

Canacol Energy Ltd.

A large, semi-transparent blue globe with a white grid of latitude and longitude lines. The globe is centered on the Americas, with North and South America visible in white. It has a soft shadow underneath.

Consolidated Financial Statements
Second Quarter Interim Report, Fiscal 2010
Three and Six Months Ended December 31, 2009.

February 24, 2010

Canacol Energy Ltd.

Consolidated Balance Sheets

As at
(\$000s) (unaudited)

	December 31, 2009	June 30, 2009
Assets		
Current Assets:		
Cash and cash equivalents	31,399	194
Cash - restricted (note 2)	929	320
Accounts receivable	2,557	3,816
Prepaid expenses and deposits	325	285
Promissory note receivable	-	1,058
	35,210	5,673
Cash call receivable	211	288
Cash reserved for asset retirement (note 5)	379	388
Property, plant and equipment (note 3)	71,715	78,860
	107,515	85,209
Liabilities and Shareholders' Equity		
Current Liabilities:		
Operating line of credit (note 4b)	613	5,686
Accounts payable and accrued liabilities	8,529	5,566
Cash call payable	3,830	3,488
Interest payable	90	162
Current portion of capital lease obligations	29	45
Current portion of long term debt (note 4)	2,569	5,813
Financial derivative liability, net (note 8a)	405	175
	16,065	20,935
Capital lease obligations	-	8
Future income tax liability	8,270	11,378
Long term debt (note 4)	8,578	12,943
Asset retirement obligation (note 5)	2,285	2,316
Financial derivative liability, net (note 8a)	336	322
Convertible debentures (note 4c)	3,110	-
	38,644	47,902
Basis of presentation (note 1)		
Commitments and guarantees (note 13)		
Subsequent events (note 14)		
Shareholders' equity:		
Share capital (note 6)	110,676	70,894
Convertible debentures (note 4c)	658	-
Contributed surplus (note 7)	10,388	9,391
Accumulated other comprehensive loss	(4,857)	(156)
Deficit	(47,994)	(42,822)
	(52,851)	(42,978)
	68,871	37,307
	107,515	85,209

See accompanying notes to the consolidated financial statements.

Canacol Energy Ltd.

Consolidated Statements of Loss and Comprehensive Loss and Deficit

Three and six months ended December 31,

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2009	2008	2009	2008
Revenues:				
Petroleum and natural gas, net of royalties of \$611 for the six months ended December 31, 2009 (2008 - \$152)	2,799	1,766	5,808	3,116
Tariff revenue	1,703	970	3,068	970
Interest and other	280	338	955	367
	4,782	3,074	9,831	4,453
Expenses:				
Operating expenses	3,672	2,621	6,752	3,298
Depletion, depreciation and accretion	2,316	1,749	4,629	2,756
General and administrative	2,164	1,892	3,842	3,271
Interest and financial expense (note 4d)	753	904	1,646	1,109
Foreign exchange (gain) loss, net (note 8)	(800)	(12)	(2,307)	865
Realized gain on financial derivatives, net (note 8)	-	(2,276)	-	(1,992)
Unrealized loss (gain) on financial derivatives, net (note 8)	323	(1,363)	243	(1,884)
Stock compensation expense (note 6f)	877	47	1,032	163
Impairment on goodwill	-	5,123	-	5,123
Loss on sale of promissory note	-	-	81	-
Impairment on long-term assets	-	3,555	-	3,555
	9,305	12,240	15,918	16,264
Loss before income taxes	(4,523)	(9,166)	(6,087)	(11,811)
Current income tax expense (recovery)	595	(276)	909	(276)
Future income tax recovery	(724)	(43)	(1,824)	(43)
	(129)	(319)	(915)	(319)
Net loss before discontinued operations	(4,394)	(8,847)	(5,172)	(11,492)
Discontinued operations and gain on sale, net of tax	-	16,743	-	12,200
Net loss (income)	(4,394)	7,896	(5,172)	708
Deficit, beginning of the period	(43,600)	(40,419)	(42,822)	(33,231)
Deficit, end of the period	(47,994)	(32,523)	(47,994)	(32,523)
Net loss per share from continuing operations (note 6g)	(0.01)	(0.08)	(0.02)	(0.11)
Net income per share from discontinued operations - basic and diluted (note 6g)	-	0.14	-	0.12
Net (loss) income per share - basic and diluted (note 6g)	(0.01)	0.07	(0.02)	0.01
Net (loss) income	(4,394)	7,896	(5,172)	708
Other comprehensive loss:				
Foreign currency translation adjustment	(2,689)	(120)	(4,701)	(120)
Comprehensive income (loss)	(7,083)	7,776	(9,873)	588

See accompanying notes to the consolidated financial statements.

Canacol Energy Ltd.

Consolidated Statements of Other Accumulated Comprehensive Loss

For three and six months ended December 31,

(\$000s) (unaudited)

	2009	2008	2009	2008
Accumulated other comprehensive loss, beginning of the period	(2,168)	-	(156)	-
Foreign currency translation adjustment	(2,689)	(120)	(4,701)	(120)
Accumulated other comprehensive loss, end of the period	(4,857)	(120)	(4,857)	(120)

See accompanying notes to the consolidated financial statements.

Canacol Energy Ltd.

Consolidated Statements of Cash Flows
Three and six months ended December 31,
(\$000s) (audited)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2009	2008	2009	2008
Cash provided by (used in):				
Operating Activities:				
Net loss from continuing operations	(4,394)	(8,847)	(5,172)	(11,492)
Adjustments for non-cash items:				
Non-cash interest expense	385	206	696	336
Non-cash interest and other income	-	(185)	-	(185)
Shares issued for services and interest	216	-	253	-
Depletion, depreciation, and accretion	2,316	1,749	4,629	2,756
Stock compensation expense	877	47	1,032	163
Future income tax recovery	(724)	(43)	(1,824)	(43)
Impairment on goodwill	-	5,123	-	5,123
Loss on sale of promissory note	-	-	81	-
Impairment on long term assets	-	3,555	-	3,555
Unrealized foreign exchange (gain) loss, net	862	28	(1,090)	614
Unrealized financial derivatives loss (gain)	323	(1,363)	243	(1,884)
	(139)	270	(1,152)	(1,057)
Change in non-cash operating working capital, net of effects of acquisition and disposition (note 12)	1,841	5,403	1,764	5,240
Cash flow from continuing operations	1,702	5,673	612	4,183
Cash flow used in discontinued operations	-	(941)	-	(289)
Total cash flow from operating activities	1,702	4,732	612	3,894
Financing Activities:				
Issue of share capital	40,706	-	41,090	-
Issue of convertible debentures (note 4c)	-	-	4,000	-
Draws (repayments) on line of credit	(4,580)	2,496	(5,073)	2,496
Repayment of long term debt	(6,172)	(12,619)	(6,172)	(13,567)
Financing and share issue costs	(2,037)	-	(2,170)	-
Cash flow from (used in) continuing financing activities	27,917	(10,123)	31,675	(11,071)
Cash flow from (used in) discontinued financing activities	-	(3,952)	-	1,767
Total cash flow from (used in) financing activities	27,917	(14,075)	31,675	(9,304)
Investing Activities:				
Property, plant, and equipment purchases, net	(8,998)	(2,948)	(12,439)	(4,050)
Draws on Gemini transaction	4,603	-	9,428	-
Cash assumed on acquisition of Canacol Energy Inc.	-	1,602	-	1,602
Cash reserved for asset retirement	(5)	(16)	9	(23)
Cash - restricted	(644)	20	(609)	20
Change in non-cash investing working capital, net of effects of acquisition and disposition (note 12)	(1,208)	848	1,790	(4,012)
Cash flow used in continuing investing activities	(6,252)	(494)	(1,821)	(6,463)
Cash flow from discontinued investing activities	-	4,666	-	3,923
Total cash flow from (used in) investing activities	(6,252)	4,172	(1,821)	(2,540)
Foreign exchange gain (loss) on cash and cash equivalents held in foreign currency	943	791	739	868
Net increase (decrease) in cash and cash equivalents	24,310	(4,380)	31,205	(7,082)
Cash and cash equivalents, beginning the period	7,089	7,281	194	9,983
Cash and cash equivalents, end of the period	31,399	2,901	31,399	2,901
Supplementary disclosure of cash flow information:				
Interest paid	368	698	950	773
Taxes paid	-	-	-	-

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the three and six months ended December 31, 2009 and December 31, 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 December 31, 2009, a total of \$929 (June 30, 2009 - \$320) in cash assets were restricted in connection with a reserve for principal instalments due within the next two months on the Corporation's debt facilities described in note 4. The balance at June 30, 2009 relates to reserve for interest instalments due within the next three months on the Corporation's debt facility which were released by Standard Bank as part of the loan repayment agreement.

3. PROPERTY, PLANT AND EQUIPMENT

	Six Months Ended December 31, 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")	90,174	(19,439)	70,735	92,923	(15,689)	77,234
Office Equipment	361	(210)	151	276	(171)	105
Building & Leasehold	23	(4)	19	69	(7)	62
Equipment & Other	815	(5)	810	1,462	(3)	1,459
	91,373	(19,658)	71,715	94,730	(15,870)	78,860

The costs excluded from the depletion calculation include undeveloped land costs, completion equipment inventory, and drilling in progress. As at December 31, 2009, the total costs excluded from the depletion calculation and ceiling test were \$25,620 (June 30, 2009 - \$22,973). No indirect overhead costs were capitalized during the three and six months ended December 31, 2009 and 2008.

During the six month period ended December 31, 2008, the Corporation recorded an impairment of \$3,555 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 current financial crisis, the Corporation will 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. No

Notes to the Consolidated Financial Statements

For the three and six months ended December 31, 2009 and December 31, 2008

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

impairment was recorded during the six months ended December 31, 2009.

Sale of revenue based royalty interest in Colombia

The Corporation executed a series of agreements with Gemini Oil and Gas Fund II, L.P. (“Gemini”) hereafter referred to as the Gemini Transaction, 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 royalties generating earning from 11% to 31% of the Corporation’s interest in gross revenue after government royalty less field operating costs from the field up to either a 400% payout ratio 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 has no obligation to repay these funds if the underlying properties defined in the transaction have no revenues.

The Corporation is required to make revenue-based overriding royalty payments from the Rancho Hermoso and Entrerrios and Capella oilfields to Gemini. The revenue-based royalties commenced in December 2009. As at December 31, 2009, a total of \$123 (US\$116) was paid to Gemini.

During the six months ended December 31, 2009, Gemini advanced US\$9,000 (CAD\$9,428). No funds were received from Gemini until August, 2009.

4. LONG TERM DEBT

As at December 31, 2009, Canacol had one reserve-based revolving line of credit facility; the Rancho Hermoso reserves-based revolving line of credit facility.

	December 31, 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	(6,172)	(19,195)
Total long-term debt	12,584	17,994
Accretion of transaction costs	508	1,004
Realized foreign exchange gain	(593)	-
Unrealized foreign exchange gain	(1,352)	(242)
Total net long-term reserves-based revolving line of credit facility, ending balance	11,147	18,756
Current portion, reserves-based revolving line of credit facility	(2,569)	(5,813)
Long-term portion, reserves-based revolving line of credit facility, ending balance	8,578	12,943

a. Rancho Hermoso reserves-based revolving line credit facility

This facility is a two year senior secured borrowing base revolving credit facility for US\$11,682.

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

Notes to the Consolidated Financial Statements

For the three and six months ended December 31, 2009 and December 31, 2008

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

interest at LIBOR plus 6.00%. Covenants are disclosed in note 9.

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 5.6% to 7% per annum on the balance outstanding resulting in an average rate of 10.31% for the six months ended December 31, 2009 (F2009 – average of 15.36%). At December 31, 2009, a total of \$613 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 regular negotiations with the Colombian banks on a draw by draw basis.

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. 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 Capital Corporation (“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.

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%.

As at December 31, 2009, there have been no conversions exercised on the debenture.

	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	188	-	188
Balance, end of period	3,110	658	3,768

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 and six months ended December 31, 2009 and December 31, 2008

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2009	2008	2009	2008
	\$	\$	\$	\$
Cash interest expense	368	698	950	773
Accretion of transaction costs	385	206	696	336
Total interest and financial expense	753	904	1,646	1,109

e. Principal repayments

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

	2010 - 6 months	2011	2012	Total
Rancho Hermoso facility (note 4a)	2,569	5,138	4,518	12,225
	US\$2,455	US\$4,909	US\$4,318	US\$11,682
Convertible debenture (note 4c)	-	-	4,000	4,000
	-	-	US\$3,822	US\$3,822
Line of credit (note 4b)	613	-	-	613
	US\$586	-	-	US\$586
Total	3,182	5,138	8,518	16,838
	US\$3,041	US\$4,909	US\$8,140	US\$16,090

5. ASSET RETIREMENT OBLIGATION

	December 31, 2009	Year Ended June 30, 2009
	\$	\$
Asset retirement obligation, opening balance	2,316	420
Liabilities incurred and acquired	8	1,842
Liabilities settled	-	(23)
Revision of estimates	43	-
Accretion expense	89	343
Variance due to foreign exchange	(171)	(266)
Asset retirement obligation, ending balance	2,285	2,316

As at December 31, 2009, the estimated total undiscounted amount required to settle the asset retirement obligation was \$3,207 (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 December 31, 2009, a total of \$379 (June 30, 2009 - \$388) of cash has been reserved for future asset retirement.

Notes to the Consolidated Financial Statements

For the three and six months ended December 31, 2009 and December 31, 2008

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

6. SHARE CAPITAL

a. Authorized

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

b. Issued

<i>Issued and outstanding</i>	Number of Securities	\$	Number of Securities	\$
<i>Common shares</i>				
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 placements (note 6d)	145,077,048	40,377	48,000,000	4,747
Issued to consultants	234,834	71	67,013	12
Issued to agents on Gemini Transaction (note 6e)	166,667	62	-	-
Issued on secured debentures (note 4c)	1,130,436	390	445,834	67
Issued to agents on private placement	333,333	50	-	-
Issued on interest payments for secured debenture	378,336	120	-	-
Stock options exercised	509,967	58	276,667	46
Warrants exercised	2,847,100	653	-	-
Fair value of warrants exercised	-	151	-	-
Fair value of stock options exercised	-	35	-	-
Share issuance costs	-	(2,190)	-	(509)
Common shares outstanding, ending balance	329,551,890	109,418	178,874,169	69,641
<i>Warrants</i>				
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	(2,847,100)	(151)	-	-
Expired	-	-	(5,672,000)	(1,326)
Warrants outstanding, ending balance	33,762,424	1,258	34,000,000	1,253
Total share capital, ending balance	110,676	70,894	110,676	70,894

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 6d).

The fair value of the warrants issued on the private placement 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 and six months ended December 31, 2009 and December 31, 2008

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

	Six months ended December 31, 2009		Year Ended June 30, 2009	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Opening	34,000,000	\$0.38	9,172,000	\$1.87
Issued	2,609,524	\$0.30	34,000,000	\$0.38
Exercised	(2,847,100)	\$0.23	-	-
Cancelled	-	-	(3,500,000)	US \$2.00
Expired	-	-	(5,672,000)	\$1.79
Ending	33,762,424	\$0.38	34,000,000	\$0.38

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

Number of Warrants	Exercise Price	Expiry Date
10,000,000	\$0.80	August 29, 2013
16,780,000	\$0.20	May 14, 2011
5,214,400	\$0.20	May 28, 2011
1,109,524	\$0.30	July 24, 2011
658,500	\$0.30	January 7, 2011
33,762,424	\$0.38	2 years

d. Private Placement

On July 23, 2009, the Corporation closed a private placement financing for gross proceeds of \$377. The Corporation issued a total of 2,219,048 units at a price of \$0.17 per unit. 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.

On October 15, 2009, the Corporation closed a 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.

The Corporation issued 333,333 common shares at a price of \$0.15 per common shares as agent commission in connection with the October 15, 2009 private placement.

e. Gemini Transaction

On December 29, 2009, the Corporation issued 166,667 common shares at a trading price of \$0.37 per common share to an arm's length party as a finder's fee pursuant to the Gemini Transaction (note 3).

Notes to the Consolidated Financial Statements

For the three and six months ended December 31, 2009 and December 31, 2008

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

f. Stock Options

Outstanding options expire at various dates between March 2010 and November 2014. At December 31, 2009, a total of 6,842,367 options were exercisable (vested) at a weighted average exercise price of \$0.35 per common share and a total of 18,667,701 options were issued and outstanding at a weighted average exercise price of \$0.30.

	December 31, 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	(509,966)	0.11	(35)	(276,667)	0.10	(20)
Cancelled	(66,667)	0.10	(5)	(7,468,334)	0.72	(3,135)
Granted	6,750,000	0.35	1,777	12,668,001	0.14	1,526
Ending	18,667,701	0.30	4,206	12,494,334	0.26	2,469

As at December 31, 2009, \$1,443 (June 30, 2009 - \$732) of stock based compensation expense remains unrecognized. During the three and six months periods ended December 31, 2009, \$877 and \$1,032 (F2009 - \$47 and \$163) has been recognized in the consolidated statement of loss using the Black-Scholes pricing model. Options granted in the period were valued using the following assumptions.

	December 31, 2009	June 30, 2009
Risk-free interest rate	2.73%	1.52% - 3.46%
Expected life of options	5 years	5 years
Dividend yield	Nil	Nil
Expected volatility	100%	100%
Weighted average fair value price	\$0.26	\$0.18

g. Per share amounts

In calculating the basic and diluted income per share from discontinued operations and net loss (income) per share for the three and six months ended December 31, 2009, the weighted average number of common shares used in the calculation of basic and diluted net income per share is shown below. For the three and six months ended December 31, 2009, the diluted loss is the same as basic loss per share as the Corporation is in loss position, no instruments are dilutive.

Notes to the Consolidated Financial Statements

For the three and six months ended December 31, 2009 and December 31, 2008

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

	Three months ended December 31,		Six months ended December 31,	
	2009	2008	2009	2008
Basic	303,311,634	117,041,179	242,072,891	103,562,920
Diluted	303,311,634	117,063,694	242,072,891	103,656,004

7. CONTRIBUTED SURPLUS

The following table reconciles the Corporation's contributed surplus:

	December 31, 2009	June 30, 2009
	\$	\$
Contributed surplus, opening	9,391	6,127
Fair value of warrants issued during debt financing	-	1,215
Stock compensation expense	1,032	743
Warrants expired	-	1,326
Stock options exercised	(35)	(20)
Contributed surplus, ending	10,388	9,391

8. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

	December 31, 2009	
	Carrying Value	Fair Value
Assets held for trading		
Cash, restricted cash, and cash reserved for asset retirement	32,707	32,707
Financial derivative asset	-	-
Loans and receivables		
Accounts, promissory note and cash call receivable	2,768	2,768
Liabilities held for trading		
Financial derivatives	741	741
Other liabilities		
Accounts, interest, lease payable and cash calls payable	12,478	12,478
Debentures	3,110	3,110
Debt facilities and operating line of credit	11,760	11,760

Notes to the Consolidated Financial Statements

For the three and six months ended December 31, 2009 and December 31, 2008

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

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 (Hocol) controlled by Ecopetrol. As at December 31, 2009, approximately 47% and 53% of the outstanding receivables balances are owed by Petrobras and Hocol respectively. The Corporation's net share of the outstanding accounts receivable from these customers totalled \$2,039 at December 31, 2009 (June 30, 2009 - \$2,476). The Corporation has a cash call receivable relating to its joint venture operations in Colombia of \$211 at December 31, 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:

<i>Trade and other receivable aging balances</i>	December 31, 2009	June 30, 2009
Current < 30 days	2,039	3,029
30 to 60 days	-	-
60 to 90 days	-	-
Over 90 days	518	787
Total	2,557	3,816

In addition, the Corporation has cash call payable of \$3,830 (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.

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 December 31, 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

Notes to the Consolidated Financial Statements

For the three and six months ended December 31, 2009 and December 31, 2008

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

For the six months ended December 31, 2009, the Corporation recognized a realized derivative loss (gain) of \$Nil (F2009 – gain of \$1,992) and an unrealized derivative loss of \$243 (F2009 – gain of \$1,884) relating to its oil collar financial derivatives. The total fair value of these risk management liabilities at December 31, 2009 was \$741 (June 30, 2009 – liability of \$497). During the three and six months ended December 31, 2009, if oil prices had been US\$1.00 higher/lower, with all other variables held constant, the change in fair value would have resulted in a decrease/increase in earnings of approximately \$82 and \$73 respectively.

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 December 31, 2009, the Corporation has not entered into any foreign currency derivatives to manage its exposure to currency fluctuations.

At December 31, 2009, the Corporation held \$49 (BRL\$81) on deposit in Brazilian Real (June 30, 2009 – \$13 (BRL\$ 22)), \$4,454 (COP\$ 7.9 billion) on deposit in Colombian Pesos (June 30, 2009 – \$31 (COP \$58,285)) and \$25,362 (US\$ 26,544) 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 December 31, 2009, the Corporation had the following accounts receivable balances: \$323 (BRL\$538) in Brazilian Real (June 30, 2009 - \$318 (BRL\$537)), \$712 (US\$681) in US dollars (June 30, 2009 – \$217 (US\$187)), \$994 (COP\$1.9 billion) in Colombian Pesos (June 30, 2009 – \$2,668 (COP\$4.9 millions)). As of December 31, 2009, the Corporation had the following accounts payable and accrued liabilities balances: \$391 (BRL\$ 652) in Brazilian Real (June 30, 2009 - \$253 (BRL\$428)), \$73 (US\$77) in US dollars (June 30, 2009 – \$143 (US\$122) and \$7,681 (COP\$15 billion) in Colombian Pesos (June 30, 2009 – \$3,399 (COP\$ 6.3 billion)).

For the six months ended December 31, 2009, the Corporation had a foreign exchange gain of \$2,307 (F2009 – loss of \$865) significantly 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 December 31, 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 \$300, \$20 and \$107 respectively while during the six months ended December 31, 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 \$499, \$43 and \$365 respectively.

Country currency	United States	Colombia	Brazil
As at December 31, 2009 rate per CAD	1.0466	1,956	0.6003

Notes to the Consolidated Financial Statements

For the three and six months ended December 31, 2009 and December 31, 2008

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

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 six months ended December 31, 2009, the Corporation did not enter into any interest rate swaps or other financial arrangements that mitigate the Corporation's exposure to interest rate fluctuations. The effect of a 1% increase/decrease in LIBOR interest rates is estimated to have \$31 and 77 decrease/increase in earnings for the three and six months ended December 31, 2009, respectively.

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 December 31, 2009.

	Recognized on Financial Statements	Payments Due By Period ^{1,2}				Total
		Less than 1 year	1-2 years	2-5 years	After 5 years	
Accounts payable and accrued liabilities	Yes - Liability	8,529	-	-	-	8,529
Cash call payable	Yes - Liability	3,830	-	-	-	3,830
Capital leases	Yes - Liability	29	-	-	-	29
Interest payable	Yes - Liability	90	-	-	-	90
Operating line of credit	Yes - Liability	613	-	-	-	613
Reserves based credit facility ⁴	Yes - Liability	7,707	4,518	-	-	12,225
Convertible debentures	Yes - Liability	-	4,000	-	-	4,000
Work program commitments	No	12,492	6,065	-	-	18,557
Office and equipment leases	No	100	100	305	143	648
Other minimum exploration commitments ³	No	1,256	-	-	-	1,256
Total		34,646	14,683	305	143	49,777

¹ Payments exclude ongoing operating costs and interest on debt facilities.

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

³ Minimum work commitments reflect financial liability if not satisfied through the completion of exploration work in Colombia (La Sierra Project).

⁴ Subsequent to December 31, 2009, the reserved-based credit facility was reduced to US\$10.8 million by a payment of US\$818.

9. 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.

Notes to the Consolidated Financial Statements

For the three and six months ended December 31, 2009 and December 31, 2008

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

- For Guyana, the Corporation completed a farm out with Sagres Energy Inc., whereby Sagres acquired a 25% interest in the Takutu Basin Petroleum Properties License in Guyana, as well as utilizing some of the funds raised through equity private placements and the financings completed during the quarter ended December 31, 2009.
- 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 during the quarter ended December 31, 2009.

The Corporation defines and computes its capital employed as follows:

	December 31, 2009	June 30, 2009
	\$	\$
Shareholders' equity	71,308	37,307
Long-term debt, including current portion	11,147	18,756
Line of credit facilities	613	5,686
Convertible debentures	3,110	-
Cash and cash equivalents	(31,399)	(194)
	54,779	61,555

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 December 31, 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. 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 December 31, 2009, the Corporation is in compliance with financial covenants.

Notes to the Consolidated Financial Statements

For the three and six months ended December 31, 2009 and December 31, 2008

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

10. RELATED PARTY TRANSACTIONS

During the three and six months period ended December 31, 2009, companies controlled by a director of the Corporation were paid a total \$Nil (F2009 - \$47 and \$91 respectively) 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 and six months ended December 31, 2009 totalled \$251 and \$493, respectively (F2009 - \$362 and \$623 respectively) 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.

11. 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 and six months ended December 31, 2009 and December 31, 2008

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

	Three Months Ended December 31, 2009				
	E&P Brazil	E&P Colombia	E&P Guyana	Corporate & Eliminations	Total
	\$	\$	\$	\$	\$
REVENUE					
Petroleum and natural gas sales	719	2,471	-	-	3,190
Sales tax	(26)	-	-	(123)	(149)
Royalties	(73)	(169)	-	-	(242)
Petroleum and natural gas, net	620	2,302	-	(123)	2,799
Tariff Revenue	-	1,703	-	-	1,703
Interest and other	-	280	-	-	280
Total Revenues	620	4,285	-	(123)	4,782
EXPENSES					
Operating - petroleum and natural gas	478	3,187	-	7	3,672
Depletion, depreciation and accretion	455	1,793	-	68	2,316
General and administrative	496	468	-	1,200	2,164
Interest and financial expenses	240	63	-	450	753
Foreign exchange (gain) loss	(34)	-	-	(766)	(800)
Unrealized loss on financial derivatives	-	-	-	323	323
Stock compensation expense	-	-	-	877	877
Total Expenses	1,635	5,511	-	2,158	9,305
EARNINGS (LOSS)					
Income (Loss) before income taxes	(1,015)	(1,226)	-	(2,282)	(4,523)
Current income tax	-	595	-	-	595
Future income tax	-	(724)	-	-	(724)
Net income (loss)	(1,015)	(1,355)	-	(2,282)	(4,394)
Total assets	35,250	39,471	5,322	27,472	107,515
Capital expenditures¹	401	7,017	1,580	-	8,998

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

Notes to the Consolidated Financial Statements

For the three and six months ended December 31, 2009 and December 31, 2008

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

	Six Months ended December 31, 2009				Total
	E&P	E&P	E&P	E&P Other, Corporate &	
	Brazil	Colombia	Guyana	Eliminations	
	\$	\$	\$	\$	\$
REVENUE					
Petroleum and natural gas sales	1,415	5,055	-	-	6,470
Sales tax	(52)	-	-	(129)	(181)
Royalties	(144)	(337)	-	-	(481)
Petroleum and natural gas, net	1,219	4,718	-	(129)	5,808
Tariff Revenue	-	3,068	-	-	3,068
Interest and other	-	930	-	25	955
Total Revenues	1,219	8,716	-	(104)	9,831
EXPENSES					
Operating - petroleum and natural gas	543	6,203	-	6	6,752
Depletion, depreciation and accretion	961	3,572	-	96	4,629
General and administrative	977	879	-	1,986	3,842
Interest and financial expenses	509	293	-	844	1,646
Foreign exchange (gain) loss	50	-	-	(2,357)	(2,307)
Unrealized gain on financial derivatives	-	-	-	243	243
Stock compensation expense	-	-	-	1,032	1,032
Total Expenses	3,040	10,947	-	1,931	15,918
EARNINGS (LOSS)					
Earnings (loss) before income taxes	(1,821)	(2,231)	-	(2,035)	(6,087)
Current income tax	-	909	-	-	909
Future income tax	-	(1,824)	-	-	(1,824)
Net income (loss)	(1,821)	(3,146)	-	(2,035)	(5,172)
Total assets	35,250	39,471	5,322	27,472	107,515
Capital expenditures¹	627	10,150	1,580	82	12,439

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

Notes to the Consolidated Financial Statements

For the three and six months ended December 31, 2009 and December 31, 2008

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

	Three Months Ended December 31, 2008				
	E&P Brazil	E&P Colombia	E&P Guyana	E&P Other, Corporate & Eliminations	Total
	\$	\$	\$	\$	\$
REVENUE					
Petroleum and natural gas sales	921	951	-	37	1,909
Sales tax	19	-	-	(9)	10
Royalties	(77)	(80)	-	4	(153)
Petroleum and natural gas, net	863	871	-	32	1,766
Tariff revenue	-	970	-	-	970
Interest income	-	332	-	6	338
Total Revenues	863	2,173	-	38	3,074
EXPENSES					
Operating - petroleum and natural gas	882	1,731	-	8	2,621
Depletion, depreciation and accretion	834	785	-	130	1,749
General and administrative	617	229	-	1,046	1,892
Interest on long term debt	261	138	-	505	904
Foreign exchange loss (gain)	440	5	-	(457)	(12)
Realized gain on financial derivatives	(74)	-	-	(2,202)	(2,276)
Unrealized gain on financial derivatives	(1,111)	-	-	(252)	(1,363)
Stock compensation expense	-	-	-	47	47
Impairment on goodwill	5,123	-	-	-	5,123
Impairment on long-term assets	-	-	-	3,555	3,555
Total Expenses	6,972	2,888	-	2,380	12,240
EARNINGS (LOSS)					
Loss before income taxes	(6,109)	(715)	-	(2,342)	(9,166)
Current income tax	-	(276)	-	-	(276)
Future income tax	-	(43)	-	-	(43)
Net Income (Loss)	(6,109)	(396)	-	(2,342)	(8,847)
Total assets	25,259	56,566	2,327	4,954	89,106
Capital expenditures¹	18	2,814	-	116	2,948

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

Notes to the Consolidated Financial Statements

For the three and six months ended December 31, 2009 and December 31, 2008

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

	Six months ended December 31, 2008				Total \$
	E&P Brazil \$	E&P Colombia \$	E&P Guyana \$	E&P Other, Corporate & Eliminations \$	
	REVENUE				
Petroleum and natural gas sales	2,491	951	-	79	3,521
Sales tax	(111)	-	-	(9)	(120)
Royalties	(205)	(80)	-	-	(285)
Petroleum and natural gas, net	2,175	871	-	70	3,116
Tariff Revenue	-	970	-	-	970
Interest and other	20	332	-	15	367
Total Revenues	2,195	2,173	-	85	4,453
EXPENSES					
Operating - petroleum and natural gas	1,547	1,731	-	20	3,298
Depletion, depreciation and accretion	1,797	785	-	174	2,756
General and administrative	1,274	229	-	1,768	3,271
Interest and financial expenses	466	138	-	505	1,109
Foreign exchange (gain) loss	1,614	5	-	(754)	865
Realized loss (gain) on financial derivatives	210	-	-	(2,202)	(1,992)
Unrealized gain on financial derivatives	(1,632)	-	-	(252)	(1,884)
Stock compensation expense	-	-	-	163	163
Impairment on goodwill	5,123	-	-	-	5,123
Impairment on long-term assets	-	-	-	3,555	3,555
Total Expenses	10,399	2,888	-	2,977	16,264
EARNINGS (LOSS)					
Loss before income taxes	(8,204)	(715)	-	(2,892)	(11,811)
Current income tax	-	(276)	-	-	(276)
Future income tax	-	(43)	-	-	(43)
Net income (loss)	(8,204)	(396)	-	(2,892)	(11,492)
Total assets	30,781	44,585	2,327	11,413	89,106
Capital expenditures¹	1,764	2,814	-	(528)	4,050

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

Notes to the Consolidated Financial Statements

For the three and six months ended December 31, 2009 and December 31, 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:

	December 31, 2009	June 30, 2009		
	\$	\$		
Assets				
Current	1,208	1,204		
Long-term	26,300	26,294		
Liabilities				
Current	180	177		
Long-term	8,519	8,393		
	Three Months Ended December 31,		Six Months Ended December 31,	
	2009	2008	2009	2008
	\$	\$	\$	\$
Revenues	619	862	1,218	2,453
Expenses	1,277	2,195	2,587	5,203
Net loss	(658)	(1,333)	(1,369)	(2,750)
Cash Flows				
Used in Operating	(289)	(325)	(1,325)	(212)
Used in Investing	(289)	(533)	(700)	(3,773)
From (used in) Financing	(2)	32	(37)	(1,569)
Net Cash Flows	(580)	(826)	(2,062)	(5,554)

Geographic information related to the Corporation's activities:

	Revenue		Property, plant, and equipment	
	Six Months Ended December 31		As at	
	2009	2008	December 31, 2009	June 30, 2009
	\$	\$	\$	\$
Brazil	1,219	2,195	22,700	23,046
Colombia	8,716	2,173	43,599	52,046
Guyana	-	-	5,322	3,745
Canada & Other	(104)	85	94	23
	9,831	4,453	71,715	78,860

Notes to the Consolidated Financial Statements

For the three and six months ended December 31, 2009 and December 31, 2008

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

12. SUPPLEMENTAL INFORMATION

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2009	2008	2009	2008
	\$	\$	\$	\$
Operating Activities				
Decrease (increase) in current assets				
Accounts receivable	827	1,523	1,258	1,912
Prepaid expenses and deposits	561	70	(40)	44
Commodity contracts	-	4,209	-	4,209
Increase (decrease) in current liabilities				
Accounts payable and accrued liabilities	545	66	741	(455)
Interest payable	(92)	(465)	(195)	(470)
	1,841	5,403	1,764	5,240
Investing activities				
Decrease (increase) in current assets				
Cash call and promissory notes receivable	(2,841)	649	(430)	(5,189)
Increase (decrease) in current liabilities				
Accounts payable and accrued liabilities	1,633	199	2,220	1,177
	(1,208)	848	1,790	(4,012)

As at December 31, 2009, a total of \$31,047 of the cash and cash equivalents balance were held in cash equivalents consisting of short-term investments (June 30, 2009 - \$129). 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 December 31, 2009 and June 30, 2009 are as follows:

December 31, 2009		June 30, 2009	
Balance	Average Interest Rate	Balance	Average Interest Rate
C\$0	N/A	C\$0	N/A
C\$0		C\$0	
US\$25,362	N/A	US\$72	1.90%
C\$26,544		C\$84	
COP\$7,995,551	10.27%	COP\$47,086	N/A
C\$4,454		C\$32	
BRL\$81	N/A	BRL\$23	11.33%
C\$49		C\$13	
C\$31,047		C\$129	

Notes to the Consolidated Financial Statements

For the three and six months ended December 31, 2009 and December 31, 2008

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

13. COMMITMENTS AND GUARANTEES

Minimum exploration program

As at December 31, 2009, the Corporation had minimum exploration program (“MEP”) work unit commitments to complete negotiated exploration work on its onshore blocks awarded by the Agência Nacional do Petróleo, Gás Natural e Biocombustível (“ANP”), Brazil’s National Petroleum Agency. MEP work units are satisfied through completion of exploration wells, seismic programs, and other exploration survey methods all of which have prescribed work units for completion. Therefore, although actual dollars spent on projects do not directly correlate to reducing the MEP work units, the financial guarantees related to non-performance are shown in the table below. The commitment 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 ²	August 26, 2008	595	\$1,072 BRL \$1,785	79	\$141 BRL \$237
9	Recôncavo	March 12, 2010	1,600	\$2,881 BRL \$4,800	320	\$576 BRL \$960
9	Espirito Santo	March 12, 2011	1,020	\$1,837 BRL \$3,060	408	\$735 BRL \$1,224

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

² Operator has satisfied this obligation. Therefore, the Corporation is not in 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 December 31, 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 (Espírito 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 \$11,282 due within a year or less and \$6,065 due over one year. In addition, the Corporation has commitments for leases and its office premises. As of December 31, 2009, the payments required in each of the next five years are as follows:

Notes to the Consolidated Financial Statements

For the three and six months ended December 31, 2009 and December 31, 2008

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

<u>Leases</u>	<u>\$</u>
2010	100
2011	100
2012	100
2013	100
2014	105

14. SUBSEQUENT EVENTS

On January 20, 2010, the Corporation granted 5,774,000 stock options to directors, officers and employees. A total of 4,374,000 of these stock options were granted to directors and officers of the Corporation. The options were granted at an exercise price of \$0.60 per common share, the January 18, 2010 closing price. The options will expire five years from the date of grant. The fair value of the stock options was of \$3,041.

15. 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

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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

Schmidt, Valois, Miranda, Ferreira & Agel – Brazil

Gamboa Chalela Salazar Abogados - Colombia

Stock Exchange Listing

TSX Venture Exchange: CNE

Transfer Agent & Registrar

Olympia Trust Company

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