

Canacol Energy Ltd.

A large, semi-transparent blue globe is centered on the page. It shows the continents of North and South America in a lighter shade of blue. The globe has a grid of latitude and longitude lines and casts a soft shadow on the surface below it.

**Consolidated Financial Statements**  
**First Quarter Interim Report, Fiscal 2010**  
Three Months Ended September 30, 2009.

November 25, 2009

To the Audit Committee of the Board of Directors of  
Canacol Energy Ltd.

In accordance with our engagement letter dated November 12, 2009, we have reviewed the consolidated balance sheet of Canacol Energy Ltd. as at September 30, 2009 and the consolidated statements of loss and comprehensive loss and deficit, other accumulated comprehensive loss and cash flows for the three-month period then ended. These financial statements are the responsibility of the management of Canacol Energy Ltd.

We performed our review in accordance with Canadian generally accepted standards for a review of interim financial statements by an entity's auditor. Such an interim review consists principally of applying analytical procedures to financial data, and making enquiries of, and having discussions with, persons responsible for financial and accounting matters. An interim review is substantially less in scope than an audit, whose objective is the expression of an opinion regarding the financial statements; accordingly, we do not express such an opinion. An interim review does not provide assurance that we would become aware of any or all significant matters that might be identified in an audit.

Based on our review, we are not aware of any material modification that needs to be made for these interim financial statements to be in accordance with Canadian generally accepted accounting principles.

This report is solely for the use of the Audit Committee of the Board of Directors of Canacol Energy Ltd. to assist them in discharging their regulatory obligation to review these financial statements, and should not be used for any other purpose. Any use that a third party makes of this report, or any reliance or decisions made based on it, are the responsibility of such third parties. We accept no responsibility for loss or damages, if any, suffered by any third party as a result of decisions made or actions taken based on this report.

  
Chartered Accountants

Calgary, Alberta  
November 25, 2009

# Canacol Energy Ltd.

## Consolidated Balance Sheets

As at  
(\$000s) (unaudited)

	September 30, 2009	June 30, 2009
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	7,164	194
Cash - restricted (note 2)	285	320
Accounts receivable	3,385	3,816
Prepaid expenses and deposits	886	285
Promissory note receivable	-	1,058
	<b>11,720</b>	<b>5,673</b>
Cash call receivable	271	288
Cash reserved for asset retirement (note 6)	402	388
Property, plant and equipment (note 3)	<b>74,061</b>	<b>78,860</b>
	<b>86,454</b>	<b>85,209</b>
<b>Liabilities and Shareholders' Equity</b>		
Current Liabilities:		
Operating line of credit (note 4b)	5,193	5,686
Accounts payable and accrued liabilities	6,350	5,566
Cash calls payable	4,825	3,488
Interest payable	182	162
Current portion of capital lease obligations (note 5)	43	45
Current portion of long term debt (note 4)	8,870	5,813
Financial derivative liability, net (note 9a)	120	175
	<b>25,583</b>	<b>20,935</b>
Financial derivative liability, net (note 9a)	297	322
Long term debt (note 4)	8,575	12,943
Convertible debentures (note 4c)	2,968	-
Capital lease obligations (note 5)	-	8
Future income tax liability	11,005	11,378
Asset retirement obligation (note 6)	2,258	2,316
	<b>50,686</b>	<b>47,902</b>
Basis of presentation (note 1)		
Commitments and guarantees (note 14)		
Subsequent events (note 15)		
Shareholders' equity:		
Share capital (note 7)	71,756	70,894
Convertible debentures (note 4c)	658	-
Contributed surplus (note 8)	9,547	9,391
	<b>81,961</b>	<b>80,685</b>
Accumulated other comprehensive loss	(1,912)	(156)
Deficit	(44,281)	(42,822)
	<b>(46,193)</b>	<b>(42,978)</b>
	<b>35,768</b>	<b>37,307</b>
	<b>86,454</b>	<b>85,209</b>

See accompanying notes to the consolidated financial statements.

# Canacol Energy Ltd.

## Consolidated Statements of Loss and Comprehensive Loss and Deficit

Three months ended September 30,

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

	2009	2008
<b>Revenues:</b>		
Petroleum and natural gas, net of royalties of \$245 (2008 - \$132)	3,009	1,350
Tariff revenue	1,365	-
Interest and other	675	29
	<b>5,049</b>	<b>1,379</b>
<b>Expenses:</b>		
Operating expenses	3,080	677
Depletion, depreciation and accretion	2,313	1,007
General and administrative	1,679	1,379
Interest and financial expense (note 4d)	893	205
Foreign exchange (gain) loss, net (note 9)	(1,507)	878
Realized loss on financial derivatives, net (note 9)	-	284
Unrealized gain on financial derivatives, net (note 9)	(80)	(521)
Stock compensation expense (note 7e)	155	116
Loss on sale of promissory note	81	-
	<b>6,614</b>	<b>4,025</b>
Loss before income taxes	(1,565)	(2,646)
Current income tax expense	314	-
Future income tax recovery	(420)	-
	<b>(106)</b>	<b>-</b>
Net loss before discontinued operations	(1,459)	(2,646)
Discontinued operations and gain on sale, net of tax	-	(4,535)
Net loss	(1,459)	(7,181)
Deficit, beginning of period	(42,822)	(18,785)
Deficit, end of period	(44,281)	(25,966)
Net loss per share from continuing operations (note 7f)	(0.01)	(0.03)
Net loss per share from discontinued operations - basic and diluted (note 7f)	-	(0.05)
Net loss per share - basic and diluted (note 7f)	(0.01)	(0.08)
Net loss	(1,459)	(7,181)
Other comprehensive income (loss):		
Foreign currency translation adjustment	(1,756)	-
Comprehensive loss	(3,215)	(7,181)

See accompanying notes to the consolidated financial statements.

## Canacol Energy Ltd.

Consolidated Statements of Other Accumulated Comprehensive Loss

For three months ended September 30,

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

	2009	2008
Accumulated other comprehensive loss, beginning of the year	(156)	-
Foreign currency translation adjustment	(1,756)	-
Accumulated other comprehensive loss, end of the year	(1,912)	-

See accompanying notes to the consolidated financial statements.

# Canacol Energy Ltd.

## Consolidated Statements of Cash Flows

Three months ended September 30,

(\$000s) (audited)

2009

2008

Cash provided by (used in):

### Operating Activities:

Net loss from continuing operations	(1,459)	(2,646)
Adjustments for non-cash items:		
Non-cash interest expense	311	130
Non-cash expense	37	-
Depletion, depreciation, and accretion	2,313	1,007
Stock compensation expense	155	116
Future income tax recovery	(420)	-
Loss on sale of assets	81	-
Unrealized foreign exchange (gain) loss, net	(1,952)	586
Unrealized financial derivatives gain	(80)	(521)
	(1,014)	(1,328)
Change in non-cash operating working capital, net of effects of acquisition and disposition (note 13)	(77)	(164)
Cash flow (used in)/from continuing operations	(1,091)	(1,492)
Cash flow from discontinued operations	-	653
Total cash flow (used in)/from operating activities	(1,091)	(839)

### Financing Activities:

Issue of share capital	458	-
Issue of convertible debentures	4,000	-
Repayment on line of credit	(493)	-
Draws on Gemini financing	4,825	-
Repayment of long term debt and capital leases	-	(948)
Financing and share issue costs	(133)	-
Cash flow (used in)/from continuing financing activities	8,657	(948)
Cash flow from discontinued financing activities	-	5,719
Total cash flow from financing activities	8,657	4,771

### Investing Activities:

Property, plant, and equipment purchases, net	(3,441)	(1,102)
Cash reserved for asset retirement	14	(7)
Cash - restricted	35	-
Change in non-cash investing working capital, net of effects of acquisition and disposition (note 13)	2,999	(4,860)
Cash flow used in continuing investing activities	(393)	(5,969)
Cash flow from (used in) discontinued investing activities	-	(743)
Total cash flow used in investing activities	(393)	(6,712)

Foreign exchange gain (loss) on cash and cash equivalents held in foreign currency	(203)	78
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Net increase (decrease) in cash and cash equivalents	6,970	(2,702)
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Cash and cash equivalents, beginning the period	194	9,983
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Cash and cash equivalents, end of the period	7,164	7,281
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### Supplementary disclosure of cash flow information:

Interest paid	582	75
Taxes paid	314	-

See accompanying notes to the consolidated financial statements.

## Notes to the Consolidated Financial Statements

For the three months ended September 30, 2009 and September 30, 2008

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

### 1. BASIS OF PRESENTATION

Canacol Energy Ltd. ("Canacol" or the "Corporation") 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 interim consolidated financial statements do not include all disclosures required for annual financial statements and should be read in conjunction with the most recent audited annual financial statements and the notes thereto for the year ended June 30, 2009. The significant accounting policies applied are consistent with those in the audited annual consolidated financial statements.

### 2. CASH – RESTRICTED

As at September 30, 2009, a total of \$285 (June 30, 2009 - \$320) 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 4.

### 3. PROPERTY, PLANT AND EQUIPMENT

	Three months ended September 30, 2009			Year Ended June 30, 2009		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Petroleum and natural gas properties ("P&NG")	89,993	(17,355)	72,638	92,923	(15,689)	77,234
Office Equipment	273	(177)	96	276	(171)	105
Building & Leasehold	50	(3)	47	69	(7)	62
Equipment & Other	1,284	(4)	1,280	1,462	(3)	1,459
	<b>91,600</b>	<b>(17,539)</b>	<b>74,061</b>	<b>94,730</b>	<b>(15,870)</b>	<b>78,860</b>

The costs excluded from the depletion calculation include undeveloped land costs, completion equipment inventory, and drilling in progress. As at September 30, 2009, the total costs excluded from the depletion calculation and ceiling test were \$23,400 (June 30, 2009 - \$22,973). No indirect overhead costs were capitalized during the three months ended September 30, 2009. The increase in accumulated depreciation for the three months ended September 30, 2009 consisted of \$2,313 in depletion and depreciation.

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

## Notes to the Consolidated Financial Statements

For the three months ended September 30, 2009 and September 30, 2008

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

### 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 agreed, subject to certain preconditions, to 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 in exchange for 30% of the gross revenue until the payments to Gemini exceed in total the sum of four times the amount of the Investment or until 95% of the ultimate recoverable reserves as determined from time to time as underlying the Concession area have been produced, whichever is the sooner. The Corporation is required to make revenue-based overriding royalty payments from the Rancho Hermoso and Entrerrios oilfields to Gemini.

During the three months ended September 30, 2009, Gemini advanced US\$4,500 (CAD\$4,825) and the Corporation recorded this amount as a reduction of the carrying value of P&NG properties for funds advanced under the Gemini agreement.

### 4. LONG TERM DEBT

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

	Three months ended September 30, 2009 \$	Year ended June 30, 2009 \$
Reserves-based revolving line of credit facility, opening balance	18,756	27,826
Less reclassification portion of long-term debt, discontinued operations	-	(18,786)
Less current portion, revolving line of credit facility, discontinued operations	-	(5,992)
Reserves-based revolving line of credit facility issued or assumed	-	35,356
Transaction costs	-	(1,215)
Repayment of long-term debt facility	-	(19,195)
<b>Total long-term debt</b>	<b>18,756</b>	17,994
Accretion of transaction costs	265	1,004
Unrealized foreign exchange gain	(1,576)	(242)
<b>Total net long-term reserves-based revolving line of credit facility, ending balance</b>	<b>17,445</b>	18,756
Current portion, reserves-based revolving line of credit facility	(8,870)	(5,813)
<b>Long-term portion, reserves-based revolving line of credit facility, ending balance</b>	<b>8,575</b>	12,943

#### a. Rancho Hermoso reserves-based revolving line credit facility

This facility is a three year senior secured borrowing base revolving credit facility for US\$17,500.

The security package and terms for the Standard Bank Loan comprise a lien on the shares of Rancho Hermoso S.A., a guarantee from the Corporation 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. The revolving credit facility bears interest at LIBOR plus 6.00%. Covenants are disclosed in note 10. Subsequent to September 30, 2009, the Corporation repaid US\$5,000 towards the reserves-based credit facility.

## Notes to the Consolidated Financial Statements

For the three months ended September 30, 2009 and September 30, 2008

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

### b. Revolving operating lines of credit

The Corporation, through its wholly owned subsidiary Rancho 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 13.33% per annum on the balance outstanding resulting in an average rate of 14.33%. At September 30, 2009, a total of \$5,193 had been drawn on these facilities (June 30, 2009 – \$5,686). The operating lines of credit are unsecured. The limits on the line of credits are based on negotiations with the Colombian banks. Subsequent to September 30, 2009, the balance on these facilities was reduced by a cash payment of US\$4,142 (CAD\$4,434).

### c. Convertible debentures

In September 2009, the Corporation raised aggregate gross proceeds of \$4,000 through the issuance of convertible unsecured subordinate debentures (the “Debentures”). 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 of 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 \$390 via the issuance of 1,130,436 common shares. Additional costs of \$30 were incurred in respect to this financing. At maturity, the Corporation has the ability to convert all or part of the Debentures through the issuance of common shares at price equal to 95% of weighted average trading price of the shares for 20 consecutive trading days ending on the 5th trading day immediately preceding the maturity date, or such higher price as any regulatory body shall require.

As the Debentures are convertible, the liability and equity components have been presented separately. The liability component of the conversion feature was determined to be \$3,265 and has been recorded as long-term debt with the remaining \$735 allocated to equity. The debt component was measured at the issue date as the present value of cash payments of interest and principal under the terms of Debentures using a discount rate of 26%.

	Debt Component	Equity Component	Total
Balance, beginning of period	-	-	-
Debentures issued	3,265	735	4,000
Transaction costs	(343)	(77)	(420)
Accretion of transaction expenses	46	-	46
Balance, end of period	2,968	658	3,626

### d. 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 and accretion of the secured debentures. Details of the cash and non-cash components of interest and financial expense are as follows:

## Notes to the Consolidated Financial Statements

For the three months ended September 30, 2009 and September 30, 2008

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

	Three months ended September 30,	
	2009	2008
	\$	\$
Cash interest expense	582	75
Accretion of transaction costs	311	130
Total interest and financial expense	893	205

### e. Principal repayments

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

	2009	2010	2011	2012	Total
Rancho Hermoso facility (note 4a)	8,870	5,264	4,629	-	18,763
	US\$8,273	US\$4,909	US\$4,318	-	US\$17,500
Convertible debenture (note 4c)	-	-	4,000	-	4,000
	-	-	US\$3,731	-	US\$3,731
Line of credit (note 4b)	5,193	-	-	-	5,193
	US\$4,843	-	-	-	US\$4,843
Total	14,063	5,264	8,629	-	27,956
	US\$13,116	US\$4,909	US\$8,049	-	US\$26,074

## 5. CAPITAL LEASE OBLIGATIONS

	September 30, 2009	June 30, 2009
	\$	\$
Capital leases secured by the related assets	48	60
Imputed interest	(5)	(7)
	43	53
Amounts due within one year	(43)	(45)
	-	8

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 11 months. Assets under capital lease at September 30, 2009 totalled \$43 (June 30, 2009 - \$53). Accumulated depreciation of these assets at September 30, 2009 totalled \$18 (June 30, 2009 - \$12). Amortization expense related to the capital leases for the period ended September 30, 2009 totalled \$10 (2009 - \$Nil).

## Notes to the Consolidated Financial Statements

For the three months ended September 30, 2009 and September 30, 2008

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

### 6. ASSET RETIREMENT OBLIGATION

	Year Ended September 30, 2009	Year Ended June 30, 2009
	\$	\$
Asset retirement obligation, opening balance	2,316	420
Liabilities incurred and acquired	6	1,842
Liabilities settled	-	(23)
Revision of estimates	43	-
Accretion expense	50	343
Variance due to foreign exchange	(157)	(266)
Asset retirement obligation, ending balance	2,258	2,316

As at September 30, 2009, the estimated total undiscounted amount required to settle the asset retirement obligation was \$2,612 (June 30, 2009 - \$2,910) 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 September 30, 2009, a total of \$402 (June 30, 2009 - \$388) of cash has been reserved for future asset retirement.

### 7. SHARE CAPITAL

#### a. Authorized

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

#### b. Issued

## Notes to the Consolidated Financial Statements

For the three months ended September 30, 2009 and September 30, 2008

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

	Three months ended September 30, 2009		Year Ended June 30, 2009	
	Number of Securities	\$	Number of Securities	\$
<b>Issued and outstanding</b>				
<b>Common shares</b>				
Common shares outstanding, opening balance	178,874,169	69,641	90,084,661	57,278
Issued on acquisition of Canacol Energy Inc.	-	-	39,999,994	8,000
Issued on private placement (note 7d)	2,219,048	377	48,000,000	4,747
Issued to consultants	165,931	37	67,013	12
Issued to agents on secured debenture (note 4c)	1,130,436	390	445,834	67
Stock options exercised	10,000	1	276,667	46
Warrants exercised	20,000	5	-	-
Share issuance costs	-	(104)	-	(509)
Common shares outstanding, ending balance	182,419,584	70,347	178,874,169	69,641
<b>Warrants</b>				
Warrants outstanding, opening balance	34,000,000	1,253	9,172,000	1,326
Issued during debt financing arrangement	-	-	10,000,000	-
Issued on sale of promissory note	1,500,000	81	-	-
Issued on private placement (note 7d)	1,109,524	75	24,000,000	1,253
Cancelled	-	-	(3,500,000)	-
Exercised	(20,000)	-	-	-
Expired	-	-	(5,672,000)	(1,326)
Warrants outstanding, ending balance	36,589,524	1,409	34,000,000	1,253
<b>Total share capital, ending balance</b>		<b>71,756</b>		<b>70,894</b>

(1) Note references relate to the quarter ending September 30, 2009.

### c. Warrants

On July 7, 2009, the Corporation sold a US\$1,000 promissory note receivable 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 fair value of the warrants was calculated to be \$81, 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, the Corporation issued 1,109,524 warrants in connection with the private placement (note 7d). The fair value of the warrants issued on the private placement (note 4d) was calculated to be \$75 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%.

## Notes to the Consolidated Financial Statements

For the three months ended September 30, 2009 and September 30, 2008

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

	Three months ended September 30, 2009		Year Ended June 30, 2009	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
<b>Opening</b>	<b>34,000,000</b>	<b>\$0.38</b>	<b>9,172,000</b>	<b>\$1.87</b>
Issued	2,609,524	\$0.30	34,000,000	\$0.38
Exercised	(20,000)	\$0.20	-	-
Cancelled	-	-	(3,500,000)	US \$2.00
Expired	-	-	(5,672,000)	\$1.79
<b>Ending</b>	<b>36,589,524</b>	<b>\$0.37</b>	<b>34,000,000</b>	<b>\$0.38</b>

Exercisable warrants as at September 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
17,390,000	\$0.20	May 14, 2011
6,590,000	\$0.20	May 28, 2011
1,109,524	\$0.30	July 24, 2011
1,500,000	\$0.30	January 7, 2011
<b>36,589,524</b>	<b>\$0.37</b>	<b>2.25 years</b>

### d. Private Placement

On July 23, 2009, the Corporation completed the closing of its \$1,500 private placement financing. The Corporation issued a total of 2,219,048 units at a price of \$0.17 per unit for gross proceeds of \$377. Each unit issued pursuant to the private placement 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 \$0.30 until July 24, 2011. Share issuance costs of \$104 were incurred in the offering.

### e. Stock Options

Outstanding options expire at various dates between March 2010 and June 2014. At September 30, 2009, a total of 5,092,333 options were exercisable (vested) at a weighted average exercise price of \$0.33 per common share and a total of 12,417,667 options were issued and outstanding at a weighted average exercise price of \$0.27.

	September 30, 2009			June 30, 2009		
	Number of Stock Options	Weighted Average Exercise Price \$	Fair Value Assigned \$	Number of Stock Options	Weighted Average Exercise Price \$	Fair Value Assigned \$
Opening	12,494,334	0.26	2,469	7,571,334	0.91	4,098
Exercised	(10,000)	0.10	(1)	(276,667)	0.10	(20)
Cancelled	(66,667)	0.10	(5)	(7,468,334)	0.72	(3,135)
Granted	-	-	-	12,668,001	0.14	1,526
<b>Ending</b>	<b>12,417,667</b>	<b>0.27</b>	<b>2,463</b>	<b>12,494,334</b>	<b>0.26</b>	<b>2,469</b>

## Notes to the Consolidated Financial Statements

For the three months ended September 30, 2009 and September 30, 2008

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

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 September 30, 2009, \$542 (June 30, 2009 - \$732) of stock based compensation expense remains unrecognized. As at September 30, 2009, \$156 (2008 - \$116) has been recognized in the consolidated statement of loss using the Black-Scholes pricing model.

### f. Per share amounts

In calculating the basic and diluted income per share from discontinued operations and net income per share for the three months ended September 30 2009, the weighted average number of common shares used in the calculation of basic and diluted net income per share is shown below.

	Three months ended September 30, 2009	Year Ended June 30, 2009
Basic	180,834,147	122,490,232
Diluted	180,834,147	122,490,232

## 8. CONTRIBUTED SURPLUS

The following table reconciles the Corporation's contributed surplus:

	September 30, 2009 \$	June 30, 2009 \$
Contributed surplus, opening	9,391	6,127
Fair value of warrants issued during debt financing	-	1,215
Stock compensation expense	155	743
Warrants expired	-	1,326
Stock options exercised	1	(20)
Contributed surplus, ending	9,547	9,391

## 9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

## Notes to the Consolidated Financial Statements

For the three months ended September 30, 2009 and September 30, 2008

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

	September 30, 2009			June 30, 2009		
	Carrying Value	Fair Value	Gain <sup>1</sup>	Carrying Value	Fair Value	Gain <sup>1</sup>
<b>Assets held for trading</b>						
Cash, restricted cash, and cash reserved for asset retirement	7,851	7,851	-	902	902	-
Financial derivative asset	-	-	(80)	-	-	(4,427)
<b>Loans and receivables</b>						
Accounts, promissory note and cash call receivable	3,656	3,656	-	5,447	5,447	-
<b>Liabilities held for trading</b>						
Financial derivatives	417	417	-	497	497	-
<b>Other liabilities</b>						
Accounts, interest, lease payable and cash calls payable	11,400	11,400	-	9,269	9,269	-
Debentures	2,968	2,968	-	-	-	-
Debt facilities and operating line of credit	22,638	22,638	-	24,442	24,442	-

<sup>1</sup> Gain relate to realized and unrealized gain on financial derivatives for the three months ended September 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 September 30, 2009, approximately 36%, 51%, and 13% 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 \$2,285 at September 30, 2009 (June 30, 2009 - \$2,476). The Corporation has a cash call receivable relating to its joint venture operation in Colombia of \$271 at September 30, 2009 (June 30, 2009 - \$288). 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:

<b>Trade and other receivable aging balances</b>	<b>September 30, 2009</b>	<b>June 30, 2009</b>
Current < 30 days	2,444	3,029
30 to 60 days	-	-
60 to 90 days	-	-
Over 90 days	941	787
<b>Total</b>	<b>3,385</b>	<b>3,816</b>

In addition, the Corporation has cash call payable of \$4,825 (June 30, 2009 - \$3,488) relating to its joint venture operations in Colombia, Brazil and Canada.

### 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.

## Notes to the Consolidated Financial Statements

For the three months ended September 30, 2009 and September 30, 2008

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

### 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 4a), the Corporation has the following financial WTI oil collars outstanding on September 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 three months ended September 30, 2009, the Corporation recognized a realized gain/loss of \$Nil (2008 – loss of \$284) and an unrealized gain of \$80 (2008 - \$521) relating to its oil collar financial derivatives. The total fair value of these risk management liability at September 30, 2009 was \$417 (June 30, 2009 – liability of \$497). During the three months ended September 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 \$102.

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

At September 30, 2009, the Corporation held \$52 (BRL\$86) on deposit in Brazilian Real (June 30, 2009 – \$13 (BRL\$ 22)), \$3,823 (COP\$ 6.9 billions) on deposit in Colombian Pesos (June 30, 2009 – \$31 (COP \$58,285)) and \$236 (US\$ 220) on deposit in US dollars (June 30, 2009 - \$84 (US\$ 72)). 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 September 30, 2009, the Corporation had the following accounts receivable balances: \$324 (BRL\$538) in Brazilian Real (June 30, 2009 - \$318 (BRL\$537)), \$241 (US\$258) in US dollars (June 30, 2009 – \$217 (US\$187)), \$2,087 (COP\$3.7 billion) in Colombian Pesos (June 30, 2009 – \$2,668 (COP\$4.9 millions)). As of September 30, 2009, the Corporation had the following accounts payable and accrued liabilities balances: \$458 (BRL\$ 758) in Brazilian Real (June 30, 2009 - \$253 (BRL\$428), \$162 (US\$174) in US dollars (June 30, 2009 – \$143 (US\$122) and \$4,659 (COP\$8.3 billion) in Colombian Pesos (June 30, 2009 – \$3,399 (COP\$ 6.3 billions)).

## Notes to the Consolidated Financial Statements

For the three months ended September 30, 2009 and September 30, 2008

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

For the three months ended September 30, 2009, the Corporation had a foreign exchange gain of \$1,507 (2009 – loss of \$878) primarily due to fluctuations in the Canadian dollar compared to the US dollar in which the long-term debt is denominated. During the three months ended September 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 \$199, \$21 and \$261 respectively.

Country currency	United States	Colombia	Brazil
Three months ended September 30, 2009 rate per CAD	1.0722	1,795	0.6041

### 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 4a). The remainder of the Corporation's financial assets and liabilities are not exposed to interest rate risk. During the three months ended September 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 \$102 decrease/increase in earnings for the three months ended September 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 September 30, 2009.

## Notes to the Consolidated Financial Statements

For the three months ended September 30, 2009 and September 30, 2008

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

	Recognized on Financial Statements	Payments Due By Period <sup>1,2</sup>				Total
		Less than 1 year	1-2 years	2-5 years	After 5 years	
Accounts payable and accrued liabilities	Yes - Liability	6,350	-	-	-	<b>6,350</b>
Cash call payable	Yes - Liability	4,825	-	-	-	<b>4,825</b>
Capital leases	Yes - Liability	43	-	-	-	<b>43</b>
Interest payable	Yes - Liability	182	-	-	-	<b>182</b>
Operating line of credit <sup>5</sup>	Yes - Liability	5,193	-	-	-	<b>5,193</b>
Reserves based credit facility <sup>4</sup>	Yes - Liability	14,134	4,629	-	-	<b>18,763</b>
Convertible debentures	Yes - Liability	-	2,968	-	-	<b>2,968</b>
Work program commitments	No	15,758	6,433	-	-	<b>22,191</b>
Office and equipment leases	No	97	57	-	-	<b>154</b>
Other minimum exploration commitments <sup>3</sup>	No	1,287	-	-	-	<b>1,287</b>
<b>Total</b>		<b>47,869</b>	<b>14,087</b>	<b>-</b>	<b>-</b>	<b>61,956</b>

<sup>1</sup> Payments exclude ongoing operating costs and interest on debt facilities

<sup>2</sup> Payments denominated in foreign currencies have been translated at the respective September 30, 2009 exchange rate

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

<sup>4</sup> Subsequent to September 30, 2009, the reserved-based credit facility was reduced to US\$12.5 million by a payment of US\$5 million.

<sup>5</sup> Subsequent to September 30, 2009, the operating line of credit was reduced to US\$700 by a payment of US\$4.1 million.

### 10. CAPITAL DISCLOSURES

Current plans include:

- For development of the Ombu and Rancho Hermoso fields in Colombia, the Corporation plans to use funds advanced under the Gemini agreement, as well as some of the funds raised through equity private placements, credit facilities and the issuance of convertible debentures (note 15).
- For Guyana, the Corporation is seeking a farmout partner for financing, as well as utilizing some of the funds raised through equity private placements and the financings completed subsequent to the quarter ended September 30, 2009 (note 15).
- For Brazil, the Corporation is seeking a farmout arrangement as well as utilizing some of the funds raised through equity private placements and the financings completed subsequent to the quarter ended September 30, 2009 (note 15).

The Corporation defines and computes its capital as follows:

	September 30, 2009	June 30, 2009
	\$	\$
Shareholders' equity	<b>35,768</b>	37,307
Long-term debt, including current portion	<b>17,445</b>	18,756
Line of credit facilities	<b>5,193</b>	5,686
Convertible debentures	<b>2,968</b>	-
Cash and cash equivalents	<b>(7,164)</b>	(194)
	<b>54,210</b>	61,555

## *Notes to the Consolidated Financial Statements*

*For the three months ended September 30, 2009 and September 30, 2008*

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

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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 September 30, 2009 are as follows:

### *Rancho Hermoso reserves-based revolving line credit facility*

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.

- a) 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, and September 30, 2009.
  - ii. 4.00 to 1.00 as of the last day of the measurement period occurring on or after December 31, 2009.
- b) 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.

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.

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. As at September 30, 2009, the Corporation is in compliance with financial covenants. Subsequent to September 30, 2009 this credit facility was reduced to US\$12,500 by a payment of US\$5,000.

## **11. RELATED PARTY TRANSACTIONS**

During the three months ended September 30, 2009, companies controlled by a director of the Corporation were paid a total \$Nil (Q1 F2009 - \$47) 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 for the three months ended September 30, 2009 totalled \$242 (Q1 F2009 - \$261) 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

## *Notes to the Consolidated Financial Statements*

*For the three months ended September 30, 2009 and September 30, 2008*

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

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consideration established and agreed to by the related parties.

### **12. 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. Details of the reporting segments are as follows:

- 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);
- 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;
- 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.

## Notes to the Consolidated Financial Statements

For the three months ended September 30, 2009 and September 30, 2008

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

	Three Months ended September 30, 2009				
	E&P Brazil	E&P Colombia	E&P Guyana	E&P Other, Corporate & Eliminations	Total
	\$	\$	\$	\$	\$
<b>REVENUE</b>					
Petroleum and natural gas sales	696	2,584	-	-	<b>3,280</b>
Sales tax	(26)	-	-	(6)	<b>(32)</b>
Royalties	(71)	(168)	-	-	<b>(239)</b>
Petroleum and natural gas, net	599	2,416	-	(6)	<b>3,009</b>
Tariff Revenue	-	1,365	-	-	<b>1,365</b>
Interest and other	-	650	-	25	<b>675</b>
<b>Total Revenues</b>	599	4,431	-	19	<b>5,049</b>
<b>EXPENSES</b>					
Operating - petroleum and natural gas	65	3,016	-	(1)	<b>3,080</b>
Depletion, depreciation and accretion	506	1,779	-	28	<b>2,313</b>
General and administrative	481	411	-	787	<b>1,679</b>
Interest and financial expenses	269	230	-	394	<b>893</b>
Foreign exchange (gain) loss	84	-	-	(1,591)	<b>(1,507)</b>
Unrealized gain on financial derivatives	-	-	-	(80)	<b>(80)</b>
Stock compensation expense	-	-	-	155	<b>155</b>
Loss on sale of assets	-	-	-	81	<b>81</b>
<b>Total Expenses</b>	1,405	5,436	-	(227)	<b>6,614</b>
<b>EARNINGS (LOSS)</b>					
<b>Earnings (loss) before income taxes</b>	(806)	(1,005)	-	246	<b>(1,565)</b>
Current income tax	-	314	-	-	<b>314</b>
Future income tax	-	(420)	-	-	<b>(420)</b>
<b>Net earnings (loss)</b>	(806)	(899)	-	246	<b>(1,459)</b>
<b>Total assets</b>	34,044	46,558	3,746	2,106	<b>86,454</b>
<b>Capital expenditures<sup>1</sup></b>	226	3,133	-	82	<b>3,441</b>

<sup>1</sup> Intersgment sales have been netted against exploration and production capital expenditures on consolidation

## Notes to the Consolidated Financial Statements

For the three months ended September 30, 2009 and September 30, 2008

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

	Three Months Ended September 30, 2008				
	E&P Brazil	E&P Canada	E&P Ireland	Corporate & Eliminations	Total
	\$	\$	\$	\$	\$
<b>REVENUE</b>					
Petroleum and natural gas sales	1,570	42	-	-	1,612
Sales tax	(130)	-	-	-	(130)
Royalties	(128)	(4)	-	-	(132)
Petroleum and natural gas, net	1,312	38	-	-	1,350
Interest and other	20	-	-	9	29
<b>Total Revenues</b>	1,332	38	-	9	1,379
<b>EXPENSES</b>					
Operating - petroleum and natural gas	665	12	-	-	677
Depletion, depreciation and accretion	962	21	-	24	1,007
General and administrative	657	-	-	722	1,379
Interest and financial expenses	205	-	-	-	205
Foreign exchange (gain) loss	1,175	-	-	(297)	878
Realized loss on financial derivatives	284	-	-	-	284
Unrealized loss on financial derivatives	(521)	-	-	-	(521)
Stock compensation expense	-	-	-	116	116
<b>Total Expenses</b>	3,427	33	-	565	4,025
<b>EARNINGS (LOSS)</b>					
<b>Income (Loss) before income taxes</b>	(2,094)	5	-	(557)	(2,646)
Current income tax	-	-	-	-	-
Future income tax	-	-	-	-	-
<b>Net income (loss)</b>	(2,094)	5	-	(557)	(2,646)
<b>Total assets</b>	26,523	398	687	15,929	43,537
<b>Capital expenditures<sup>1</sup></b>	1,746	-	31	(675)	1,102

<sup>1</sup> Intersegment sales have been netted against exploration and production capital expenditures on consolidation

## Notes to the Consolidated Financial Statements

For the three months ended September 30, 2009 and September 30, 2008

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

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

	September 30, 2009	June 30, 2009
	\$	\$
<b>Assets</b>		
Current	1,210	1,204
Long-term	26,302	26,294
<b>Liabilities</b>		
Current	181	177
Long-term	8,573	8,393
	<b>Three months ended</b>	<b>Three months ended</b>
	<b>September 30, 2009</b>	<b>September 30, 2008</b>
Revenues	599	1,591
Expenses	1,310	3,008
<b>Net (loss) income</b>	<b>(711)</b>	<b>(1,417)</b>
<b>Cash Flows</b>		
(Used in)/from Operating	(296)	57
(Used in) Investing	(411)	(2,717)
(Used in) Financing	(35)	(1,433)
<b>Net Cash Flows</b>	<b>(742)</b>	<b>(4,093)</b>

Geographic information related to the Corporation's activities:

	Revenue		Property, plant, and equipment	
	Three Months Ended September 30,		Three months ended	
	2009	2008	September 30,	Year ended June 30
	\$	\$	\$	2009
	\$	\$	\$	\$
Brazil	599	1,332	22,749	23,046
Colombia	4,431	-	52,362	52,045
Guyana	-	-	3,746	3,746
Canada & Other	19	47	(4,796)	23
	<b>5,049</b>	<b>1,379</b>	<b>74,061</b>	<b>78,860</b>

## Notes to the Consolidated Financial Statements

For the three months ended September 30, 2009 and September 30, 2008

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

### 13. SUPPLEMENTAL INFORMATION

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

	Three Months Ended September 30	
	2009	2008
	\$	\$
<b>Operating Activities</b>		
Decrease (increase) in current assets		
Accounts receivable	431	389
Prepaid expenses and deposits	(601)	(26)
Increase (decrease) in current liabilities		
Accounts payable and accrued liabilities	196	(522)
Interest payable	(103)	(5)
	(77)	(164)
<b>Investing activities</b>		
Decrease (increase) in current assets		
Cash call and promissory notes receivable	2,411	(5,838)
Increase (decrease) in current liabilities		
Accounts payable and accrued liabilities	588	978
	2,999	(4,860)

As at September 30, 2009, a total of \$2,584 of the cash and cash equivalents balance were held in cash equivalents consisting of short-term investments (June 30, 2009 - \$27). All investments had original maturity dates 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 September 30, 2009 and June 30, 2009 are as follows:

September 30, 2009		June 30, 2009	
Balance	Average Interest Rate	Balance	Average Interest Rate
C\$0	N/A	C\$0	N/A
C\$0	N/A	C\$0	N/A
US\$220	N/A	US\$72	1.90%
C\$236	N/A	C\$84	N/A
COP\$6,863,646	10.27%	COP\$47,086	N/A
C\$3,824	N/A	C\$32	N/A
BRL\$86	N/A	BRL\$23	11.33%
C\$52	N/A	C\$13	N/A
<b>C\$4,112</b>		<b>C\$129</b>	

### 14. COMMITMENTS AND GUARANTEES

#### Minimum exploration program

As at September 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

## Notes to the Consolidated Financial Statements

For the three months ended September 30, 2009 and September 30, 2008

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

completion of exploration wells, seismic programs, and other exploration survey methods all of which have prescribed work units for completion. Therefore, although actual dollars spent on projects do not directly correlate to reducing the MEP work units, the financial guarantees related to non-performance are shown in the table below. The commitment 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 <sup>1</sup>
7	Recôncavo & Sergipe	August 26, 2008	595	\$1,078 BRL \$1,785	79	\$142 BRL \$237
9	Recôncavo	March 12, 2010	1,600	\$2,900 BRL \$4,800	320	\$580 BRL \$960
9	Espirito Santo	March 12, 2011	1,020	\$1,849 BRL \$3,060	408	\$739 BRL \$1,224

<sup>1</sup> Net financial guarantee based on Canacol's net working interest.

<sup>2</sup> Operator has satisfied this obligation. Therefore, the Corporation is not an default.

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 September 30, 2009, equated to approximately \$142 (June 30, 2009 – 79 units or \$139). Based on actual work performed, the Corporation has made an accrual for the outstanding liability of \$142 (June 30, 2009 - \$139), relating to its net share of expected MEP work units yet to be fulfilled by means of financial settlement. The Operator has satisfied this obligation.

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.

### Other

In Colombia and Guyana, the Corporation has work program commitments totalling approximately \$15,758 due within a year or less and \$6,433 due over one year. In addition, the Corporation has commitments for leases and its office premises. As of September 30, 2009, the payments required in each of the next five years are as follows:

Leases	\$ (000's)
2010	97
2011	57
2012	Nil
2013	Nil
2014	Nil

## *Notes to the Consolidated Financial Statements*

*For the three months ended September 30, 2009 and September 30, 2008*

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

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### **15. SUBSEQUENT EVENTS**

On October 15, 2009, the Corporation closed an underwritten private placement financing, including the exercise, in full, of the underwriters' option, for total gross proceeds of \$40,000 and net proceeds of \$37,962. Pursuant to the financing, the Corporation has issued 142,858,000 common shares at a price of \$0.28 per common share.

On October 26, 2009, the Corporation 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 to this program on the property by May, 2010 and a second well must be drilled by May, 2011. The Corporation has a commitment to this drilling program of approximately US\$6,000 (CAD\$ 6,433).

On October 26, 2009, the Corporation repaid US\$5,000 (CAD\$5,467) on the reserves based credit facility.

On November 3, 2009, the Corporation repaid US\$4,142 (CAD\$4,434) of its outstanding line of credit balance.

On November 5, 2009, the Corporation completed a farmout agreement with Sagres Energy Inc. ("Sagres"), whereby Sagres acquired a 25% interest in the Takutu Basin Petroleum Prospecting Licence in Guyana. On closing, Sagres paid US\$1,250, to be applied firstly to 30% of prior direct costs incurred by Canacol, then to 30% of future cash calls to a maximum of US\$1,750, and 27.5% of cash calls thereafter. Sagres is entitled to 30% of revenues until recovery of its first US\$3,000 paid to Canacol, 27.5% of revenues until full cost recovery, and 25% thereafter.

On November 10, 2009, the Corporation paid \$231 to Roraima Energy Ltd. to purchase Roraima's 5% working interest in the Takutu Basin Petroleum Prospective Licence in Guyana.

The Sagres and Roraima transactions detailed above leave Canacol with a 65% working interest in the Takutu Basin Prospecting License.

On November 18, 2009, the Corporation drew an additional US\$4,500 from the Gemini financing, bringing the total advanced by Gemini to US\$9,000.

### **16. 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

## Corporate Information

### Head Office

Suite 620, 304 - 8th Avenue SW

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Canada T2P 1C2

Tel: +1 (403) 561-1648

Fax: +1 (403) 215-9254

Email: [info@canacolenergy.com](mailto:info@canacolenergy.com)

### Brazil Office

Av. President Wilson, 231 - sala 509

Rio de Janeiro - RJ

20030-021

Tel.: +55 21 - 2103-7617

Fax: +55 21 - 2103-7699

### Colombia Office

CALLE 100 No. 8ª-55 Torre C Oficina 309 (W.T.C)

Bogotá-Colombia

Tel.: +(571) 6210067

Fax: +(571) 6211779

### Auditors

Deloitte & Touché LLP Calgary, Alberta

### Bankers

HSBC Bank Canada – Calgary, Canada

HSBC Bank Brasil - Rio de Janeiro, Brazil

Banco de Credito, Bogota, Colombia

### Independent Reserve Engineers

DeGolyer and MacNaughton Canada Limited

Ryder Scott Company LP

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

Olympia Trust Company

2300, 125 - 9th Avenue SE

Calgary, Alberta T2G 0P6