

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**  
**Third Quarter Interim Report, Fiscal 2010**  
Three and Nine Months Ended March 31, 2010.

May 24, 2010

# Canacol Energy Ltd.

## Consolidated Balance Sheets

As at  
(\$000s) (unaudited)

	March 31, 2010	June 30, 2009
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	18,014	194
Cash - restricted (note 2)	903	320
Accounts receivable	4,588	3,816
Prepaid expenses and deposits	1,171	285
Promissory note receivable	-	1,058
	<b>24,676</b>	<b>5,673</b>
Cash call receivable	484	288
Cash reserved for asset retirement (note 5)	386	388
Property, plant and equipment (note 3)	72,019	78,860
	<b>97,565</b>	<b>85,209</b>
<b>Liabilities and Shareholders' Equity</b>		
Current Liabilities:		
Operating line of credit (note 4b)	621	5,686
Accounts payable and accrued liabilities	6,641	5,566
Joint venture payable	1,745	3,488
Interest payable	39	162
Current portion of capital lease obligations	19	45
Current portion of long term debt (note 4)	4,986	5,813
Financial derivative liability, net (note 8a)	440	175
	<b>14,491</b>	<b>20,935</b>
Future income tax liability	7,137	11,378
Long term debt (note 4)	4,793	12,943
Asset retirement obligation (note 5)	2,483	2,316
Financial derivative liability, net (note 8a)	215	322
Convertible debentures (note 4c)	3,183	-
Capital lease obligations	-	8
	<b>32,302</b>	<b>47,902</b>
Commitments and guarantees (note 13)		
Subsequent events (note 14)		
Shareholders' equity:		
Share capital (note 6)	111,647	70,894
Convertible debentures (note 4c)	658	-
Contributed surplus (note 7)	11,828	9,391
Accumulated other comprehensive loss	(5,536)	(156)
Deficit	(53,334)	(42,822)
	<b>(58,870)</b>	<b>(42,978)</b>
	<b>65,263</b>	<b>37,307</b>
	<b>97,565</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 and nine months ended March 31,

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2010	2009	2010	2009
<b>Revenues:</b>				
Petroleum and natural gas, net of royalties	5,196	1,967	11,004	5,083
Tariff revenue	1,673	1,069	4,741	2,039
Interest and other	172	123	1,127	490
	<b>7,041</b>	3,159	<b>16,872</b>	7,612
<b>Expenses:</b>				
Operating expenses	3,944	2,368	10,696	5,666
Depletion, depreciation and accretion	3,852	1,362	8,481	4,118
General and administrative	2,858	1,696	6,700	4,967
Interest and financial expense (note 4d)	724	838	2,370	1,947
Foreign exchange loss (gain), net (note 8)	81	1,355	(2,226)	2,220
Financial derivatives loss (gain), net (note 8)	(85)	(348)	158	(4,224)
Stock compensation expense (note 6f)	1,491	214	2,523	377
Impairment on goodwill	-	-	-	5,123
Loss on sale of promissory note	-	-	81	-
Impairment on long-term assets (note 3)	-	591	-	4,146
	<b>12,865</b>	8,076	<b>28,783</b>	24,340
Loss before income taxes	(5,824)	(4,917)	(11,911)	(16,728)
Current income tax expense (recovery)	423	103	1,332	(173)
Future income tax expense (recovery)	(907)	30	(2,731)	(13)
	<b>(484)</b>	133	<b>(1,399)</b>	(186)
Net loss before discontinued operations	(5,340)	(5,050)	(10,512)	(16,542)
Discontinued operations and gain on sale, net of tax	-	-	-	12,200
Net loss	(5,340)	(5,050)	(10,512)	(4,342)
Deficit, beginning of the period	(47,994)	(32,523)	(42,822)	(33,231)
Deficit, end of the period	(53,334)	(37,573)	(53,334)	(37,573)
Net loss per share from continuing operations (note 6g)	(0.02)	(0.04)	(0.04)	(0.16)
Net income per share from discontinued operations - basic and diluted (note 6g)	-	-	-	0.12
Net loss per share - basic and diluted (note 6g)	(0.02)	(0.04)	(0.04)	(0.04)
Net loss	(5,340)	(5,050)	(10,512)	(4,342)
Other comprehensive income (loss):				
Foreign currency translation adjustment	(679)	674	(5,380)	674
Comprehensive loss	(6,019)	(4,376)	(15,892)	(3,668)

See accompanying notes to the consolidated financial statements.

## Canacol Energy Ltd.

Consolidated Statements of Other Accumulated Comprehensive Loss

For three and nine months ended March 31,

(\$000s) (unaudited)

	Three Months Ended March 31, 2010		Nine Months Ended March 31,	
	2010	2009	2010	2009
Accumulated other comprehensive loss, beginning of the period	(4,857)	(120)	(156)	(120)
Foreign currency translation adjustment	(679)	674	(5,380)	674
Accumulated other comprehensive income(loss), end of the period	(5,536)	554	(5,536)	554

See accompanying notes to the consolidated financial statements.

# Canacol Energy Ltd.

Consolidated Statements of Cash Flows  
Three and nine months ended March 31,  
(\$000s) (unaudited)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2010	2009	2010	2009
Cash provided by (used in):				
<b>Operating Activities:</b>				
Net loss from continuing operations	(5,340)	(5,050)	(10,512)	(16,542)
Adjustments for non-cash items:				
Non-cash interest expense	313	254	1,010	591
Non-cash interest and other income	-	-	-	(185)
Shares issued for services	55	-	187	-
Shares issued for interest	120	-	240	-
Depletion, depreciation, and accretion	3,852	1,362	8,481	4,118
Stock compensation expense	1,491	214	2,523	377
Future income tax expense (recovery)	(907)	30	(2,731)	(13)
Impairment on goodwill	-	-	-	5,123
Loss on sale of promissory note	-	-	81	-
Impairment on long term assets	-	591	-	4,146
Unrealized foreign exchange (gain) loss, net	(708)	(63)	(1,799)	549
Unrealized financial derivatives loss (gain)	(85)	1,783	158	(101)
	(1,209)	(879)	(2,362)	(1,937)
Change in non-cash operating working capital, net of effects of acquisition and disposition (note 12)	(3,288)	(1,544)	(1,524)	3,696
Asset retirement obligations settled (note 5)	(250)	(23)	(250)	(23)
<b>Cash flow from (used in) continuing operations</b>	<b>(4,747)</b>	<b>(2,446)</b>	<b>(4,136)</b>	<b>1,736</b>
Cash flow used in discontinued operations	-	-	-	(289)
<b>Total cash flow from (used in) operating activities</b>	<b>(4,747)</b>	<b>(2,446)</b>	<b>(4,136)</b>	<b>1,447</b>
<b>Financing Activities:</b>				
Issue of share capital	745	-	41,835	-
Issue of convertible debentures (note 4c)	-	500	4,000	500
Draws (repayments) on line of credit	8	(650)	(5,065)	1,846
Repayment of long term debt	(1,283)	(336)	(7,455)	(13,903)
Financing and share issue costs	-	-	(2,170)	-
<b>Cash flow from (used in) continuing financing activities</b>	<b>(530)</b>	<b>(486)</b>	<b>31,145</b>	<b>(11,557)</b>
Cash flow from discontinued financing activities	-	-	-	1,767
<b>Total cash flow from (used in) financing activities</b>	<b>(530)</b>	<b>(486)</b>	<b>31,145</b>	<b>(9,790)</b>
<b>Investing Activities:</b>				
Property, plant, and equipment purchases, net	(4,323)	(1,652)	(16,762)	(5,702)
Draws on Gemini transaction	-	-	9,428	-
Cash assumed on acquisition of Canacol Energy Inc.	-	-	-	1,602
Proceeds on sale of subsidiary	-	122	-	122
Cash reserved for asset retirement	(7)	20	2	(3)
Cash - restricted	26	384	(583)	404
Change in non-cash investing working capital, net of effects of acquisition and disposition (note 12)	(3,437)	2,778	(1,647)	(1,234)
<b>Cash flow from (used in) continuing investing activities</b>	<b>(7,741)</b>	<b>1,652</b>	<b>(9,562)</b>	<b>(4,811)</b>
Cash flow from discontinued investing activities	-	-	-	3,923
<b>Total cash flow from (used in) investing activities</b>	<b>(7,741)</b>	<b>1,652</b>	<b>(9,562)</b>	<b>(888)</b>
Foreign exchange gain (loss) on cash and cash equivalents held in foreign currency	(367)	47	373	916
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(13,385)</b>	<b>(1,233)</b>	<b>17,820</b>	<b>(8,315)</b>
Cash and cash equivalents, beginning the period	31,399	2,901	194	9,983
<b>Cash and cash equivalents, end of the period</b>	<b>18,014</b>	<b>1,668</b>	<b>18,014</b>	<b>1,668</b>
<b>Supplementary disclosure of cash flow information:</b>				
Interest paid	291	584	1,120	1,356
Taxes paid	-	-	-	-

See accompanying notes to the consolidated financial statements.

## Notes to the Consolidated Financial Statements

For the three and nine months ended March 31, 2010 and March 31, 2009

(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 March 31, 2010, a total of \$903 (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

	Nine Months Ended March 31, 2010			Year Ended June 30, 2009		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Petroleum and natural gas properties ("P&NG")	94,099	(22,919)	71,180	92,923	(15,689)	77,234
Office Equipment	385	(238)	147	276	(171)	105
Building & Leasehold	54	(4)	50	69	(7)	62
Equipment & Other	652	(10)	642	1,462	(3)	1,459
	<b>95,190</b>	<b>(23,171)</b>	<b>72,019</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 March 31, 2010, the total costs excluded from the depletion calculation and ceiling test were \$22,118 (June 30, 2009 - \$22,973). No indirect overhead costs were capitalized during the three and nine months ended March 31, 2010 and 2009.

During the three and nine months ended March 31, 2010, the Corporation did not record any impairment to long term assets.

During the three and nine month period ended March 31, 2009, the Corporation recorded an impairment of \$591 and \$4,146 relating to long term assets respectively. 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

## Notes to the Consolidated Financial Statements

For the three and nine months ended March 31, 2010 and March 31, 2009

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

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.

### 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, Entrerrios and Capella oilfields to Gemini. The revenue-based royalties commenced in December 2009. As at March 31, 2010, a total of US\$1,039 (CAD\$1,068) was paid to Gemini.

During the nine months ended March 31, 2010, Gemini advanced US\$9,000 (CAD\$9,428).

## 4. LONG TERM DEBT

As at March 31, 2010, Canacol had one reserve-based revolving line of credit facility; the Rancho Hermoso reserves-based revolving line of credit facility.

	March 31, 2010	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	(7,455)	(19,195)
<b>Total long-term debt</b>	<b>11,301</b>	<b>17,994</b>
Accretion of transaction costs	749	1,004
Realized foreign exchange gain	(736)	-
Unrealized foreign exchange gain	(1,535)	(242)
<b>Total net long-term reserves-based revolving line of credit facility, ending balance</b>	<b>9,779</b>	<b>18,756</b>
Current portion, reserves-based revolving line of credit facility	(4,986)	(5,813)
<b>Long-term portion, reserves-based revolving line of credit facility, ending balance</b>	<b>4,793</b>	<b>12,943</b>

## *Notes to the Consolidated Financial Statements*

*For the three and nine months ended March 31, 2010 and March 31, 2009*

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

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

This facility is a two year senior secured borrowing base revolving credit facility for US\$10,455.

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 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% to 7% per annum on the balance outstanding resulting in an average rate of 9.9% for the nine months ended March 31, 2010 (F2009 – average of 15.36%). At March 31, 2010, a total of \$621 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.

In addition to the line of credit of discussed above, the Corporation through its subsidiary Rancho Hermoso, also obtained two additional unsecured revolving lines of credit in February 2010 and April 10, 2010, respectively, aggregating borrowing bases of \$4,824 (US\$4,750). The lines of credit have similar interest rates as described above. The Corporation has not drawn down any amounts under these lines of credit.

### *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 March 31, 2010, there have been no conversions exercised on the debenture.

Subsequent to March 31, 2010, \$100,000 in debentures were converted, resulting in the issuance of 277,778 common shares.

## Notes to the Consolidated Financial Statements

For the three and nine months ended March 31, 2010 and March 31, 2009

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

	Debt Component	Equity Component	Total
	\$	\$	\$
Balance, beginning of period	-	-	-
Debentures issued	3,265	735	4,000
Transaction costs	(343)	(77)	(420)
Accretion of debt component	161		161
Accretion of transaction expenses	100	-	100
Balance, end of period	3,183	658	3,841

### 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:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2010	2009	2010	2009
	\$	\$	\$	\$
Accretion of transaction costs on loan	240	254	749	591
Accretion of transaction costs on convertible debenture	43	-	100	-
Accretion of convertible debenture - debt portion	30	-	161	-
Non-cash interest expense	313	254	1,010	591
Cash interest expense	291	584	1,120	1,356
Interest expense paid in shares on convertible debentures	120	-	240	-
Total interest and financial expense	724	838	2,370	1,947

### e. Principal repayments

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

	2010 - 9 months	2011	2012	2013	2014	Total
Rancho Hermoso facility (note 4a)	3,739	6,878	-	-	-	10,617
	US\$3,682	US\$6,773	-	-	-	US\$10,455
Convertible debenture (note 4c) <sup>1</sup>	-	-	4,000	-	-	4,000
	-	-	US\$3,939	-	-	US\$3,939
Line of credit (note 4b)	621	-	-	-	-	621
	US\$611	-	-	-	-	US\$611
Total	4,360	6,878	4,000	-	-	15,238
	US\$4,293	US\$6,773	US\$3,939	-	-	US\$15,005

<sup>1</sup> Assumes no conversion of the convertible debenture.

## Notes to the Consolidated Financial Statements

For the three and nine months ended March 31, 2010 and March 31, 2009

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

### 5. ASSET RETIREMENT OBLIGATION

	March 31, 2010	Year Ended June 30, 2009
	\$	\$
Asset retirement obligation, opening balance	2,316	420
Liabilities incurred and acquired	-	1,842
Liabilities settled	(250)	(23)
Revision of estimates	44	-
Accretion expense	375	343
Variance due to foreign exchange	(2)	(266)
Asset retirement obligation, ending balance	2,483	2,316

As at March 31, 2010, the estimated total undiscounted amount required to settle the asset retirement obligation was \$3,368 (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 March 31, 2010, a total of \$386 (June 30, 2009 - \$388) of cash has been reserved for future asset retirement.

### 6. 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 and nine months ended March 31, 2010 and March 31, 2009

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

	Nine Months Ended March 31, 2010		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 placements (note 6d)	145,077,048	40,377	48,000,000	4,747
Issued to consultants	365,854	125	67,013	12
Issued to agent on Gemini Transaction (note 6e)	166,667	62	-	-
Issued on convertible debentures (note 4c)	1,130,436	390	445,834	67
Issued to agents on private placement	333,333	50	-	-
Issued on interest payments for convertible debenture	621,646	240	-	-
Stock options exercised	793,267	133	276,667	46
Warrants exercised	5,952,500	1,324	-	-
Fair value of warrants exercised	-	315	-	-
Fair value of stock options exercised	-	86	-	-
Share issuance costs	-	(2,190)	-	(509)
<b>Common shares outstanding, ending balance</b>	<b>333,314,920</b>	<b>110,553</b>	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 6d)	1,109,524	75	24,000,000	1,253
Cancelled	-	-	(3,500,000)	-
Exercised	(5,952,500)	(315)	-	-
Expired	-	-	(5,672,000)	(1,326)
<b>Warrants outstanding, ending balance</b>	<b>30,657,024</b>	<b>1,094</b>	34,000,000	1,253
<b>Total share capital, ending balance</b>		<b>111,647</b>		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 nine months ended March 31, 2010 and March 31, 2009

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

	Nine months ended March 31, 2010		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	(5,952,500)	\$0.22	-	-
Cancelled	-	-	(3,500,000)	US \$2.00
Expired	-	-	(5,672,000)	\$1.79
<b>Ending</b>	<b>30,657,024</b>	<b>\$0.40</b>	<b>34,000,000</b>	<b>\$0.38</b>

Exercisable warrants as at March 31, 2010 had the following exercise prices and expiry dates:

Number of Warrants	Exercise Price	Expiry Date
10,000,000	\$0.80	August 29, 2013
15,027,500	\$0.20	May 14, 2011
4,350,000	\$0.20	May 28, 2011
1,099,524	\$0.30	July 24, 2011
180,000	\$0.30	January 7, 2011
<b>30,657,024</b>	<b>\$0.40</b>	<b>2 years</b>

### d. Private Placement

On July 23, 2009, the Corporation closed a private placement equity 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 equity 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 an agent commission in connection with the October 15, 2009 private placement.

(See note 14, Subsequent Events reference to \$57,500 private placement equity financing).

### 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 finder's fees pursuant to the Gemini Transaction (note 3).

## Notes to the Consolidated Financial Statements

For the three and nine months ended March 31, 2010 and March 31, 2009

(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 January 2015. At March 31, 2010, a total of 9,683,737 options were exercisable (vested) at a weighted average exercise price of \$0.33 per common share and a total of 23,755,067 options were issued and outstanding at a weighted average exercise price of \$0.37.

	March 31, 2010			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	(793,266)	0.14	(77)	(276,667)	0.10	(20)
Cancelled	(720,001)	0.54	(253)	(7,468,334)	0.72	(3,135)
Granted	12,774,000	0.47	4,482	12,668,001	0.14	1,526
Ending	23,755,067	0.37	6,621	12,494,334	0.26	2,469

As at March 31, 2010, \$2,675 (June 30, 2009 - \$732) of stock based compensation expense remains unrecognized and will be recognized in future periods as options vest. During the three and nine months periods ended March 31, 2010, \$1,491 and \$2,523 (F2009 - \$214 and \$377) 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.

	March 31, 2010	June 30, 2009
Risk-free interest rate	2.50%	1.52% - 3.46%
Expected life of options	5 years	5 years
Dividend yield	Nil	Nil
Expected volatility	100% - 106%	100%
Weighted average fair value price	\$0.35	\$0.18

### g. Per share amounts

For the three and nine months ended March 31, 2010 and 2009, the diluted loss per share from continuing operations is the same as basic loss per share as the effect of the exercise of options and warrants on loss per share would be anti-dilutive. In calculating the basic and diluted income per share from discontinued operations and net loss per share for the three and nine months ended March 31, 2010 and 2009, the weighted average number of common shares used in the calculation of basic and diluted net income per share is shown below.

	Three months ended March 31,		Nine months ended March 31,	
	2010	2009	2010	2009
Basic	332,288,327	117,041,179	271,705,698	103,562,920
Diluted	332,288,327	117,041,179	271,705,698	104,911,158

## Notes to the Consolidated Financial Statements

For the three and nine months ended March 31, 2010 and March 31, 2009

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

### 7. CONTRIBUTED SURPLUS

The following table reconciles the Corporation's contributed surplus:

	March 31, 2010	June 30, 2009
	\$	\$
Contributed surplus, opening	9,391	6,127
Fair value of warrants issued during debt financing	-	1,215
Stock compensation expense	2,523	743
Warrants expired	-	1,326
Stock options exercised	(86)	(20)
Contributed surplus, ending	11,828	9,391

### 8. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Classifications of financial instruments remain consistent at March 31, 2010 with those at June 30, 2009. The carrying value and respective fair value of financial assets and liabilities are summarized as follows:

	March 31, 2010	
	Carrying Value	Fair Value
<b><i>Assets held for trading</i></b>		
Cash, restricted cash, and cash reserved for asset retirement	19,303	19,303
Financial derivative asset	-	-
<b><i>Loans and receivables</i></b>		
Accounts, promissory note and cash call receivable	5,072	5,072
<b><i>Liabilities held for trading</i></b>		
Financial derivatives	655	655
<b><i>Other liabilities</i></b>		
Accounts, interest, lease payable and cash calls payable	8,444	8,444
Debentures	3,183	3,183
Debt facilities and operating line of credit	10,400	10,400

The Corporation categorizes its financial instruments carried at fair value into one of three different levels depending on the observability of the inputs employed in the measurement. At March 31, 2010, the Corporation valued cash and cash equivalents using Level 1 inputs and valued all derivative financial instruments using the level 2 inputs. At March 31, 2010, the Company did not have any assets and liabilities measured at fair value on a recurring basis using Level 3 inputs.

## Notes to the Consolidated Financial Statements

For the three and nine months ended March 31, 2010 and March 31, 2009

(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 March 31, 2010, approximately 20%, 63% and 17% of the outstanding receivables balances are owed by Hocol, Petrobras and Ecopetrol respectively. The Corporation's net share of the outstanding accounts receivable from these customers totalled \$3,868 at March 31, 2010 (June 30, 2009 - \$2,476). The Corporation has a cash call receivable relating to its joint venture operations in Colombia of \$484 at March 31, 2010 (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>	<b>March 31, 2010</b>	June 30, 2009
Current < 30 days	<b>4,023</b>	3,029
30 to 60 days	-	-
60 to 90 days	-	-
Over 90 days	<b>565</b>	787
<b>Total</b>	<b>4,588</b>	3,816

In addition, the Corporation has joint venture payable of \$1,745 (June 30, 2009 – \$3,488) relating to its joint venture operations in Colombia and Brazil.

### 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 March 31, 2010 under the following terms:

<b>Period</b>	<b>Volume</b>	<b>Type</b>	<b>Price Range</b>
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 nine months ended March 31, 2010 and March 31, 2009

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

For the nine months ended March 31, 2010, the Corporation recognized a realized derivative loss (gain) of \$Nil (F2009 – gain of \$4,123) and an unrealized derivative loss of \$158 (F2009 – gain of \$101) relating to its oil collar financial derivatives. The total fair value of these risk management liabilities at March 31, 2010 was \$655 (June 30, 2009 – liability of \$497). During the three and nine months ended March 31, 2010, 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 \$72 and \$256 in each respective period.

On April 12, 2010, the Corporation entered into another financial WTI oil collar under the following terms:

Period	Volume	Type	Price Range
May 1, 2010 – August 31, 2011	500 bbls/day	Financial WTI Oil Collar	US\$70.00 - US\$100.45

### b) Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign currency exchange rates. Many of the Corporation's business transactions and commitments occur in currencies other than Canadian dollars. The Corporation's activities in Brazil use the Brazilian Real (BRL\$) as its functional currency and the Corporation's activities in Colombia use the Colombian Peso (COP\$) as its functional currency. Therefore it is exposed to the risk of fluctuations in foreign exchange rates. In addition, the majority of the Corporation's sales purchase contracts for the oil produced is based on a US dollar reference price, but paid in the local respective currency with the remainder paid in US dollars. As at March 31, 2010, the Corporation has not entered into any foreign currency derivatives to manage its exposure to currency fluctuations.

At March 31, 2010, the Corporation held \$158 (BRL\$278) on deposit in Brazilian Real (June 30, 2009 – \$13 (BRL\$ 22)), \$1,930 (COP\$ 3.6 billion) on deposit in Colombian Pesos (June 30, 2009 – \$31 (COP \$58,285)) and \$15,652 (US\$ 15,412) 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 March 31, 2010, the Corporation had the following accounts receivable balances: \$638 (BRL\$1,119) in Brazilian Real (June 30, 2009 - \$318 (BRL\$537)), \$646 (US\$636) in US dollars (June 30, 2009 – \$217 (US\$187)), \$3,292 (COP\$6.2 billion) in Colombian Pesos (June 30, 2009 – \$2,668 (COP\$4.9 millions)). As of March 31, 2010, the Corporation had the following accounts payable and accrued liabilities balances: \$379 (BRL\$ 664) in Brazilian Real (June 30, 2009 - \$378 (BRL\$664)), \$76 (US\$73) in US dollars (June 30, 2009 – \$143 (US\$122) and \$5,675 (COP\$10.7 billion) in Colombian Pesos (June 30, 2009 – \$3,399 (COP\$ 6.3 billion)).

For the nine months ended March 31, 2010, the Corporation had a foreign exchange gain of \$2,226 (F2009 – loss of \$2,220) 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 March 31, 2010, 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 \$534, \$28 and \$247 respectively while during the nine months ended March 31, 2010, 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 \$1,162, \$71 and \$764 respectively.

## Notes to the Consolidated Financial Statements

For the three and nine months ended March 31, 2010 and March 31, 2009

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

Country currency	United States	Colombia	Brazil
As at March 31, 2010 rate per CAD	1.0156	0.000529	0.5706

### 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) and DTF interest rate (note 4b). The remainder of the Corporation's financial assets and liabilities are not exposed to interest rate risk. During the nine months ended March 31, 2010, 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 \$27 and \$104 decrease/increase in earnings for the three and nine months ended March 31, 2010, 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 March 31, 2010:

	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	6,641	-	-	-	<b>6,641</b>
Cash call payable	Yes - Liability	1,745	-	-	-	<b>1,745</b>
Capital leases	Yes - Liability	19	-	-	-	<b>19</b>
Interest payable	Yes - Liability	39	-	-	-	<b>39</b>
Operating line of credit	Yes - Liability	621	-	-	-	<b>621</b>
Reserves based credit facility <sup>4</sup>	Yes - Liability	10,617	-	-	-	<b>10,617</b>
Convertible debentures	Yes - Liability	-	4,000	-	-	<b>4,000</b>
Work program commitments	No	14,587	-	-	-	<b>14,587</b>
Office and equipment leases	No	75	100	305	116	<b>596</b>
Other minimum exploration commitments <sup>3</sup>	No	6,095	-	-	-	<b>6,095</b>
<b>Total</b>		<b>40,439</b>	<b>4,100</b>	<b>305</b>	<b>116</b>	<b>44,960</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 March 31, 2010 exchange rate.

<sup>3</sup> Minimum work commitments reflect financial liability if not satisfied through the completion of exploration work in Colombia (La Sierra and Cedrella).

<sup>4</sup> Subsequent to March 31, 2010, the reserved-based credit facility was reduced to US\$9.6 million by a payment of US\$818.

## Notes to the Consolidated Financial Statements

For the three and nine months ended March 31, 2010 and March 31, 2009

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

### 9. CAPITAL DISCLOSURES

Current plans include:

- For Colombia, development of the Ombu and Rancho Hermoso fields, plus exploration activities, the Corporation plans to use funds on hand plus funds raised through an equity private placement completed and credit facilities secured after the quarter ended March 31, 2010. (See note 14 Subsequent Events).
- 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 the Corporation plans to utilize some of the funds raised through equity placements completed after the quarter ended March 31, 2010.
- For Brazil, the Corporation is seeking a farmout arrangement as well as utilizing funds on hand plus funds raised through equity placements completed after the quarter ended March 31, 2010.

The Corporation defines and computes its capital employed as follows:

	March 31, 2010	June 30, 2009
	\$	\$
Shareholders' equity	65,263	37,307
Long-term debt, including current portion	9,779	18,756
Line of credit facilities	621	5,686
Convertible debentures	3,183	-
Cash and cash equivalents	(18,014)	(194)
	<b>60,832</b>	<b>61,555</b>

See note 14 for details of the \$57,500 equity financing completed after March 31, 2010.

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 revolving line credit facility, the Corporation is subject to financial covenants. The key financial covenants at March 31, 2010 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.

- Leverage ratio should not be greater than 4.00 to 1.00 as of the last day of the measurement period occurring on or after December 31, 2009.
- 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.

## *Notes to the Consolidated Financial Statements*

*For the three and nine months ended March 31, 2010 and March 31, 2009*

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

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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 March 31, 2010, the Corporation is in compliance with financial covenants.

### **10. RELATED PARTY TRANSACTIONS**

During the three and nine months period ended March 31, 2010, companies controlled by a director of the Corporation were paid a total \$Nil (F2009 - \$Nil 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 nine months ended March 31, 2010 totalled \$248 and \$742, respectively (F2009 - \$249 and \$812 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 65% net working interest in exploration for, and development and production of, oil and natural gas in the Takutu Basin in Guyana; and
- The Corporate segment provides management and administrative services to all of its subsidiaries and their respective operations and includes non-core operations.

## Notes to the Consolidated Financial Statements

For the three and nine months ended March 31, 2010 and March 31, 2009

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

	<b>Three Months Ended March 31, 2010</b>				
	E&P Brazil	E&P Colombia	E&P Guyana	Corporate & Eliminations	<b>Total</b>
	\$	\$	\$	\$	\$
<b>REVENUE</b>					
Petroleum and natural gas sales	1,472	5,180	-	-	<b>6,652</b>
Sales tax	(86)	-	-	(944)	<b>(1,030)</b>
Royalties	(64)	(362)	-	-	<b>(426)</b>
Petroleum and natural gas, net	1,322	4,818	-	(944)	<b>5,196</b>
Tariff Revenue	-	1,673	-	-	<b>1,673</b>
Interest and other	-	171	-	1	<b>172</b>
<b>Total Revenues</b>	<b>1,322</b>	<b>6,662</b>	<b>-</b>	<b>(943)</b>	<b>7,041</b>
<b>EXPENSES</b>					
Operating expenses	514	3,425	-	5	<b>3,944</b>
Depletion, depreciation and accretion	668	3,211	-	(27)	<b>3,852</b>
General and administrative	503	634	-	1,721	<b>2,858</b>
Interest and financial expenses	240	27	-	457	<b>724</b>
Foreign exchange (gain) loss, net	(94)	-	-	175	<b>81</b>
Financial derivative gain, net	-	-	-	(85)	<b>(85)</b>
Stock compensation expense	-	-	-	1,491	<b>1,491</b>
<b>Total Expenses</b>	<b>1,831</b>	<b>7,297</b>	<b>-</b>	<b>3,737</b>	<b>12,865</b>
<b>EARNINGS (LOSS)</b>					
<b>Income (Loss) before income taxes</b>	<b>(509)</b>	<b>(635)</b>	<b>-</b>	<b>(4,680)</b>	<b>(5,824)</b>
Current income tax	-	423	-	-	<b>423</b>
Future income tax	-	(907)	-	-	<b>(907)</b>
<b>Net Loss</b>	<b>(509)</b>	<b>(151)</b>	<b>-</b>	<b>(4,680)</b>	<b>(5,340)</b>
<b>Total assets</b>	<b>31,186</b>	<b>32,943</b>	<b>5,829</b>	<b>27,607</b>	<b>97,565</b>
<b>Capital expenditures<sup>1</sup></b>	<b>1,689</b>	<b>2,126</b>	<b>508</b>	<b>-</b>	<b>4,323</b>

<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 and nine months ended March 31, 2010 and March 31, 2009

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

	Nine Months ended March 31, 2010				
	E&P Brazil	E&P Colombia	E&P Guyana	E&P Other, Corporate & Eliminations	Total
	\$	\$	\$	\$	\$
<b>REVENUE</b>					
Petroleum and natural gas sales	2,887	10,235	-	-	<b>13,122</b>
Sales tax	(138)	-	-	(1,073)	<b>(1,211)</b>
Royalties	(208)	(699)	-	-	<b>(907)</b>
Petroleum and natural gas, net	2,541	9,536	-	(1,073)	<b>11,004</b>
Tariff Revenue	-	4,741	-	-	<b>4,741</b>
Interest and other	-	1,101	-	26	<b>1,127</b>
<b>Total Revenues</b>	<b>2,541</b>	<b>15,378</b>	<b>-</b>	<b>(1,047)</b>	<b>16,872</b>
<b>EXPENSES</b>					
Operating expenses	1,057	9,628	-	11	<b>10,696</b>
Depletion, depreciation and accretion	1,629	6,783	-	69	<b>8,481</b>
General and administrative	1,480	1,513	-	3,707	<b>6,700</b>
Interest and financial expenses	749	320	-	1,301	<b>2,370</b>
Foreign exchange gain, net	(44)	-	-	(2,182)	<b>(2,226)</b>
Financial derivative loss, net	-	-	-	158	<b>158</b>
Stock compensation expense	-	-	-	2,523	<b>2,523</b>
Loss on sale of assets	-	-	-	81	<b>81</b>
<b>Total Expenses</b>	<b>4,871</b>	<b>18,244</b>	<b>-</b>	<b>5,668</b>	<b>28,783</b>
<b>EARNINGS (LOSS)</b>					
<b>Loss before income taxes</b>	<b>(2,330)</b>	<b>(2,866)</b>	<b>-</b>	<b>(6,715)</b>	<b>(11,911)</b>
Current income tax	-	1,332	-	-	<b>1,332</b>
Future income tax	-	(2,731)	-	-	<b>(2,731)</b>
<b>Net loss</b>	<b>(2,330)</b>	<b>(1,467)</b>	<b>-</b>	<b>(6,715)</b>	<b>(10,512)</b>
<b>Total assets</b>	<b>31,186</b>	<b>32,943</b>	<b>5,829</b>	<b>27,607</b>	<b>97,565</b>
<b>Capital expenditures<sup>1</sup></b>	<b>2,316</b>	<b>12,276</b>	<b>2,088</b>	<b>82</b>	<b>16,762</b>

<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 and nine months ended March 31, 2010 and March 31, 2009

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

	Three Months Ended March 31, 2009				
	E&P Brazil	E&P Colombia	E&P Guyana	E&P Other, Corporate & Eliminations	Total
	\$	\$	\$	\$	\$
<b>REVENUE</b>					
Petroleum and natural gas sales	861	1,309	-	(32)	<b>2,138</b>
Sales tax	(20)	-	-	5	<b>(15)</b>
Royalties	(73)	(83)	-	-	<b>(156)</b>
Petroleum and natural gas, net	768	1,226	-	(27)	<b>1,967</b>
Tariff revenue	-	1,069	-	-	<b>1,069</b>
Interest income	(1)	123	-	1	<b>123</b>
<b>Total Revenues</b>	<b>767</b>	<b>2,418</b>	<b>-</b>	<b>(26)</b>	<b>3,159</b>
<b>EXPENSES</b>					
Operating expenses	612	1,756	-	-	<b>2,368</b>
Depletion, depreciation and accretion	856	487	-	19	<b>1,362</b>
General and administrative	354	367	-	975	<b>1,696</b>
Interest on long term debt	323	178	-	337	<b>838</b>
Foreign exchange loss (gain)	528	(387)	-	1,214	<b>1,355</b>
Realized gain on financial derivatives	(253)	-	-	(95)	<b>(348)</b>
Stock compensation expense	-	-	-	214	<b>214</b>
Impairment on long-term assets	-	-	-	591	<b>591</b>
<b>Total Expenses</b>	<b>2,420</b>	<b>2,401</b>	<b>-</b>	<b>3,255</b>	<b>8,076</b>
<b>EARNINGS (LOSS)</b>					
<b>Income (loss) before income taxes</b>	<b>(1,653)</b>	<b>17</b>	<b>-</b>	<b>(3,281)</b>	<b>(4,917)</b>
Current income tax	-	103	-	-	<b>103</b>
Future income tax	-	30	-	-	<b>30</b>
<b>Net Loss</b>	<b>(1,653)</b>	<b>(116)</b>	<b>-</b>	<b>(3,281)</b>	<b>(5,050)</b>
<b>Total assets</b>	<b>32,553</b>	<b>45,326</b>	<b>2,336</b>	<b>7,743</b>	<b>87,958</b>
<b>Capital expenditures<sup>1</sup></b>	<b>39</b>	<b>1,875</b>	<b>-</b>	<b>(262)</b>	<b>1,652</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 and nine months ended March 31, 2010 and March 31, 2009

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

	Nine months ended March 31, 2009				
	E&P Brazil	E&P Colombia	E&P Guyana	E&P Other, Corporate & Eliminations	Total
	\$	\$	\$	\$	\$
<b>REVENUE</b>					
Petroleum and natural gas sales	3,352	2,260	-	47	<b>5,659</b>
Sales tax	(131)	-	-	(4)	<b>(135)</b>
Royalties	(278)	(163)	-	-	<b>(441)</b>
Petroleum and natural gas, net	2,943	2,097	-	43	<b>5,083</b>
Tariff Revenue	-	2,039	-	-	<b>2,039</b>
Interest and other	19	455	-	16	<b>490</b>
<b>Total Revenues</b>	<b>2,962</b>	<b>4,591</b>	<b>-</b>	<b>59</b>	<b>7,612</b>
<b>EXPENSES</b>					
Operating expenses	2,159	3,487	-	20	<b>5,666</b>
Depletion, depreciation and accretion	2,653	1,272	-	193	<b>4,118</b>
General and administrative	1,628	596	-	2,743	<b>4,967</b>
Interest and financial expenses	789	316	-	842	<b>1,947</b>
Foreign exchange loss (gain), net	2,142	(382)	-	460	<b>2,220</b>
Financial derivative gain, net	(1,675)	-	-	(2,549)	<b>(4,224)</b>
Stock compensation expense	-	-	-	377	<b>377</b>
Impairment on goodwill	5,123	-	-	-	<b>5,123</b>
Impairment on long-term assets	-	-	-	4,146	<b>4,146</b>
<b>Total Expenses</b>	<b>12,819</b>	<b>5,289</b>	<b>-</b>	<b>6,232</b>	<b>24,340</b>
<b>EARNINGS (LOSS)</b>					
<b>Loss before income taxes</b>	<b>(9,857)</b>	<b>(698)</b>	<b>-</b>	<b>(6,173)</b>	<b>(16,728)</b>
Current income tax	-	(173)	-	-	<b>(173)</b>
Future income tax	-	(13)	-	-	<b>(13)</b>
<b>Net loss</b>	<b>(9,857)</b>	<b>(512)</b>	<b>-</b>	<b>(6,173)</b>	<b>(16,542)</b>
<b>Total assets</b>	<b>32,553</b>	<b>45,326</b>	<b>2,336</b>	<b>7,743</b>	<b>87,958</b>
<b>Capital expenditures<sup>1</sup></b>	<b>1,803</b>	<b>4,689</b>	<b>-</b>	<b>(790)</b>	<b>5,702</b>

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

## Notes to the Consolidated Financial Statements

For the three and nine months ended March 31, 2010 and March 31, 2009

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

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

	March 31, 2010	June 30, 2009		
	\$	\$		
<b>Assets</b>				
Current	1,196	1,204		
Long-term	26,282	26,294		
<b>Liabilities</b>				
Current	244	177		
Long-term	1,496	2,618		
	Three Months Ended March 31,	2009	Nine Months Ended March 31,	
	2010	2009	2010	2009
	\$	\$	\$	\$
Revenues	1,322	767	2,540	3,220
Expenses	1,693	1,814	4,280	7,017
<b>Net loss</b>	<b>(371)</b>	<b>(1,047)</b>	<b>(1,740)</b>	<b>(3,797)</b>
<b>Cash Flows</b>				
Used in Operating	(280)	(280)	(869)	(705)
Used in Investing	(281)	(388)	(983)	(4,769)
Used in Financing	(2)	(33)	(39)	(3,365)
<b>Net Cash Flows</b>	<b>(563)</b>	<b>(701)</b>	<b>(1,891)</b>	<b>(8,839)</b>

Geographic information related to the Corporation's activities:

	Revenue		Property, plant, and equipment	
	Nine Months Ended March 31		As at	
	2010	2009	March 31, 2010	June 30, 2009
	\$	\$	\$	\$
Brazil	2,541	2,962	23,733	23,046
Colombia	15,378	4,591	42,317	52,046
Guyana	-	-	5,829	3,745
Canada & Other <sup>(1)</sup>	(1,047)	59	140	23
	<b>16,872</b>	<b>7,612</b>	<b>72,019</b>	<b>78,860</b>

<sup>(1)</sup> Payments under the Gemini transaction (note 3)

## Notes to the Consolidated Financial Statements

For the three and nine months ended March 31, 2010 and March 31, 2009

(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 March 31,		Nine Months Ended March 31,	
	2010	2009	2010	2009
	\$	\$	\$	\$
<b>Operating Activities</b>				
Decrease (increase) in current assets				
Accounts receivable	(2,031)	(2,081)	(772)	(169)
Prepaid expenses and deposits	(845)	(39)	(886)	5
Commodity contracts	-	-	-	4,209
Increase (decrease) in current liabilities				
Accounts payable and accrued liabilities	(361)	570	381	116
Interest payable	(51)	6	(247)	(465)
	<b>(3,288)</b>	<b>(1,544)</b>	<b>(1,524)</b>	<b>3,696</b>
<b>Investing activities</b>				
Decrease (increase) in current assets				
Joint venture and promissory notes receivable	(2,357)	1,137	(2,790)	(4,052)
Increase (decrease) in current liabilities				
Accounts payable and accrued liabilities	(1,080)	1,641	1,143	2,818
	<b>(3,437)</b>	<b>2,778</b>	<b>(1,647)</b>	<b>(1,234)</b>

As at March 31, 2010, a total of \$16,724 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 March 31, 2010 and June 30, 2009 are as follows:

March 31, 2010		June 30, 2009	
Balance	Average Interest Rate	Balance	Average Interest Rate
C\$0	N/A	C\$0	N/A
C\$0		C\$0	
US\$15,134	0.02 - 0.24%	US\$72	1.90%
C\$15,370		C\$84	
COP\$2,558,349	10.27%	COP\$47,086	N/A
C\$1,354		C\$32	
BRL\$0	N/A	BRL\$23	11.33%
C\$0		C\$13	
<b>C\$16,724</b>		<b>C\$129</b>	

### 13. COMMITMENTS AND GUARANTEES

#### Minimum exploration program

As at March 31, 2010, 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

## Notes to the Consolidated Financial Statements

For the three and nine months ended March 31, 2010 and March 31, 2009

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

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	Extension	Gross Remaining MEP Work Units	Gross Financial Guarantee	Net Remaining MEP Work Units	Net Financial Guarantee <sup>1</sup>
9	Recôncavo <sup>2</sup>	March 12, 2010	March 12, 2011	600	BRL \$1,800	320	BRL \$960
9	Recôncavo	June 5, 2010	N/A	1,000	BRL \$3,000 \$1,746	320	BRL \$960 \$698
9	Espirito Santo	March 12, 2011	N/A	1,020	BRL \$3,060	408	BRL \$1,224

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

<sup>2</sup> The ANP has granted an extension of 12 months of the contract BT-REC-60, block REC-T-170, until the Corporation obtains permission to access the area.

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 \$21,000 due within a year or less. In addition, the Corporation has commitments for leases and its office premises. As of March 31, 2010, the payments required in each of the next five years are as follows:

Leases	\$
2010	75
2011	100
2012	100
2013	100
2014	105

## 14. SUBSEQUENT EVENTS

On May 4, 2010, the Corporation was awarded the Cedrela Exploration and Production Contract ("Cedrela E&P Contract") by the Agencia Nacional de Hidrocarburos ("ANH") of Colombia. The Corporation has a 100% working interest in the Cedrela E&P Contract, which is 129,418 hectares (319,799 acres) in size. The contract has an initial 18 months phase and three further optional 18 months phases.

In May 2010, the Corporation closed private placement financing, on a "bought deal" basis, for total gross proceeds of \$57,500 and net proceeds of \$54,756. Pursuant to the financing, the Corporation has issued 76,667,050 common shares at a price of \$0.75 per common share.

## *Notes to the Consolidated Financial Statements*

*For the three and nine months ended March 31, 2010 and March 31, 2009*

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

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### **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 Financial 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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### Colombia Office

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### Auditors

Deloitte & Touche LLP Calgary, Alberta

### Bankers

HSBC Bank Canada – Calgary, Canada

HSBC Bank Brasil - Rio de Janeiro, Brazil

Citibank, Bogota, Colombia

### Independent Reserve Engineers

Ryder Scott Company LP

DeGolyer and MacNaughton Canada Limited

Netherland, Sewell & Associates, Inc.

### Legal Counsel

Davis LLP - Canada

Schmidt, Valois, Miranda, Ferreira & Agel – Brazil

Salazar Asociados Abogados - Colombia

### Stock Exchange Listing

TSX Venture Exchange: CNE

### Transfer Agent & Registrar

Olympia Trust Company

2300, 125 - 9th Avenue SE

Calgary, Alberta T2G 0P6