

On October 26, 2009 the Company completed the purchase of all shares of Groundstar Resources Inc. ("GRI"), a Guyanese company which holds a Petroleum Prospecting License ("PPL") in the Takutu Basin in Guyana comprising approximately 7,800 square kilometres. Under the terms of the Agreement, Canacol acquired a 90% working interest in the PPL in exchange for a cash payment to Groundstar Resources (Cayman) Inc. ("GRCI"), the owner of GRI in the amount of US$3.45 million. US$1.2 million of this purchase price was previously paid to GRCI in May, 2009. The Corporation will carry a 10% net working interest for GRCI to first commercial production. Under the PPL, one well must be drilled on the property by May, 2010 and a second well must be drilled by May, 2011.

22. COMPARATIVE FIGURES

Certain of the prior period figures on the consolidated statements of loss, comprehensive loss and deficit and the consolidated statements of cash flows 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

Michael Hibberd, Chairman
Luis Baena
Alvaro Barrera
Jason Bednar
Charle Gamba
Stuart Hensman
David Winter

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HSBC Bank Brasil - Rio de Janeiro, Brazil
Banco de Credito, Bogota, Colombia

Independent Reserve Engineers

DeGolyer and MacNaughton Canada Limited
Ryder Scott Company LP
Netherland, Sewell & Associates, Inc.

Legal Counsel

Davis 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

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