

Canacol Energy Ltd.
(Formerly BrazAlta Resources Corp.)

A large, semi-transparent blue globe is centered on the page. The globe shows the continents of North and South America in a lighter shade. Overlaid on the globe is the text "Management Discussion and Analysis" and "Year Ended June 30, 2009".

Management Discussion and Analysis

Year Ended June 30, 2009

October 26, 2009

CAUTIONARY NOTE

This Management's Discussion and Analysis ("MD&A") for Canacol Energy Ltd. ("Canacol" or the "Corporation") (formerly BrazAlta Resources Corp. ("BrazAlta")) of the financial results and related data is reported in Canadian dollars, has been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"), and should be read in conjunction with audited consolidated financial statements for the year ended June 30, 2009 and the respective notes thereto. Additional information relating to the Corporation is on SEDAR at www.sedar.com.

Information provided herein in respect of barrels of oil equivalent ("boe") may be misleading, particularly if used in isolation. A boe conversion ratio of 6 Mcf: 1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Certain information set forth in this document contains forward-looking statements. All statements other than historical fact contained herein are forward-looking statements, including, without limitation, statements regarding the future financial position, business strategy, production rates, and plans and objectives of or involving the Corporation. By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond the Corporation's control, including the impact of general economic conditions, industry conditions, governmental regulation, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other industry participants, the lack of availability of qualified personnel or management, stock market volatility and ability to access sufficient capital from internal and external sources. In particular to forward-looking comments in this MD&A readers are cautioned that there can be no assurance that: the Corporation will be able to attain sufficient capital and financing to fund its current and expected obligations; that the Corporation will be able to increase production in Brazil, Colombia, or Guyana and achieve expected variable cost efficiencies and an overall reduction of costs on a per barrel basis; that hydrocarbon based royalties assessed by the Brazilian and Colombian governments will remain consistent or that the Brazilian and Colombian royalties will continue to be applied on a sliding scale basis downward as production increases on any one block. The Corporation's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits the Corporation will derive there from.

In addition to historical information, the MD&A contains forward-looking statements that are generally identifiable as any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions or future events of performance (often, but not always, through the use of words or phrases such as "will likely result," "expected," "is anticipated," "believes," "estimated," "intends," "plans," "projection" and "outlook"). These statements are not historical facts and may be forward-looking and may involve estimates, assumptions and uncertainties which could cause actual results or outcomes to differ materially from those expressed in such forward-looking statements. Actual results achieved during the forecast period will vary from the information provided herein as a result of numerous known and unknown risks and uncertainties and other factors. Such factors include, but are not limited to: general economic, market and business conditions; fluctuations in oil and gas prices; the results of exploration and development drilling and related activities; fluctuation in foreign currency exchange rates; the uncertainty of reserve estimates; changes in environmental and other regulations; and risks associated with oil and gas operations, many of which are beyond the control of the Corporation. Accordingly, there is no representation by Canacol that actual results achieved during the forecast period will be the same in whole or in part as those forecasted. Except to the extent required by law, Canacol assumes no obligation to publicly update or revise any forward-looking statements made in this MD&A or otherwise, whether as a result of new information, future events or otherwise. All subsequent forward-looking statements, whether written or oral, attributable to Canacol or persons acting on the Corporation's behalf, are qualified in their entirety by these cautionary statements.

Readers are further cautioned not to place undue reliance on any forward-looking information or statements.

Unless otherwise stated, all dollar amounts presented in this MD&A are in thousands of Canadian dollars (unaudited). All references to C\$ or \$ are to Canadian dollars, references to US\$ are United States (U.S.) dollars, references to BRL\$ are to Brazilian Real, and references to COP\$ are to Colombian Pesos.

As At and For the Three Months and Year Ended	Three Months Ended June 30,		Year Ended June 30,	
	2009	2008	2009	2008
FINANCIAL RESULTS				
<i>(\$000s), except share data</i>				
Petroleum and natural gas sales, net				
Colombia ⁽²⁾	2,247	-	4,318	-
Brazil	80	1,515	3,022	4,800
Canada ⁽⁶⁾	-	33	44	140
	2,327	1,549	7,384	4,940
Tariff revenue	1,001	-	3,040	-
Interest and other	496	232	986	464
Total revenue, recurring operations	3,824	1,781	11,410	5,404
Cash from (used in) recurring operating activities	(3,815)	(887)	(2,357)	(3,001)
Per share - basic and diluted	(0.03)	(0.01)	(0.02)	(0.04)
Net loss from continuing operations	(5,250)	(3,135)	(21,791)	(9,731)
	(0.04)	(0.03)	(0.18)	(0.11)
Capital expenditures				
Colombia ⁽²⁾	2,525	-	7,089	-
Brazil	(16)	(46)	3,607	9,748
Guyana	-	-	859	-
Canada	(1,092)	7,649	(2,741)	7,938
	1,417	7,603	8,814	17,686
Total assets	85,209	111,613	85,209	111,613
Total long-term liabilities	26,967	39,902	26,967	39,902
Weighted average shares outstanding				
Basic (000s)	140,503	90,085	122,490	85,198
Diluted (000s)	140,503	90,085	122,490	85,198

OPERATING RESULTS	Three Months Ended June 30,					Year Ended June 30,				
	2009			2008		2009			2008	
	Colombia ⁽²⁾	Brazil ⁽⁵⁾	Canada ⁽⁶⁾	Brazil	Canada	Colombia ⁽²⁾	Brazil	Canada	Brazil	Canada
Production										
Crude oil and NGLs (bbl/d)	298	118	-	159	1	313	118	1	159	1
Natural gas (mcf/d)	-	-	-	-	31	-	-	48	-	63
Total (boe per day)	298	118	-	159	6	313	118	9	159	12
Total tariff production (bbl/d)	1,015	-	-	-	-	1,148	-	-	-	-
Average sale prices										
Crude oil (\$/bbl)	68.79	42.06	-	125.73	-	53.59	42.06	-	98.06	-
Natural gas (\$/mcf)	-	-	-	-	10.16	-	-	-	-	-
Oil equivalent (\$/boe)	-	42.06	-	125.73	60.95	-	42.06	46.82	98.06	45.66
Operating netback (\$/boe)										
Commodity sales revenue	68.79	42.06	-	125.73	60.95	53.59	42.06	46.82	98.06	45.66
Tariff revenue	10.83	-	-	-	-	10.89	-	-	-	-
Non-refundable sales taxes	-	(5.83)	-	(10.73)	-	-	(5.83)	-	(8.23)	-
Realized loss on financial derivative	-	45.15	-	(20.90)	-	-	45.15	-	(9.83)	-
Royalties	(6.56)	(7.42)	-	(10.43)	(5.72)	(3.62)	(7.42)	(5.17)	(7.55)	(13.24)
Transportation & processing ⁽⁴⁾	(11.96)	(25.48)	-	(12.56)	-	(8.48)	(25.48)	-	(12.54)	-
Well workover & repair	(1.48)	(2.54)	-	(0.15)	-	(0.51)	(2.54)	-	(6.44)	-
MEP work unit provision	-	(3.22)	-	(50.85)	-	-	(3.22)	-	(22.77)	-
Operating expenses ⁽³⁾	(12.65)	(22.58)	-	(26.17)	(10.61)	(12.37)	(22.58)	(11.48)	(26.53)	(22.13)
Netback ⁽¹⁾	36.14	20.15	-	(6.05)	44.61	28.61	20.15	30.17	4.18	10.29

⁽¹⁾ "Netback" per boe is calculated as revenues net of sales taxes and royalties, less transportation & processing charges, well workover and repair and operating expenses and then divided by boes produced. Netbacks do not have a standard meaning prescribed by GAAP and therefore may not be comparable to similar measures used by other companies. Management feels this is a useful metric as it is a common metric used by other companies operating in the oil and gas industry in order to provide a comparison of relative overall performance between companies. Management uses the metric to assess the Corporation's overall performance relative to that of its competitors and for internal planning purposes.

⁽²⁾ Colombian operations commenced in October 30, 2008.

⁽³⁾ Colombian operating expenses relate to both tariff and non-tariff oil production volumes.

⁽⁴⁾ Colombian transportation and processing charges relate to non-tariff production.

⁽⁵⁾ Brazilian FY2009 results have been used for the three months ended June 30 for comparability purposes.

⁽⁶⁾ The majority of the Canadian producing properties were sold effective January 1, 2009.

YEAR ENDED JUNE 30, 2009 IN REVIEW

- On August 25, 2008 Canacol Energy Ltd. (Formerly BrazAlta Resources Corp.) (“Canacol” or the “Corporation”) entered into a definitive amalgamation agreement for the arm’s length acquisition of all of the issued and outstanding common shares and warrants of a private oil and gas exploration company, Canacol Energy Inc. (the “Transaction”). The agreed aggregate consideration for all of the Canacol Energy Inc. common shares and warrants was a total of 39,999,994 common shares in the capital of Canacol. On October 30, 2008, the Transaction was successfully completed. Following its acquisition of Canacol Energy Inc., Canacol held oil exploration, development, and production operations in the countries of Colombia and Guyana. The assets in Colombia included the Rancho Hermoso and Entrerrios oil fields, and the La Sierra and Ombu exploration contracts. In addition, in Guyana the Corporation has a working interest covering a large onshore exploration contract through participation in the drilling of two exploration wells.
- On August 29, 2008, Canacol, in conjunction with Canacol Energy Inc., closed the acquisition of a private Colombian exploration and production company, Rancho Hermoso S.A. for gross proceeds of US\$28,600. Please refer to Note 7 of the Consolidated Financial Statements for further details. A debt facility was jointly put in place by Canacol and Canacol Energy Inc. in order to finance the acquisition of Rancho Hermoso S.A. Canacol (through a subsidiary) and Canacol Energy Inc. jointly borrowed from Standard Bank Plc. (“Standard Bank”), the sum of US\$25,600 as co-borrowers. The Standard Bank Loan consisted of two credit facilities:
 - 1) a three year senior secured borrowing base revolving credit facility with an initial availability of US\$14,000; and
 - 2) a US\$11,600 mezzanine facility.

The security package and terms for the Standard Bank Loan includes a lien on the shares of Rancho Hermoso S.A.; a guarantee from each of Canacol and Canacol Energy Inc.; and a hedge of a percentage of Rancho Hermoso S.A. production. In addition, Canacol has issued to Standard Bank warrants exercisable to acquire 10,000,000 Canacol common shares at a price of C\$0.80 per Canacol common share for a period of five years. 3,500,000 US\$2.00 warrants issued to Standard Bank in August, 2008 as part of a Brazilian reserves based credit facility financing were cancelled.

- Effective October 1, 2008, BCH Ltd. (“BCH”) completed a non-brokered private placement of 4,474,999 BCH common shares at a price of US\$4.163 per BCH common share for aggregate gross proceeds of US\$18,629. Canacol acquired 1,717,093 BCH common shares for consideration of US\$7,148 to settle loans receivable from BCH. Allis-Chalmers Energy Inc. acquired 2,192,750 BCH common shares in the financing for consideration of US\$9,128, US\$3,500 with settling accrued interest payable on the debenture and cash proceeds of US\$5,628. Following the completion of the private placement, BCH had 13,909,843 BCH common shares issued and outstanding of which Canacol owned 11,717,093 BCH common shares or 84.2%. Effective December 31, 2008, Canacol sold its remaining 11,717,093 BCH common shares to Allis Chalmers for cash proceeds of US\$5,000. Total debt in BCH as of the date of the sale was approximately US\$63,500 including a US\$23,500 term debt facility with Standard Bank and a US\$40,000 convertible debenture. Cash proceeds from the sale were applied to the outstanding US\$6,600 mezzanine loan facility with Standard Bank associated with the purchase of the Rancho Hermoso S.A. exploration and producing assets in Colombia thus reducing the outstanding remaining balance to US\$1,600 at December 31, 2008.
- On December 11, 2008, Canacol announced that it had sold a hedge agreement associated with its net oil production in Colombia for net consideration of US\$5,000. US\$5,000 of the proceeds from this sale was used to repay a portion of the US\$11,600 mezzanine loan due to Standard Bank. A new hedge agreement was simultaneously entered into for the same production volumes. The hedge oil collar floor was reduced to US\$55.00 and the cap was reduced to US\$80.25 per barrel, which continued to be held through the year end.

HIGHLIGHTS FROM Q4-F2009

- On April 6, 2009, Canacol provided an update of its exploration and appraisal drilling program on its Ombu E&P contract in Colombia. As of April 6, 2009, 5 wells had been drilled and 1 further well was being drilled and completed. The accumulation has a mapped area of approximately 89 square kilometers (22,000 acres). Canacol reported that the 5 wells had flowed heavy oil in the range of 9 to 11° API gravity at individual well rates of up to 345 boe/d under cold flow conditions.
- On April 14, 2009, Canacol provided the results of its mid-year reserves update for Rancho Hermoso S.A., effective December 31, 2008. Canacol operates two producing oil fields, Rancho Hermoso and Entrerrios, located in the Llanos Basin, Colombia. Each field has two contracts governing the production. Initial evaluated estimates: proven 545,000 barrels; probable 744,000. As at June 30, 2009 these estimates have increased as follows: proven 454,000 barrels; probable 1,090,000 barrels. These volumes do not include reserves related to tariff production.
- On April 17, 2009, Canacol announced that it had executed a series of agreements with Gemini Oil and Gas Fund II, L.P. (“Gemini”), the Jersey, Channel Island based oil and gas investment fund, whereby Gemini agreed, subject to certain preconditions, invest up to US\$ 9,000 to be used to fund a portion of the Corporation’s development and appraisal programs on its producing assets in Colombia in 2009.
 - Under the terms the agreements, Gemini will invest:
 - Up to US\$3,000 towards the drilling of a development well and the workover of 2 existing wells in Entrerrios Field;
 - Up to US\$3,000 towards the drilling of 2 development wells and the workover of one existing well in Rancho Hermoso Field; and
 - Up to US\$3,000 towards the drilling of additional delineation wells in the Capella Field, its new heavy oil discovery on Ombu E&P contract.

In return Gemini will be entitled to receive payment equivalent to a percentage of Canacol’s gross revenue from production. Gemini has indicated that at it may consider increasing the total investment up to maximum of US\$12,000.
- Brazalta Brazil Norte Comercializacao de Petroleo Ltda. (“Brazalta Brazil”), a wholly owned subsidiary of the Corporation, and W. Washington Petroleo S.A. (“W. Washington”), the borrower under the credit facility dated June 29, 2007 to which the Corporation is a guarantor, have reached an agreement for the repayment of the Brazil Facility thereby eliminating the Corporation’s debt facility in Brazil
- On April 27, 2009, Canacol announced an update of its drilling and operations program on its 300 square kilometre Ombu E&P contract in Colombia. The Capella 6 well was drilled to a total depth of 3,645 feet on March 30, 2009 and penetrated both Mirador formations. The upper Mirador showed 80 feet of thick continuous sandstone reservoir exhibiting up to 37% porosity, while the lower Mirador conglomerate showed 175 feet with good oil and gas shows.
- On May 14, 2009, Canacol announced that it has completed the first closing of its \$6,000 private placement financing. Canacol issued a total of 34,820,000 units at a price of \$0.125 per Unit for gross proceeds of \$4,352 in this initial closing. 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 \$0.20 until May 14, 2011. A second closing occurred on May 28, 2009 with respect to the remaining \$1,647 in subscriptions.
- On May 15, 2009, Canacol announced that it had entered into a conditional share purchase agreement to acquire for US\$3,450, from Groundstar Resources Limited (“Groundstar” or the

"Vendor") all of the shares of a Guyana company which holds the 7,800 square kilometre Petroleum Prospecting Licence ("PPL") in the Takutu Basin, onshore Guyana. In connection with the closing of the Transaction, the Vendor would be granted a 10% carried interest which will be carried by the Corporation to first commercial production on the PPL, and be repaid commencing with first production. The closing of the Transaction occurred on October 26, 2009. The Corporation intends to seek partners and is currently in negotiations for a potential reduction of the Corporation's.

- On June 22, 2009, Canacol announced a Private Placement Equity Financing of \$1,500,000 in units at a price of \$0.17 per unit. Each unit consisted of one common share and one-half Warrant, with each whole warrant entitling the holder to acquire one common share at a price of \$0.30 for a period of 18 months from the closing date of the Offering.

SUBSEQUENT EVENTS AFTER Q4-F2009

- On July 2, 2009, Canacol announced that it had been awarded the Pacarana Technical Evaluation Area in Colombia, immediately adjacent and to the south of the Ombu E&P contract. Canacol has 100% working interest in this block, which is approximately 470,022 hectares in size and is located in the Caguan-Putumayo Basin. Work obligations associated with this block include acquiring 2,240 km of aeromagnetic and gravity data and conducting geotechnical studies over a period of 24 months for an anticipated cost of approximately US\$465.
- On July 7, 2009, Canacol announced that it sold a US\$1,000 promissory note receivable for proceeds of USD\$910 to an arm's length party. Canacol issued 1,500,000 Warrants, with each warrant being exercisable at a price of \$0.30 per common share for 18 months.
- On July 23, 2009, Canacol announced that it completed a \$1,500 private placement financing. Canacol issued a total of 2,219,048 units, each consisting of one common share and one-half warrant with a strike price of \$0.30 for gross proceeds of \$377,238.
- On July 27, 2009, Canacol announced the start of its development drilling program at the Rancho Hermoso and Entrerrios Oil Fields in Colombia. The Corporation signed a definitive contract with Saxon Services de Panama to provide the drilling rig for 3 wells.

The Corporation also announced the completion of the acquisition of a 46 square kilometer La Sierra 3D seismic program in early July 2009. The results of this program are to be used to drill an offset to the La Sierra 1 discovery well in early 2010.

- On August 20, 2009, the Corporation announced that it is participating in the drilling of 2 slim-hole test wells in the area around the Capella 6 well, the drilling of the first horizontal well in the field, and the commencement of a cyclic steam injection pilot on one of the existing vertical producing wells. The first slim-hole test well, SH1, was spud in early August approximately 1.6 kilometres north-west of the Capella 6 well. The objectives of the slim-hole test wells are to delineate the extent of the thick oil bearing sandstone and aid the future development planning of the field.
- On August 31, 2009, Canacol announced that it was awarded the Tamarin E&P Contract in Colombia. The Tamarin contract is located 25 kilometres directly southwest of the Ombu contract, which is approximately 27,000 hectares in size and is located in the Putumayo-Caguan Basin. The terms of the 6 year contract include acquiring and interpreting 60 kilometres of 2D seismic.

- On September 4, 2009, Canacol announced its initial closing of a convertible unsecured subordinated debenture offering. Canacol issued \$2.7 million of debentures, which mature on September 4, 2011. Canacol issued 753,624 common shares to the agent as commission.
- On September 10, 2009, Canacol announced the full exercise of its Agent's over-allotment option and the second closing of its convertible unsecured subordinated debenture financing. Canacol issued \$1.3 million of debentures, which mature on September 4, 2011. Canacol issued 376,812 shares to the Agent as commission.
- On September 17 and 21, 2009, Canacol provided updates on its development drilling program in its Rancho Hermoso and Entrerrios fields in Colombia. The Corporation commenced drilling operations on the Rancho Hermoso 3A well on August 18, which reached a total of 9,333 feet measured depth. The well encountered 24 feet of net interpreted oil pay within the Mirador reservoir, which was perforated from 9,118 to 9,133 feet. Early production testing was completed, yielding production rates of up to 799 barrels of 35 degree API oil per day from the Mirador reservoir at initial total fluid rates of up to 3,994 barrels of fluid per day. The well has now been tied in to the permanent production facility and the Corporation intends to increase the pump rate to attain a total stabilized fluid rate of between 7,000 and 8,000 barrels of fluid per day.

The Corporation also announced the mobilization of the Saxon 126 drilling rig to the Entrerrios field to commence drilling the Entrerrios 5 well. This well was drilled without incident, and is awaiting completion with a workover rig scheduled for November. The drilling rig is to be mobilized back to the Rancho Hermoso field in early November to commence drilling the Rancho Hermoso 5 well.

- On September 23, 2009, Canacol entered into an underwriting agreement with a syndicate of underwriters, led by Canaccord and including FirstEnergy Capital Corp., to purchase, on an underwritten private placement basis, 71,429,000 common shares at a price of \$0.28 per common share to raise gross proceeds of \$20,000 (the "Offering"). This agreement was amended to increase the amount to 107,143,000 shares for gross proceeds of \$30,000. In addition, the Underwriters were granted an over-allotment option to purchase up to an additional 35,715,000 shares for gross proceeds of \$10,000. The \$40,000 offering was closed on October 15, 2009 with the Underwriters fully exercising the Overallotment Option. Financing costs related to this raising are approximately \$2,000.
- On October 26, 2009, the Corporation completed the purchase of all shares of Groundstar Resources Inc. ("GRI"), a Guyanese company which holds a Petroleum Prospecting License ("PPL") in the Takutu Basin in Guayna comprising approximately 7,800 square kilometres. Under the terms of the Agreement, Canacol acquired a 90% working interest in the PPL in exchange for a cash payment to Groundstar Resources (Cayman) Inc. ("GRCI"), the owner of GRI in the amount of US\$3.45 million. US\$1.2 million of this purchase price was previously paid to GRCI in May, 2009. The Corporation will carry a 10% net working interest for GRCI to first commercial production. Under the PPL, one well must be drilled on the property by May, 2010 and a second well must be drilled by May, 2011.

COMPANY OVERVIEW AND BACKGROUND

Canacol Energy Ltd. ("Canacol" or the "Corporation") formerly BrazAlta Resources Corp. ("BrazAlta") (TSX-Venture: CNE) is a Canadian-based independent oil exploration company operating primarily in Brazil, Colombia, and Guyana. The Corporation also maintains non-core exploration programs in Canada and Northern Ireland. Up to December 31, 2008, Canacol had a subsidiary, BCH Ltd. ("BCH"), which had established itself as a leading onshore provider of both drilling and service rigs in Brazil on several long-term contracts with Petrobras, Brazil's state-owned petroleum company, to provide rigs

and services. Effective December 31, 2008, Canacol's ownership in BCH Ltd. was sold to Allis-Chalmers Energy Inc.

Colombia E&P

Rancho Hermoso and Entrerrios

In Colombia, the Corporation operates 2 producing oil fields located in the Llanos Basin under risked service contracts for Ecopetrol S.A. ("Ecopetrol"). Ecopetrol is a Mixed Economy Company, with a commercial orientation, organized as an "Anonymous Society" (equivalent to a Corporation), under the Ministry of Mines and governed by the Social Statutes. Ecopetrol carries out hydrocarbon exploration, production and transportation activities in Colombia both directly and through participation agreements with other companies operating in Colombia. The two fields operated by Canacol are the Rancho Hermoso Field (100% working interest) and the Entrerrios Field (60% working interest). Gross production from the 2 fields is currently approximately 3,000 *bbl/d*. The Corporation's share of production is 1,850 *bbl/d*, comprised of 350 *bbl/d* net of government royalty, and 1,500 *bbl/d* of tariff production. A majority of the Corporation's net oil production is currently hedged at a floor of US\$55.00 and a ceiling of US\$80.25 per barrel until late 2011. For the tariff oil production, the Corporation receives an operating tariff per gross produced barrel of oil from Ecopetrol. The average tariff price for 2009 is approximately US\$9.63 per gross barrel, and is insensitive to West Texas Intermediate oil price fluctuations. Under an existing agreement with Ecopetrol, the tariff will increase through a series of steps each year to approximately US\$17.36 per gross barrel in 2012 and will remain at that level for the duration of life of field. The average tariff price for 2010 will be approximately US\$12.04 per barrel.

The Corporation drilled one development well in August 2009. The entire program scheduled to be completed by late November 2009 includes drilling of the Entrerrios 5 and the Rancho Hermoso 5 wells. The program also includes working over three existing wells to increase productivity by perforating oil bearing reservoirs behind pipe and comingling with existing oil production. The drilling and work over activities at Rancho Hermoso and Entrerrios are currently expected to add approximately 3,000 initial barrels oil per day ("*bbl/d*") of revenue production from Colombia. At a net cost of US\$10.1 million, this program is anticipated to capture significant value at a low cost.

Ombu E&P Contract - Capella Oil Discovery Appraisal

The Corporation, under a farm out agreement entered into in July 2008, earned a 10% working interest in the Capella conventional heavy oil discovery operated by Emerald Energy Plc. on the Ombu E&P contract, where the operator is continuing with its appraisal drilling. The Corporation received formal assignment of its 10% working interest in the contract by the ANH in July 2009.

The field is a large seismically defined structure at the Mirador reservoir interval. The southern part of the field, approximately 89 square kilometres in area, is currently being appraised. Six wells have been drilled to date. The Capella 1 and 2 wells tested 240 and 345 gross *bbl/d* from the Mirador Formation. The Capella 3 well, the first deviated well to be drilled in the block, has a surface location adjacent to the Capella 1 vertical well and penetrates the reservoir approximately 340 metres away. The Capella 4 vertical well was drilled approximately 1.6 kilometres to the southwest of the Capella 1 location. The Capella 3 and Capella 4 wells both encountered the target Cretaceous Mirador reservoirs with net hydrocarbon pay intervals similar to those encountered in Capella 1 and 2. The rig completed drilling and testing the Capella 5 vertical well, located approximately 3.4 kilometres to the northeast of Capella 1. The Capella 6 vertical well, located 4.2 kilometres to the southwest of Capella 1, was currently being drilled and completed. The operator plans to drill 1 additional appraisal well, Capella 7, in November, 2009, which is planned to be a horizontal well. All wells are put on production as soon as possible, shipping by truck to sales points within Colombia.

The Corporation is participating in the drilling of 2 slim-hole delineation wells, and the commencement of a cyclic steam injection pilot on one of the existing vertical producing wells. The objective of the slim-hole well program is to delineate the extent of this thick oil bearing sandstone to aid in future development planning. The slim-hole wells are designed to recover continuous core

from the entire reservoir section in the upper Mirador sand and will be logged using special slim-hole tools, but will not be capable of production. As they can be drilled at substantially lower cost than a conventional well designed for production, they are a cost effective way of delineating reservoir thickness in certain areas of the Capella field. The SH-1 well is anticipated to intersect the upper Mirador sands deeper on the structure than the Capella 6 well. The well is planned to take up to one month to drill and evaluate, but as this is the consortium's first such operation, may take longer. The second slim-hole well, Capella SH2, is planned to be located approximately 2.5 kilometres to the south-west of the Capella 6 well and to commence drilling after the Capella SH1 well operations are completed.

La Sierra E&P Contract

The Corporation operates the La Sierra E&P contract (51% working interest) located in the Middle Magdalena Basin, awarded by the Agencia Nacional de Hidrocarburos ("ANH") in 2007. The contract contains the La Sierra 1 oil discovery, drilled in 1992 with recovery of 23 barrels of 17 API oil from 10 feet of net pay in the Tertiary Honda Formation at 1,400 feet measured depth. The Corporation acquired 33 km of 2D seismic on the contract in 2008, and subsequently acquired an additional 46 square kilometres of 3D seismic at a net cost of US\$1,100. Seismic will allow the Corporation to target the reservoir with a great deal more precision. An exploration well is expected to be drilled in March, 2010 and will target the Tertiary Honda reservoir in close proximity to the existing La Sierra 1 well, which tested oil from this formation. The well may be production tested with a progressive cavity pump to improve deliverability from the reservoir, with possible follow up using cyclic steam injection to increase recovery.

Pacarana Technical Evaluation Area

Effective June 19, 2009, Canacol, through its subsidiary Rancho Hermoso, was awarded with the Pacarana Technical Evaluation Area ("Pacarana TEA") by the Agency Nacional de Hidrocarburos. The Pacarana block is located adjacent and to the south of the Ombu E&P.

The Corporation has a 100% working interest in the block, which is approximately 469,968 hectares in size and is located in the Caguan - Putumayo Basin of Colombia. An interpretation of the existing geotechnical data on the block identifies prospective structural trends similar to the Capella heavy oil discovery located immediately to the north on the Ombu E&P contract. The work obligation associated with the contract requires the Corporation to acquire 2,240 km of aeromagnetic and gravity data and to conduct geotechnical studies including the interpretation of available LandSat image data over a period of 12 months, for an anticipated cost of approximately US\$465.

Tamarin E&P contract

Effective August 20, 2009, Canacol, through its subsidiary Rancho Hermoso, was awarded the Tamarin Exploration and Production Contract ("Tamarin E&P contract") by the Agencia Nacional de Hidrocarburos of Colombia.

The Corporation has a 100% working interest in the block, which is approximately 27,487 hectares in size and is located in the Caguan - Putumayo Basin of Colombia, approximately 25 kilometres directly southwest of the Ombu E&P Contract which contains the Corporation's Capella heavy oil discovery, which is currently under appraisal. The terms of the six year contract are as follows:

- Phase 1 Exploration Period - The Corporation will acquire, process and interpret 60 kilometres of 2D seismic and interpret all existing magnetic and gravity geophysical data. The duration of this phase is 18 months, which anticipated costs of approximately US\$1,565.
- Phase 2 Exploration Period - The Corporation will drill one exploration well within a period of 18 months.
- Phase 3 Exploration Period - The Corporation will acquire, process and interpret 30 square kilometres of 3D seismic within a period of 12 months.
- Phase 4 Exploration Period - The Corporation will drill two exploration wells within a period of 24 months.

Brazil E&P

Effective January 5, 2006, Canacol entered into a Consortium and Joint Operating Agreement with W. Washington Empreendimentos E. Participações Ltda, which subsequently has changed its name to W. Washington Petroleo S.A. ("W. Washington"), for the creation and operation of a Brazilian domiciled joint venture entity ("Brazil Joint Venture") to hold, explore, develop and produce hydrocarbons in Brazil. Canacol holds a 47.5% interest and W. Washington, the operator, holds a 52.5% interest in the Brazil Joint Venture.

Canacol's E&P operations are primarily engaged in the exploration, development and production of oil and gas in the Recôncavo, Sergipe, Espirito Santo, and Tucano basins of Brazil. To date, the bulk of activity has been undertaken jointly by Canacol and W. Washington in the Recôncavo and Sergipe basins and has been higher risk and exploratory in nature with minimal success achieved, which has resulted in no appreciable increase in oil production or significant addition of reserves.

Canacol holds a 47.5% working interest and W. Washington holds a 52.5% interest in the four main production concessions in Recôncavo, from which over 90% of Canacol's current Brazilian production originates. The concession contracts were originally awarded to W. Washington by the Agência Nacional do Petróleo, Gás Natural e Biocombustível ("ANP"), Brazil's national regulator, and Canacol subsequently registered its 47.5% interest on these contracts directly with the ANP. Rights to produce hydrocarbons on these four producing blocks run until 2025. As operator, W. Washington sells all of the produced oil to Petrobras in Recôncavo at prices based on North Sea Brent less costs for transportation and processing.

Guyana E&P

In May 2008, the Corporation negotiated a farm-in to a 7,800 sq km exploration contract located in the Takutu Basin, onshore Guyana adjacent to the border with Brazil, awarded to Groundstar Resources Ltd. ("Groundstar") in July 2005 for a four year period. The operator was successful recently in extending the term of the contract to July 2012 with a commitment to drill 2 wells by July 2010. The block contains the Karanambo discovery made by Home Oil in 1982. The Karanambo 1 well tested 411 boe/d (42-degree API) from a sub-salt reservoir during a five-hour drill stem test proving the existence of a light oil hydrocarbon system within this frontier basin. Based on a report prepared by Gaffney, Cline & Associates dated July 2008, the mean contingent resources associated with the Karanambo discovery are 100 million barrels gross (55 million barrels net). The block also contains 2 exploration prospects, Pirara and Rewa High, with mean prospective resources of 71 million barrels (39 million barrels net) in Pirara and 153 million barrels gross (84 million barrels net) in Rewa High. Civil works and location construction are currently underway in preparation of drilling the Karanambo offset well and one additional exploration well in 2010. Under the terms of the farm-in agreement, Canacol is required to fund the first US\$12,000 of costs in order to earn a 55% working interest in the contract. On May 15, 2009, the Corporation announced that it had entered into a Share Purchase Agreement to acquire 35% of Groundstar's 45% remaining working interest in the concession for consideration of US\$3.45 million. This transaction closed on October 26, 2009 increasing Canacol's working interest to 90% and eliminating the farm-in earning requirement. Under the terms of the agreement, the Corporation will carry Groundstar's 10% remaining working interest until first commercial oil production.

Canada and Ireland E&P

Operations in Canada are considered to be non-core. Canadian properties at December 31, 2008 were non-operated and at December 31, 2008 included five natural gas wells (1.70 net) located in Sylvan Lake, Alberta, and royalty income from six wells in the Lochend area of Alberta. In January, 2009 the Corporation completed a sale of a majority of its Canadian petroleum properties for proceeds of \$122. Following the sale, the Corporation continues to hold interests in some non-producing properties and is seeking to dispose of its interest in these remaining properties. The Corporation does not expect to

receive any significant proceeds from the sale of the remaining interests and is not planning any operations activities for these interests.

Exploration in Ireland is considered to be non-core and high risk and includes oil and natural gas exploration and the potential for development of salt cavern gas storage. The Corporation is currently reviewing potential alternatives for its Ireland interests and will likely discontinue future activity in Ireland.

FINANCIAL HIGHLIGHTS AND SUMMARY OF RESULTS - ONGOING OPERATIONS

Unless otherwise stated, amounts presented in this MD&A are in thousands of Canadian dollars. All discussions under the financial highlights section relate to the ongoing operations of the Corporation and exclude the operations of BCH Ltd. Ongoing operations of the Corporation relate to the oil and gas exploration and production operations of the Corporation. Detailed discussion on the discontinued operations of BCH for the year ended June 30, 2009 is contained in the "Discontinued Operations" section. The Colombian and Guyana operations of the acquired Canacol Energy Inc. are for the period October 31, 2008 through June 30, 2009.

Annual Summary Information			
<i>\$000's (Expect per share amounts)</i>	2009	2008	2007
Petroleum and natural gas sales			
Colombia	\$ 4,292	\$ -	\$ -
Brazil ⁽²⁾	3,022	4,800	3,156
Canada	70	140	284
	<u>7,384</u>	<u>4,940</u>	<u>3,440</u>
Tariff Revenue	3,040	-	-
Total operating revenue	<u>\$ 10,424</u>	<u>\$ 4,940</u>	<u>\$ 3,440</u>
Total production (boe)	120,972	110,300	30,563
Total tariff production (bbl)	279,068	-	-
Total Assets	\$ 85,209	\$ 111,613	\$ 39,521
Total Liabilities	\$ 47,902	\$ 77,356	\$ 2,220
Cash (from) used in operating activities	\$ (2,357)	\$ (3,001)	\$ 3,459
Per share ⁽¹⁾	\$ (0.02)	\$ (0.04)	\$ 0.06
Net loss	\$ (21,791)	\$ (9,731)	\$ 6,691
Per share ⁽¹⁾	\$ (0.18)	\$ (0.11)	\$ 0.11

⁽¹⁾ Per share amounts are basic and diluted.

⁽²⁾ Certain of the prior year figures have been reclassified to conform with the current year's presentation. Production revenue was historically presented net of transportation and processing charges.

Quarterly Information - Recurring Operations		2009			2008				
(\$000s, except production data and per share)		Q4	Q3	Q2 ⁽¹⁾	Q1	Q4	Q3	Q2	Q1
Petroleum and natural gas sales									
Colombia ⁽¹⁾		2,247	1,200	871	-	-	-	-	-
Brazil		80	767	862	1,313	1,515	1,487	993	806
Canada ⁽³⁾		-	-	7	37	33	8	42	56
Total production revenue		2,327	1,967	1,740	1,350	1,548	1,495	1,035	862
Tariff revenue		1,001	1,069	970	-	-	-	-	-
Total operating revenue		3,328	3,036	2,710	1,350	1,548	1,495	1,035	862
Total production (boe)		37,855	39,413	32,276	11,428	62,697	18,543	14,932	14,128
Total tariff production (bbl)		92,367	104,101	82,600	-	-	-	-	-
Cash used in (from) operating activities		(4,093)	(2,446)	5,673	(1,491)	(604)	(546)	(963)	(887)
Per share ⁽¹⁾		(0.03)	(0.02)	0.01	(0.02)	(0.01)	(0.00)	(0.00)	(0.01)
Net (loss) gain		(5,249)	(5,050)	(8,847)	(2,645)	(1,390)	(2,163)	(2,620)	(3,558)
Per share ⁽¹⁾		(0.04)	(0.04)	(0.08)	(0.03)	(0.02)	(0.03)	(0.03)	(0.04)
Total assets		85,209	87,958	89,106	48,299	42,703	49,861	27,530	45,000
Total long term liabilities		26,967	13,828	47,640	48,456	21,892	16,165	10,238	21,600

⁽¹⁾ Colombian operations commenced October 30, 2008

⁽²⁾ Certain of the prior year figures have been reclassified to conform with the current year's presentation. Production revenue was historically presented net of transportation and processing charges.

⁽³⁾ Canadian producing properties were sold effective January 1, 2009.

Petroleum and Natural Gas

Sales (Net of Royalties)

Operating revenue from continuing operations for the year ended June 30, 2009 totalled \$10,424 (F2008 - \$4,940) representing an increase of 110%. Production revenue totalled \$7,384 (F2008-\$4,940) representing an increase of 49%. Increases resulted from the inclusion of production revenue from Colombia operations which commenced on October 30, 2008.

The total operating revenue for Q4-F2009 of \$3,302 (Q4-F2008-\$1,548) represented an increase of 113% compared to Q4-F2008. Production revenue totalled for Q4-2009 of \$2,301 (Q4-F2008- \$1,548). Increases resulted from the inclusion of production revenue from Colombia operations which commenced on October 30, 2008.

In Colombia, total net production volumes during F2009 totalled 76,174 bbls (313 *bbl/d*-commenced on October 30, 2008) (F2008- Nil). The average price achieved in Colombia during F2009 was \$53.59/bbl. In Colombia, tariff production volumes during F2009 totalled 279,068 bbls (1,148 *bbl/d*-commenced on October 30, 2008) (F2008- Nil). The average tariff price for F2009 is approximately US\$10.89/bbl.

In Colombia, production volumes during Q4-F2009 totalled 27,077 bbls (298 *bbl/d*) (Q3-F2009 - 28,635 bbls (318 *bbl/d*)) of crude oil. The average price achieved in Colombia in the Q4-F2009 was \$68.79/bbl compared to \$47.87/bbl in Q3- F2009. In Colombia, tariff production volumes during Q4-F2009 totalled 92,367 (1,015 *bbl/d*) (Q3-F2009: 104,101 bbls (1,157 *bbl/d*)). The average tariff price for Q4-2009 was \$10.83/bbl.

Brazil production volumes during F2009 totalled 43,114 bbls (118 *bbl/d*) (F2008 - 58,340 bbls (159 *bbl/d*) of light oil. The average price achieved per bbl in Brazil in the F2009 was \$42.06/bbl (F2008- \$98.06/bbl), which is a 57% decrease on a year-over-year basis.

In Canada, production consisted of oil, natural gas, and natural gas liquids from the Corporation's properties in Alberta. Production from Canada to December 31, 2008 totalled 1,685 boe (9 *boe/d*) (F2008 - 3,754 boe (42 *boe/d*)). Canadian producing properties were sold on January 1, 2009.

Production Volumes				
	Three Months Ended June 30,		Year Ended June 30,	
	2009	2008	2009	2008
(boe)				
Colombia *	27,077	-	76,174	-
Brazil	10,778	14,491	43,113	58,340
Canada**	-	604	1,685	4,358
Total net production	37,855	15,095	120,972	62,697
Tariff production	92,367	-	279,068	-
Total	130,222	15,095	400,040	62,697

* Colombian operations commenced on October 30, 2008

** The majority of the Canadian producing properties were sold effective January 1, 2009.

Royalties as a percentage of gross petroleum and natural gas revenues by geographic region for the year ended June 30, 2009 and respective prior period comparables are shown in the table below. The current base royalty regime in Brazil averages between 5% and 11% of gross production revenue. The actual rate the Corporation achieved for the year ended June 30, 2009 in Brazil was 8.8% compared to 7.7% during F2008. In Brazil, royalty rates are based on a sliding scale on incremental production over and above certain production thresholds on a block by block basis. Therefore, if aggregate production on any one block increases above the contracted thresholds, the royalty on that block should decline over time. In Colombia, royalties are taken in kind and at a rate of approximately 8%. During Q4-2009 Colombian royalties averaged 8%.

Royalties				
	Three Months Ended June 30,		Year ended June 30,	
	2009	2008	2009	2008
Colombia *	8.0%	-	8.0%	-
Brazil	8.8%	8.3%	8.8%	7.7%
Canada**	-	9.4%	11.0%	29.0%

* Colombian operations commenced October 30, 2008

** The majority of the Canadian producing properties were sold effective January 1, 2009.

Brazil oil sales are subject to non-refundable sales taxes. This totalled \$251 during the year ended June 30, 2009 (F2008 - \$480). This has been recorded and netted against revenue for the year ended June 30, 2009.

Interest and Other Income

During the year ended June 30, 2009 interest and other income of \$986 (F2008 - \$464) was recorded. During the three months ended June 30, 2009 interest and other income of \$496 (F2008 - \$232) was earned.

Operating Expenses and Netback - Petroleum and Natural Gas

For the three months ended June 30, 2009, operating expenses totalled \$2,622 (F2008 - \$1,307) and for the year ended June 30, 2009 overall operating expense totalled \$7,376 (F2008 - \$4,079). The Colombian operating expenses relate to both tariff and non-tariff oil production. Details by operating segment are outlined in the table below.

Operating Expenses				
	Three Months Ended		Year Ended	
	June 30,		June 30,	
(\$000s) Except per boe amounts	2009	2008	2009	2008
Operating expenses				
Colombia ⁽²⁾	\$ 1,521	\$ -	\$ 4,680	\$ -
Brazil ⁽³⁾	348	380	511	1,548
Canada ⁽⁴⁾	-	6	20	95
	<u>1,869</u>	<u>386</u>	<u>5,212</u>	<u>1,643</u>
Colombia transportation & processing charges	315	-	637	-
Colombia well workover & repair	176	-	182	-
Brazil transportation & processing charges	275	182	1,098	731
Brazil well workover & repair	27	2	109	376
MEP work unit provision ⁽¹⁾	(40)	737	139	1,329
	<u>\$ 2,622</u>	<u>\$ 1,307</u>	<u>\$ 7,376</u>	<u>\$ 4,079</u>
Operating expenses per boe				
Colombia ⁽²⁾	\$ 12.73	\$ -	\$ 13.17	\$ -
Brazil ⁽³⁾	\$ 11.89	\$ 26.23	\$ 11.89	\$ 26.53
Canada ⁽⁴⁾	\$ -	\$ 9.79	\$ 12.07	\$ 21.61
Weighted Average	<u>\$ 12.69</u>	<u>\$ 25.52</u>	<u>\$ 13.03</u>	<u>\$ 26.19</u>

⁽¹⁾ Minimum exploration program ("MEP")

⁽²⁾ Colombian operations commenced October 30, 2008. Colombian operating expenses relate to both tariff and non-

⁽³⁾ Expenditures related to the planned non-routine enhancement workover programs undertaken during the year are presented separately and excluded from the calculation of ongoing operating costs. Transportation and processing charges and MEP work unit provision are also shown separately. Brazilian quarterly operating expenses have been based on the yearly average.

⁽⁴⁾ Canadian producing properties were sold effective January 1, 2009.

In Brazil, approximately one-third of operating costs represents fixed costs that are expected to be scalable to approximately 2,000-3,000 gross boe/d. Therefore, if the Corporation experiences

increases in production, it is expected that operating expense per boe will be reduced from current levels.

Depletion, Depreciation, and Accretion (DD&A)

During Q4-F2009, DD&A from recurring operations totalled \$2,417 (Q4-F2008 - \$1,053) while for the year ended June 30, 2009, overall DD&A expense was \$6,535 (F2008 - \$2,891). The respective increase on a quarter-over-quarter basis and year-to-date basis is a result of an increase in proven properties included in the depletion calculation for Brazil plus the addition of Colombian properties.

General and Administrative

During Q4-F2009, general and administrative (G&A) expenses from recurring operations were \$2,551 (Q4-F2008 - \$1,112) while G&A expenses from recurring operations were for the year ended June 30, 2009 totalled \$7,518 (F2008 - \$3,907). G&A expenses are incurred in Canada, Colombia, and Brazil and primarily consist of management and advisory fees, professional fees, travel, and other administrative expenses needed to support the Corporation's operations. Canacol did not capitalize any indirect overhead costs. Following the acquisition of Canacol Energy Inc. and the disposition of BCH during the quarter, Canacol conducted a detailed review of its operations and administrative functions in order to identify inefficiencies and better integrate operations. Management considers this to be an ongoing project required to ensure that operations are managed efficiently.

Interest and Financial Expenses

During Q4-F2009, interest and financial expenses were \$1,081 (Q4-F2008 - \$368). For the year ended June 30, 2009, interest and financial expenses were \$3,028 (F2008 - \$941). Interest and financial expense is comprised of interest on the Corporation's long-term debt facilities, capital leases, and non-cash interest charges. Non-cash interest charges relate to the accretion of the deferred financing charges incurred on the Corporation's debt facilities. Non-cash interest charges for Q4-F2009 totalled \$414 (Q4F2008 - \$177). Non-cash interest charges for the year ended June 30, 2009 totalled \$1,004 (F2008 - \$462).

Foreign Exchange

The Corporation's activities in Brazil use the Brazilian Real (BRL\$) and the Corporation's activities in Colombia use the Colombian Peso (COP\$) as the functional currency and therefore the Corporation is exposed to the risk of fluctuations in foreign exchange rates. The Corporation's sales purchase contracts for oil produced in Brazil and Colombia are based on US dollar reference prices but are paid in Brazilian Real in Brazil and through a combination of US dollars and Colombian Pesos in Colombia. The Corporation's long-term debt facilities are denominated in US\$ while the Corporation's line of credit facilities are denominated in Colombian Pesos.

During Q4-F2009, the Corporation incurred a net foreign exchange loss of \$480 (Q4F2008 - gain of \$624) and for the year ended June 30, 2009 the Corporation incurred a foreign exchange loss of \$2,699 (F2008 - gain of \$1,053). The foreign exchange loss during the year ended June 30, 2009 is a result of the depreciation of the Canadian dollar relative to the US dollar, and the corresponding impact on the Corporation's US dollar denominated debt balances, as well as the foreign exchange loss on translation resulting from the depreciation of the Brazilian Real relative to the Canadian dollar.

The Corporation currently has not entered into any foreign currency derivative contracts to manage its exposure to the Brazilian Real, Colombian Peso, or the US Dollar. Refer to the Risk Factors Section below for additional details.

Financial Derivatives

During the year ended June 30, 2009, the Corporation had one financial derivative in place. This included WTI oil financial option collar. The Corporation has not designated this embedded derivative as a hedge and has therefore recorded the unrealized gain on the contract on the balance sheet with changes in its fair value recorded in the net earnings for the period.

During December 2008, Canacol sold a hedge agreement associated with its net oil production in Colombia for net consideration of US\$5,000 resulting in a realized derivative gain. A new hedge agreement was simultaneously entered into covering the same production volumes as the sold hedge, however, the oil collar floor was reduced from USD\$100.00 to USD\$55.00 and the cap was reduced from an average of USD\$136.67 per barrel to USD \$80.25 per barrel. Refer to the Risk Factors section for specific details of the current financial derivative contract that remains outstanding as of June 30, 2009.

During March, 2009, Canacol, with its joint venture partner, W. Washington Petroleo S.A., sold its Financial Brent oil collar agreement for the net proceeds of US\$313.

At June 30, 2009, the Corporation had a total net financial derivative liability of \$497 (June 30, 2008 - liability of \$987) relating to oil financial option collars.

During the year ended June 30, 2009, the Corporation had a net realized financial derivative gain of \$4,427 (F2008 - loss of \$573). For the three months ended June 30, 2009, the Corporation had a net realized financial derivative gain of \$304 (2008 - loss of \$300) on its oil collar hedge. During the year ended June 30, 2009, the Corporation had a net unrealized financial derivative loss of \$497 (F2008 - loss of \$1,488). For the three months ended June 30, 2009, the Corporation had a net unrealized financial derivative loss of \$598 (Q4-F2008 - loss of \$904) on its oil collar hedge.

Stock Based Compensation

During the year ended June 30, 2009, a total of \$743 (F2008 - \$1,594) was expensed relating to the vesting of stock options, of which \$366 (F2008- \$203) related specifically to the three months ended June 30, 2009. The year-over-year decline can primarily be attributable to a combination of the relative timing of option grants during the year and a lower overall value on those options issued during the current period.

Income Taxes

Canacol is subject to taxation in Canada, Brazil, and Colombia. The current income tax expense for Q4-F2009 was a recovery of \$13 (Q4-F2008 - \$Nil) and for the year ended June 30, 2009 was a recovery of \$186 (F2008 - \$Nil) relating to Colombian income taxes. Due to operating losses in Brazil and Canada, the Corporation was not subject to income taxes in these jurisdictions during F2009.

A future income tax asset is not recognized for the Corporation's Canadian net-capital losses, non-capital loss, or other tax pool balances. Further, a future income tax asset has not been recognized on the Corporation's Brazilian tax losses or other tax pools. A valuation allowance has conservatively been applied to the remainder of the future income tax assets in the entity due to uncertainty of realization.

As at June 30, 2009, the Company had a deferred income tax liability relating to the book value in excess of the tax basis value on its petroleum and natural gas assets acquired through the acquisition of Canacol Energy Inc. The future income tax liability recorded in conjunction with the acquisition totalled \$11,382. During the period, future income tax recovery was \$5, resulting in an outstanding future income tax liability of \$11,378 at June 30, 2009 (June 30, 2008 - \$nil).

Impairment on long-term assets

During the year ended June 30, 2009, the Corporation recorded impairment on long-term assets and assets held for sale of \$4,300. The impairment charges recorded by the Corporation relate to the Corporation's Canadian petroleum and natural gas properties, the majority of which were sold effective January 1, 2009, the 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 ongoing financial crisis, it would not likely be able to realize the carrying value of the assets in future periods. The impairment recorded was to adjust the carrying value of these long-term assets to the expected value to be realized at that time.

At June 30, 2009, the Corporation reviewed the carrying value of the Corporation's petroleum and natural gas assets in Colombia, Brazil, and Guyana based on prevailing prices at June 30, 2009 and assessed that there was no impairment.

Goodwill Impairment

During F2009, the Corporation recorded an impairment on the goodwill that had been recorded relating to its purchase of Canacol Energy Inc. of \$5,123. Following the rapid decline in commodity prices and significant changing economic circumstances as a result of the global financial crisis, Management determined that goodwill recorded on the acquisition of Canacol Energy Inc. was impaired and therefore recorded a provision for the year ended June 30, 2009.

CASH FLOWS FROM OPERATING, FINANCING, AND INVESTING ACTIVITIES - ONGOING OPERATIONS

Operating

In Q4-F2009, cash flow from ongoing operating activities totalled an outflow of \$3,815 (F2008 - outflow of \$887) and for the year ended June 30, totalled an outflow of \$2,357 (F2008 - outflow of \$3,001). For the three months period ending June 30, 2009, cash flow from operating activities before changes in non-cash working capital totalled an outflow \$2,026 (Q4, F2008 - outflow of \$1,250). Changes in non-cash working capital relating to operating activities in Q4, F2009 totalled an inflow of \$1,883 (Q4, F2008 inflow of \$188).

The change on the operating cash flow is primarily attributable to negative results of the Brazil subsidiary.

Financing

During year ended June 30, 2009, the Corporation recorded net cash outflow of \$6,447 (F2008 - inflow of \$12,964). In the fourth quarter, the Corporation recorded a net cash inflow of \$5,152 (F2008 - outflow of \$10). For the year ended June 30, 2009, cash outflow from financing activities primarily relates to \$14,063 (US\$11,600) for the repayment in full of its mezzanine debt facility; the repayment in full of \$4,564, (US\$3,015), on the W. Washington reserves based facility offset by an increase in the Rancho Hermoso reserves facility by \$4,213 (US\$3,500); the cash inflow in Q4, F2009 on private placement of 48,000,000 common shares of Canacol for gross proceeds of \$6,000 (net of \$5,486) and concurrent issuing of warrants in connection with the private placement valued at \$1,253.

Investing

During the year ended June 30, 2009, cash flows from investing activities totalled an outflow \$7,340 (F2008 - outflow of \$2,851). In Q4, F2009, there was an outflow of \$2,530 (Q4-F2008 - outflow of \$12,003). During the year ended June 30, 2009, the Corporation incurred \$8,814 in capital expenditures. The majority of the capital spent was related to the Corporation's Colombian operations, which totalled \$7,214 and to the Groundstar acquisition (\$1,407).

DISCONTINUED OPERATIONS - BCH LTD.

Effective October 1, 2008, BCH Ltd. completed a non-brokered private placement of 4,474,999 BCH common shares at a price of US\$4.163 per BCH common share for aggregate gross proceeds of US\$18,629. Canacol acquired 1,717,093 BCH Common Shares for consideration of US\$7,148 to settle loans receivable from BCH. Allis-Chalmers Energy Inc. acquired 2,192,750 BCH Common Shares in the financing for consideration of US\$9,128, with US\$3,500 settling accrued interest payable on the debenture and cash proceeds of US\$5,628. Following the completion of the private placement, BCH had 13,909,843 BCH Common Shares issued and outstanding of which Canacol owned 11,717,093 BCH Common Shares or 84.2%. Effective December 31, 2008, Canacol sold all of its 11,717,093 BCH Common Shares to Allis Chalmers for proceeds of US\$5,000. Under the terms of the transaction, Allis Chalmers assumed the liability for the US\$23.5 million long-term debt facility and the US\$40 million convertible debenture already owned by Allis Chalmers.

Included in net earnings and gain from discontinued operations (net of tax) in the consolidated financial statements of Canacol, a gain totalling \$27,120 relating to the sale of all of its interest in BCH.

Operational and financial highlights from BCH's operations, which are "Discounted Operations" for the three and six month periods ended December 31, 2008 include:

During the period, BCH was awarded and had started work on its sixth contract with Petroleo Brasileiro ("Petrobras"). The contract was for the provision of one on-shore single drilling rig and related crew and was for the period of one year.

BCH-05, a 3,200 meter diesel electric double, which had suffered a mast failure and had been out of operation since July 8, 2008 recommenced operations shortly following the end of Q2-F2009. The total estimated repair costs were US\$2,000 and it was expected that the majority of repair cost would be fully funded by insurance proceeds. Lost revenue days as a result of the incident totalled 176 days which represents gross receipts of approximately US\$4,576 being foregone during the period.

Drilling Services Revenue

As noted above, BCH was sold on December 31, 2008. Thus, during Q4-F2009, the total drilling services segment revenue, before inter-company consolidation eliminations, was \$Nil (Q4-F2008 - \$10,187) while for the year ended June 30, 2009, total drilling services segment revenue, before inter-company consolidation eliminations, was \$20,083 (F2008 - \$26,386). The drilling services unit generated net third party revenue of \$20,038 during the year ended June 30, 2009 (F2008 - \$24,418). During the year ended June 30, 2009, one-time mobilization revenue of US\$277 (F2008 - \$5,455) was recorded relating to the mobilization of BCH-06 to begin a one year contract.

Drilling Services Revenue				
Three Months Ended				
	June 30,		Year Ended June 30,	
(\$000s)	2009	2008	2009	2008
Drilling services segment revenue	-	10,187	20,083	26,602
Less: Inter-segment sales ⁽¹⁾	-	-	(44)	(1,968)
Less: Sales taxes	-	(485)	(1,328)	(1,453)
Drilling services revenue	-	9,702	18,711	23,181

⁽¹⁾ Inter-segment revenue and profit have been netted against exploration and production capital expenditures on consolidation.

Operating Expenses and Operating Margin

Drilling services operating costs for Q4-F2009 totalled \$Nil (Q4-F2008 - \$7,370) and for the year ended June 30, 2009 totalled \$13,854 (F2008 - \$16,833). The respective year-over-year decrease in operation expenses was attributable to BCH being sold. Operating margin for Q4-F2009 was \$Nil (Q4-F2008 - \$2,332) and for year ended June 30, 2009 was \$4,857 (F2008 - \$6,348).

Depreciation

During Q4-F2009, depreciation expense relating to the operations of BCH totalled \$Nil (Q4-F2008 - \$942) while for the year ended June 30, 2009, depreciation expense relating to the operations of BCH totalled \$2,102 (F2008 - \$2,028). The respective year-over-year increases in depreciation expense relative to last year for BCH is primarily attributable to the increased size of the drilling fleet and overall increased utilization.

General and Administrative

During Q4-F2009, general and administrative (G&A) expenses related to BCH were \$Nil (Q4-F2008 - \$1,738) while (G&A) expenses related to BCH for the year ended June 30, 2009 totalled \$2,445 (F2008 - \$4,111). The respective year-over-year increases are attributable to the expanded administrative operations of BCH required to support and higher rig total general and administrative expenses were incurred in Canada and Brazil and primarily consist of management and advisory fees, professional fees, travel, and other administrative expenses needed to support operations. BCH did not capitalize any indirect overhead costs.

Income Taxes

BCH was subject to taxation in Canada and Brazil. Current income tax expense for the year ended June 30, 2009 was \$1,380 (F2008 - \$1,948) relating to Brazilian withholding taxes on the lease portion of BCH's drilling rig contracts which is paid to Canadian entity. During year future income tax recovery was \$3,877 (F2008 - recovery of \$224). For the year ended June 30, 2009, the net tax recovery was \$2,497 (F2008 - expense of \$2,172). BCH recognizes a future income tax asset on the withholding tax amounts paid as the Corporation receives a business foreign tax credit in Canada related to these amounts. BCH has also recognized a future income tax asset for various timing differences arising between the book value and tax value of its capital assets. The recovery during the current year-to-date period is primarily a result of foreign exchange losses on BCH's debt reducing BCH's taxable income.

Stock Based Compensation

Included in discontinued operations, for the year ended June 30, 2009, stock compensation expense of \$17 (F2008- \$164) was recognized relating to stock options issued by BCH.

Interest and Financial Expenses

During Q4-F2009, interest and financial expenses were \$Nil (Q4-F2008 - \$2,841). For the year ended June 30, 2009, interest and financial expenses were \$6,079 (F2008 - \$5,954). Interest and financial expense is comprised of interest on the long-term debt facilities, convertible debenture, capital leases, and non-cash interest charges. Non-cash interest charges relate to the accretion of the deferred financing charges incurred on debt facilities as well as accretion of the convertible debenture. Non-cash interest charges for Q4-F2009 totalled \$Nil (Q4-F2008 - \$860). Non-cash interest charges for the year ended June 30, 2009 totalled Nil (F2008 - \$1,181).

Foreign Exchange

BCH's activities in Brazil used the Brazilian Real (BRL\$) as its functional currency and therefore it was exposed to the risk of fluctuations in foreign exchange rates. BCH's drilling services contracts are based on a US\$ price with a portion paid in BRL\$ and a portion of which is paid in US\$. Both BCH's long-term debt facilities and its Convertible Debenture are denominated in US\$.

BCH incurred a foreign exchange loss of \$Nil in Q4-F2009 (Q4-F2008 - loss of \$847) and loss of \$11,609 (F2008 - loss of \$321) during the year ended June 30, 2009. The foreign exchange gain during the nine months is a result of the depreciation of the Canadian dollar relative to the US dollar and the corresponding impact on US denominated debt balances as well as the foreign exchange loss on translation as a result of the depreciation of the Brazilian Real relative to the Canadian dollar during the year.

Derivatives

BCH had two types of derivative contracts in place; three foreign currency derivative contracts and an embedded derivative associated with drilling contracts. These embedded derivatives have not been designated as hedges and therefore unrealized gains on these contracts have been recorded on the balance sheet with changes in their fair value recorded in the net earnings for the period. Details of the outstanding contracts are as follows:

Period	Notional Balance	Type	Settlement	Average BRL/US Exchange Rate
June 2008 - April 2009	US\$500,000 / month	Non-Deliverable Forward	Financial	1.7621
July 2008 - April 2009	US\$200,000 / month	Deliverable Forward	Physical Delivery	1.7306
July 2008 - April 2009	US\$100,000 / month	Deliverable Forward	Physical Delivery	1.7570

During the year ended June 30, 2009, BCH had a net realized financial derivative loss of \$640 (F2008 - gain of \$51). For the three months ended June 30, 2009, BCH had a net realized financial derivative gain of \$Nil (Q4-F2008 - \$51). During the year ended June 30, 2009, BCH had a net unrealized financial derivative loss of \$1,498 (F2008 - gain of \$501). For the three months ended June 30, 2009, BCH had a net unrealized financial derivative gain of \$Nil (Q4-F2008 - gain of \$9).

LIQUIDITY AND CAPITAL RESOURCES

Working Capital

Funding for the Corporation's expenditures during the year ended June 30, 2009 was provided through a combination of share issuances and debt facilities. At June 30, 2009 the Corporation had a working capital deficiency of \$15,262 (June 30, 2008 - \$17,521).

Subsequent to the year ended June 30, 2009, the Corporation has placed \$4,000 of convertible debentures with interest payable in common shares, closed a private placement for \$377 in common shares, and closed a \$40 million common share financing. Management feels that a combination of cash on hand, cash generated from operating activities, funding from Gemini and potential farm-ins and equity offerings completed subsequent to year-end will finance the Corporation to allow it to execute planned drilling program and exploration commitments in Colombia, Guyana and Brazil.

More information on financing can be found in the Subsequent Events section.

Cash Flow From Operating Activities

The Corporation has generally had a history of negative cash flow from operating activities and may not be able to generate sufficient cash flow to fund operating activities in order to finance operations and other requirements. Following the conclusion of the acquisition of Canacol Energy Inc. and the disposition of BCH during the quarter, Canacol completed a detailed review of its operations and administrative functions in order to reduce inefficiencies and better integrate operations. In addition, significant financing initiatives have been completed to ensure that operations activities and exploration obligations are met. See "Working Capital".

Debt Facilities

The Corporation has been successful in reducing its overall debt levels. On December 31, 2008, Canacol announced that it has completed the sale of its remaining interest in BCH Ltd. to Allis-Chalmers Energy Inc. Under the terms of the transaction, Allis Chalmers assumed liability for the outstanding US\$23,500 long-term debt facility with the lender and the outstanding US\$40,000 convertible debenture. Further, the proceeds of sale of US\$5,000 went towards debt reduction of the Corporation's outstanding mezzanine facility.

The Corporation further reduced its outstanding debt balances by monetizing a forward commodity contract for proceeds of US\$5,000, which were also used to repay the Corporation's outstanding mezzanine debt facility.

As at June 30, 2009, the Corporation had repaid in full its original amount on the mezzanine debt of US\$11,600.

As at June 30, 2009, Canacol had a reserve based revolving line of credit facility with US\$17,500 drawn; the Rancho Hermoso reserves based revolving line of credit facility.

Rancho Hermoso reserves based revolving line credit facility

In August 2008, a debt facility was jointly put in place between Canacol Energy Ltd (Formerly Brazalta Resources Corp.) and Canacol Energy Inc. in order to finance the acquisition of Rancho Hermoso S.A. with the lender for a total of US\$25,600. The loan is comprised of two credit facilities:

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

The security package and terms include a lien on the shares of Rancho Hermoso S.A., a guarantee from each of Canacol Energy Ltd. and Canacol Energy Inc., and a hedge of a percentage of Rancho Hermoso S.A. production. In addition, Canacol issued to the lender warrants to acquire 10,000,000 Canacol Common Shares at a price of C\$0.80 per Canacol common share for a period of five years. 3,500,000 warrants were cancelled. These warrants were previously issued to the lender at US\$2.00 last year as part of the W. Washington Brazilian reserves based lending line.

The Corporation's Rancho Hermoso reserves based revolving line credit facility contains non-financial and financial covenants. As of the date of these statements, the Corporation is in compliance with all non-financial and financial covenants including the borrowing base of the credit facility. There is, however, a risk that economic or other circumstances such as low commodity prices could create a situation in which the Corporation would not be able to meet its financial or non-financial covenants in upcoming periods. Failure to meet the covenants could, at the discretion of the lender, constitute an event of default giving the lender the right to demand repayment of some, or all, of the loan. Management has reviewed such situations with the lender and on July 20, 2009, the Corporation credit agreement was amended, modifying financial covenants for future periods. See note 7 to the financial statements for F2009.

Brazil credit facility

During the year ended June 30, 2009 had a reserve based revolving line of credit facility with its partner W. Washington, the borrower under the credit facility dated June 29, 2007 ("W. Washington reserve facility") to which Canacol was a guarantor. As at June 30, 2009, the Corporation and W. Washington had no amount owing under this credit facility.

Capital program commitments

In Colombia and Guyana, the Corporation has non-discretionary work program commitments totalling approximately \$16,358 for calendar 2009 and \$6,975 in calendar 2010. The Corporation will continue to focus its efforts in 2009 on its operated development programs in Colombia, and on its non-operated appraisal project at the Capella discovery, to provide operating cash flow, and seek to reduce its exposure to its non-operated production and exploration operations in Brazil. The majority of the Corporation's committed and discretionary development drilling programs in Colombia focus on increasing oil production from the tariff oil reservoir at the Rancho Hermoso Field in which the Corporation receives a fixed price per barrel of oil production. The Rancho Hermoso drilling projects are insensitive to WTI price volatility. Further, the Corporation is seeking to discontinue non-core operations in Canada and Ireland and intends to focus its capital on Colombia, Guyana, and Brazil. The Corporation intends to continue to finance these commitments through a combination of cash flow from operations and through additional debt and equity financing alternatives (as discussed in greater detail below). The Corporation is also actively seeking additional farm-in partners for its exploration projects in Brazil.

Other

The Corporation continues to assess its requirements for capital on an on-going basis. Although the dramatic drop in oil prices over the last year combined with the overall current state of the public capital markets restricts the options available for the Corporation to raise additional equity or debt,

the Corporation has successfully attracted the required investment capital to fund operations and planned programs for 2010. See "Subsequent Events".

The Corporation continues to hold interests in some non-producing properties and is seeking to dispose of these interests during 2009, however, it does not expect to receive any significant proceeds.

COMMITMENTS, GUARANTEES, AND OFF-BALANCE SHEET ARRANGEMENTS

As at June 30, 2009, Canacol has minimum exploration program ("MEP") work unit commitments to complete negotiated exploration work on its onshore blocks awarded by the Agência Nacional do Petróleo, Gás Natural e Biocombustível ("ANP"), Brazil's National Petroleum Agency. MEP work units are satisfied through completion of exploration wells, seismic programs, and other exploration survey methods all of which have prescribed work units for completion. Therefore, although actual dollars spent on projects do not directly correlate to reducing the MEP work units, the financial guarantees related to non-performance are shown in the table below. The commitment will be reduced as work is performed.

Bid Round	Basin	Commitment Date	Gross Remaining MEP Work Units	Gross Financial Guarantee	Net Remaining MEP Work Units	Net Financial Guarantee ¹
7	Recôncavo & Sergipe	August 26, 2008	595	\$1,056 BRL \$1,785	79	\$139 BRL \$237
9	Recôncavo	March 12, 2010	1,600	\$2,839 BRL \$4,800	320	\$568 BRL \$960
9	Espirito Santo	March 12, 2011	1,020	\$1,810 BRL \$3,060	408	\$724 BRL \$1,224

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

The Corporation and W. Washington have each 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 Canacol for Round 7 in the table above is 79 units which, at June 30, 2009, equated to approximately \$139 (June 30, 2008 - 1,867 units or \$3,576). Based on actual work performed, the Corporation has made an accrual for the outstanding liability of \$139 (June 30, 2008 - \$1,119), relating to its net share of expected MEP work units yet to be fulfilled by means of financial settlement.

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

	\$ (000's)
2010	97
2011	81
2012	Nil
2013	Nil
2014	Nil

Gemini Oil and Gas Funds

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

Under the terms the agreements, Gemini will invest:

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

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

As at June 30, 2009, the Corporation had not drawn any funds from the agreements with Gemini. US\$ 4.5 million has been drawn since June 30, 2009.

SUBSEQUENT EVENTS & PENDING TRANSACTIONS

Round 8 Land Auction

The Corporation qualified for and bid for onshore land blocks offered by the ANP, Brazil's National Petroleum Agency in Brazil's Round 8 land auction held on November 28th and 29th, 2006 ("Round 8 Bid"). Canacol and its partners in the Round 8 Bid, W. Washington and Brownstone, were successful in winning and being awarded five separate blocks, each block totalling 180 square kilometres of exploration lands ("Round 8 Bid Lands") in the Tucano Basin which lies directly west of the Recôncavo Basin. However, the Round 8 Bid is the subject of a court injunction filed in Brasilia against the ANP. The premise for the injunction is that the restriction for any one E&P company to purchase more than four blocks of land in any one area, in any given bid round of land is not constitutional. As of this report date, the court injunction has been lifted in the superior court from one of two jurisdictions. Canacol and its partners in the Round 8 Bid have no information indicating that their successful Round 8 Bid Lands will not be retained by them.

Pacarana, Colombia

On July 2, 2009, Canacol was awarded the Pacarana Technical Evaluation Area in Colombia, immediately adjacent and to the south of the Ombu E&P contract. Canacol has a 100% working interest in this block, which is approximately 470,022 hectares in size and is located in the Caguan-Putumayo Basin. The work obligations associated with this block include acquiring 2,240 km of aeromagnetic and gravity data and conducting geotechnical studies over a period of 24 months for an anticipated cost of approximately US\$465.

On July 7, 2009, Canacol sold a US\$1,000 promissory note receivable for proceeds of US\$910 to an arm's length party. Canacol also issued 1,500,000 warrants, each exercisable at a price of \$0.30 for 18 months.

On July 23, 2009, Canacol completed a \$1,500 private placement financing. Canacol issued a total of 2,219,048 units, each consisting of one common share and one-half common share purchase warrant with a strike price of \$0.30 for gross proceeds of \$377,238.

On August 20, Canacol provided an update of operations at its Capella oil discovery in Colombia. In the third and fourth quarters of 2009, the Corporation is participating in the drilling of 2 slim-hole test wells in the area around the Capella 6 well, the drilling of the first horizontal well in the field, and the commencement of a cyclic steam injection pilot on one of the existing vertical producing wells. The first slim-hole test well, SH1, was spud in early August approximately 1.6 kilometres north-west of the Capella 6 well. The objectives of the slim-hole test wells are to delineate the extent of the thick oil bearing sandstone and aid the future development planning of the field.

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

- Phase 1 Exploration Period: The Corporation will acquire, process and interpret 60 kilometres of 2D seismic and interpret all existing magnetic and gravity geophysical data. The duration of this phase is 18 months, with an anticipated cost of approximately US\$1,565.
- Phase 2 Exploration Period: The Corporation will drill one exploration well within a period of 18 months.
- Phase 3 Exploration Period: The Corporation will acquire, process and interpret 30 square kilometres of 3D seismic within a period of 12 months.
- Phase 4 Exploration Period: The Corporation will drill two exploration wells within a period of 24 months.

On September 4, 2009, the Corporation issued \$2,700 aggregate principal amount of convertible unsecured subordinate debentures and on September 10, 2009, the Corporation issued \$1,300 aggregate principal amount of convertible unsecured subordinated debentures. Each Debenture issued pursuant to the Offering is subject to coupon interest rate of 12% per annum, payable quarterly in arrears though issuance of common shares of the Corporation's at a price equal to a 10% discount to the volume weighted average trading price of the Corporation's common shares for the 10 trading days immediately preceding the quarterly interest payment date or such higher price as any regulatory body shall require. The debentures mature within 24 months on the issuance, and are convertible into common shares of the Corporation at the holder's option at a conversion price equal to \$0.36 per common share. The agent received a commission of 10%, in respect to the first closing and second closing, respectively.

On September 23, Canacol entered into an underwriting agreement with a syndicate of underwriters, led by Canaccord Capital Corporation ("Canaccord") and including FirstEnergy Capital Corp., \$40 million was raised through the issuance of 142,858,000 common shares at a price of \$0.28 per Common Share. The offering was closed on October 15, 2009. Financing costs related to this raising were approximately \$2,000.

On October 23, 2009 the Company completed the purchase of all shares of Groundstar Resources Inc. ("GRI"), a Guyanese company which holds a Petroleum Prospecting License ("PPL") in the Takutu Basin in Guayana comprising approximately 7,800 square kilometres. Under the terms of the Agreement, Canacol acquired a 90% working interest in the PPL in exchange for a cash payment to Groundstar Resources (Cayman) Inc. ("GRCI"), the owner of GRI in the amount of US\$3.45 million. US\$1.2 million of this purchase price was previously paid to GRCI in May, 2009. The Corporation will carry a 10% net working interest for GRCI to first commercial production. Under the PPL, one well must be drilled on the property by May, 2010 and a second well must be drilled by May, 2011.

TRANSACTIONS WITH RELATED PARTIES

During the year ended June 30, 2009, companies controlled by a director or officers of the Corporation were paid a total \$91 (F2008 - \$163) in professional and consulting fees and office rent. All of the transactions were completed on normal industry terms. None of these amounts remained outstanding at each respective period end. Effective February 6, 2009, no related party remains as a director or officer of the Corporation.

Canacol has an operating agreement under standard industry terms on the properties in Brazil with W. Washington. Previously, W. Washington was considered a related party by virtue that it is controlled by a director of the Corporation. Following the changes in the composition of the Corporation's Board

of Directors after the acquisition of Canacol Energy Inc., effective October 30, 2008, W. Washington ceased to be considered a related party of the Corporation. Total management fee payments made to W. Washington as a related party for the year ended June 30, 2009 totalled \$1,062 (F2008 - \$330) and is included in general and administrative expenses. These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

OUTLOOK

On October 30, 2008, Canacol acquired all of the issued and outstanding common shares and warrants of a private oil and gas exploration company, Canacol Energy Inc. The intention of the transaction was to diversify Canacol's E&P activity beyond Brazil, adding both assets and additional management and oil finding expertise. With the acquisition of Canacol Energy Inc., Canacol now has core oil exploration, development, and production operations in the countries of Colombia, Brazil, and Guyana.

Canacol's goal is to build a significant oil production and exploration company in Latin America. The Corporation has established a production platform in its core operating countries of Colombia and Brazil, along with a large onshore appraisal and exploration positions in Colombia, Brazil, and Guyana. The Corporation is using its strong technical management team to realize the full production and reserves potential of its producing assets. In Colombia, the Corporation has identified a number of low risk opportunities within its operated fields that it intends to pursue, which are expected to result in a significant increase in existing production and reserves. The Corporation estimates an exit rate of 5,000 bbl/d for these properties at year-year-end June 30, 2010. In Brazil, the Corporation is evaluating the implementation of a secondary waterflood recovery plan to add additional reserves and production from these mature fields. On the exploration side, the Corporation has met with success in its non-operated Ombu E&P contract in Colombia, with the discovery of the Capella oil field. This significant discovery, currently being appraised, will yield near term production and reserves gains, and represents a long term development project with large heavy oil reserves upside. The Corporation has acquired the Pacarana and Tamarin lands adjacent to the Capella oil field. In Guyana, the Corporation has a working interest in a large onshore exploration block that contains an existing light oil discovery, Karanambo, and 2 large exploration prospects. The Corporation has plans in place to delineate the discovery and drill one exploration well in 2010. These activities are also expected to yield near term production and reserve additions in 2010.

SHARES OUTSTANDING (as at October 26, 2009)

There are an unlimited number of no par value common shares authorized for issuance. Details of the issued and outstanding shares are as follows:

Issued & Outstanding Share Capital

Number of shares issued and outstanding, June 30, 2009	178,874,169
Private Placement - July 23, 2009	2,219,048
Options exercised	45,000
Issued to Consultants	165,931
Agent Commission (convertible unsecured debenture offering) - September 4, 2009	753,624
Agent Commission (convertible unsecured debenture offering) - September 10, 2009	376,812
Warrants exercised	340,000
Private Placement - October 15, 2009	142,858,000
Gemini Commission - October 15, 2009	333,333
<hr/>	
Number of shares issued and outstanding, October 28, 2009	325,965,917

Subsequent to the year ended June 30, 2009, the Corporation issued 2,219,048 shares in connection with the private placement on July 23, 2009. In addition, subsequent to the year ended June 30, 2009, 45,000 shares were issued on exercise of options and 340,000 shares were issued on exercise of warrants.

Furthermore, on September 4, 2009, the Corporation has issued 753,624 shares to an agent as commission in connection with the initial closing of its convertible unsecured subordinated debenture offering of \$2.7 million on September 4, 2009 and 376,810 shares to an agent as commission in connection with convertible unsecured subordinated debenture financing of \$1.3 million on September 10, 2009.

On September 23, 2009, the Corporation also entered into an underwriting agreement with a syndicate of underwriters led by Canaccord and including First Energy Capital Corp. 142,858,000 common shares were issued at a price of \$0.28 per share. The offering was closed on October 15, 2009.

Options Outstanding (as at October 28, 2009)

The following are the outstanding stock options issued by the Corporation and their respective exercise prices and expiry dates. At October 28, 2009, vested stock options totalling 5,047,333 options were exercisable at a weighted average exercise price of \$0.32 per common share and a total of 12,382,667 options were issued and outstanding at a weighted average exercise price of \$0.26.

Stock Options Outstanding

	Number	Exercise	
		Price	Expiry Date Range
Granted	215,000	\$0.40	March - June 2010
	1,275,000	\$0.75	January 2011
	125,000	\$1.00	February 2011
	140,000	\$1.20	November 2011
	785,000	\$1.20	February 2012
	325,000	\$1.20	June 2012
	150,000	\$1.20	October 2012
	813,000	\$0.65	March 1, 2013
	133,333	\$0.10	December 3, 2013
	4,963,334	\$0.10	January 6, 2014
	760,000	\$0.10	March 4, 2014
	5,958,001	\$0.19	June 5, 2014
	Cancelled & Expired Options	(100,000)	\$0.40
(100,000)		\$0.75	January 19, 2011
(925,000)		\$0.75	January 1, 2011
(200,000)		\$0.75	January 1, 2011
(100,000)		\$1.20	February 12, 2012
(100,000)		\$1.20	February 12, 2012
(500,000)		\$1.20	February 12, 2012
(135,000)		\$1.20	June 12, 2012
(300,000)		\$0.65	March 1, 2013
(50,000)		\$0.65	March 1, 2013
(50,000)		\$0.65	March 1, 2013
(133,333)		\$0.10	January 6, 2014
(133,334)		\$0.10	January 6, 2014
(45,000)	\$0.65	March 1, 2013	
Exercised	(276,667)	\$0.10	January 6, 2014
Balance, June 30, 2009	12,494,334	\$0.26	
Option Grant			
Cancelled & Expired Options	(66,667)	\$0.10	January 6, 2014
Exercised	(20,000)	\$0.10	March 4, 2014
	(25,000)	\$0.19	June 5, 2014
Balance, October 28, 2009	12,382,667	\$0.26	

WARRANTS OUTSTANDING (as October 28, 2009)

As part of the Rancho Hermoso debt financing, 10,000,000 warrants were issued to the lender on August 29, 2008 at an exercise price of \$0.80 per share. The warrants have a mandatory exercise clause in which they must be exercised if the closing price of Canacol's shares exceeds \$0.95 per share for 60 consecutive trading days. These warrants replaced 3,500,000 cancelled warrants (at an

exercise price of US\$2.00 per common share) which were previously issued in conjunction with the Corporation entering into the W. Washington reserves based revolving credit facility.

In addition, as part of the May, 2009 private placements, 24,000,000 warrants were issued. Each warrant entitles the holder to acquire one common share at a price of \$0.20 until May 14, 2011 (first closing) and May 28, 2011 (second closing).

Subsequent to the year ended June 30, 2009, the Corporation issued 1,109,524 warrants in connection with a private placement on July 23, 2009 at an exercise price of \$0.30. In addition, the Corporation issued 1,500,000 warrants in connection with sale of a promissory note receivable at an exercise price of \$0.30. Refer to the subsequent events note above.

RISK FACTORS

The Corporation is subject to several risk factors including, but not limited to: the volatility of oil and natural gas prices; foreign exchange and currency risks; general risks related to foreign operations such as political, economic, regulatory and other uncertainties as they relate to both foreign investment policies and energy policies; governments exercising from time to time significant influence on the economy to control inflation; developing environmental regulations in foreign jurisdictions; discovery of new oil and natural gas reserves; concentration of oil sales receipts with a few major customers; that the Corporation anticipates substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the long-term for which it may require additional financings to implement its business plan.

As the Corporation has not experienced sufficient positive cash flow from operations to independently finance its growth and operations, it has been reliant on access to growth capital in the form of both debt and equity to fund on-going operations and to fund capital investments. Although the current state of the financial and capital markets may severely limit access to capital, the Corporation has been able to successfully attract the required investment capital. More information on the Corporation's ability to successfully attract the required investment capital can be found in the Subsequent Events section.

The Corporation is exposed to foreign exchange and currency risk as a result of fluctuations in exchange rates through its cash deposits and investments denominated in the Colombian Peso (COP\$), the Brazil Real (BRL\$), and the United States dollar (US\$) as well as its debt balances which are denominated in US\$. At June 30, 2009, the Corporation held \$13 (BRL 22) on deposit in Brazilian currency (June 30, 2008 - \$2,064 (BRL 3,234) and \$31 (COP\$ 47,086) on deposit in Colombian Pesos (June 30, 2008 - \$Nil (COP \$ Nil)) and \$84 (US\$ 72) on deposit in US dollars (June 30, 2008 - \$6,957 (US\$ 6,830)). As at June 30, 2009, the Corporation had \$20,344 (US\$17,500) in US dollar denominated debt outstanding (June 30, 2008 - \$4,354 (US\$ 69,275)) in connection with its debt facilities and \$5,686 (COP\$10.3 billion) in connection with the unsecured line of credit drawn by its subsidiary Rancho Hermoso in Colombia.

Much of the Corporation's revenue and exploration and development costs are expected to be received/paid in or by reference to US\$ denominated prices while a significant portion of its operating and general and administrative costs are denominated in Canadian dollars (C\$), the BRL\$, and the COP\$. As a result of the ongoing global financial crisis, the Brazilian Real has seen significant valuation against the US\$ during 2009 and it continues to have significant daily fluctuations making this particular currency risk more acute. The Corporation has not entered into currency derivatives for its continuing operations in order to hedge its exposure to fluctuations between the US dollar, Colombian Peso, or the Brazilian Real.

The Corporation's debt facilities are based on a LIBOR plus applicable spread. As such, the Corporation is subject to changes in the LIBOR interest rates. Although central bank government

interest rates have declined, the Corporation has not seen significant declines in its borrowing costs as LIBOR spreads have increased over government rates as a result of the credit crisis. The Corporation will continue to be subject to interest rate volatility associated with LIBOR based credit facility. The line of credit in Colombia bears interest at the Deposit a Termino Fijo (“DTF”) interest rate, a Colombian benchmark interest rate, plus spreads of 5.8% to 12.70% per annum on the balance outstanding resulting in an average rate of 14.65%.

Fluctuations in energy prices will not only impact the revenues of the Corporation but may also affect lending policies of the Corporation’s lenders for existing and new borrowings. Crude oil prices are correlated with overall global economic growth and activity. The continuing weak global economic environment has resulted in a significant decline in crude oil prices over the last year. The dramatic drop in crude oil prices will also have a negative impact on the profitability of the Corporation which in turn will impact the operational cash flows of the Corporation as well as its ability to finance capital expenditures. This in turn could limit growth prospects over the short run or may even require the Corporation to dedicate cash flow, dispose of assets, or raise new equity to reduce bank borrowings as discussed further in the Liquidity and Capital Resources section.

In conjunction with the reserves based revolving credit facilities, the Corporation entered into one oil price financial derivative collar with the following terms.

WTI crude oil financial option collar:

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

The fair value of these transactions is based upon the estimated amounts that would have been paid to or received from counter parties in order to settle the transactions outstanding with reference to the forward prices as of the reporting date. The contracts have been transacted with a counter party with whom management has assessed credit risk and deemed no adjustment for credit risk is required in determining the estimated settlement price. In addition, the contracts are based on standard industry contracts and the Corporation does not feel that there is a liquidity risk associated with them and no adjustment has been recorded in computing their valuation. While hedging activities may have opportunity costs when realized prices exceed hedged pricing, such transactions are not meant to be speculative and are considered within the broader framework of financial stability and flexibility. Management continuously reviews the need to utilize such techniques.

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 associated with one or more of its customers facing financial difficulties is mitigated while balancing factors of economic dependence with profit maximizing. To date, the Corporation has not experienced any material credit loss in the collection of accounts receivable. All Brazilian oil sales made through the Joint Venture are to a single customer who is the government energy Company (Petrobras), while in Colombia all oil sales revenue and tariff oil revenue comes from three customers of which two are also government entities (Petrobras Colombia and Ecopetrol) and one is a public company in Colombia (Hocol). Management continuously reviews its relationships with its customers to minimize any exposure risks.

The Corporation has also signed an agreement with Gemini for the financing of \$9,000, reducing exposure to risks related to the health and viability of its lender in the current difficult financial markets, and is exposed to the risk of reduction of this lender’s appetite for the risks and exposures associated with financing junior international company operations from its major lender Standard Bank Plc. In addition, subsequent to the year ended June 30, 2009, on October 15, 2009, the Corporation issued 142,858,000 common shares at a price of \$0.28 per share for gross proceeds of \$40 million.

Debt covenants relating to the Corporation's Rancho Hermoso reserves based revolving line credit facility did not take effect until periods occurring on or after March 31, 2009. There is a risk that the Corporation will not be able to meet its debt covenants in upcoming periods. Failure to meet the debt covenants could, at the discretion of the lender, constitute an event of default giving the lender the right to demand repayment of some, or all, of the loan. Management has reviewed such situations with the lender and on July 20, 2009, the Corporation credit agreement was amended, modifying financial covenants for future periods. As of the date of these statements, the Corporation is in compliance with all non-financial and financial covenants including the borrowing base of the credit facility.

The Corporation attempts to mitigate its business and operational risk exposures by maintaining comprehensive insurance coverage on its assets and operations, by employing or contracting competent technicians and professionals, by instituting and maintaining operational health, safety and environmental standards and procedures and by maintaining a prudent approach to exploration and development activities. The Corporation also addresses and regularly reports on the impact of risks to its shareholders, writing down the carrying values of assets that may not be recoverable.

CRITICAL ACCOUNTING ESTIMATES

Canacol's significant accounting policies are contained in Note 2 to the audited consolidated financial statements for the year ended June 30, 2009. In addition to these, the following new accounting policies were adopted by the Corporation upon the acquisition of Canacol Energy Inc. on October 30, 2008. These policies are in addition to significant accounting policies outlined in the audited annual consolidated financial statements for the year ended June 30, 2009.

Currency translation

The accounts of the self-sustaining Colombian subsidiaries are translated using the current rate method, whereby assets and liabilities are translated at the period-end exchange rates and revenues and expenses are translated using average period exchange rates. Translation gains and losses relating to the self-sustaining operations are included as part of accumulated other comprehensive income. The Corporation continues to use the temporal method to translate the operations of its Brazilian subsidiaries as detailed in the Corporation's June 30, 2009 consolidated financial statements.

Revenue recognition

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

All contracts that Rancho Hermoso S.A. ("RSHA") has signed with Ecopetrol are "risk contracts" because RSHA makes all investments and is in charge of producing at its own cost and risk. RSHA takes the risk regardless of the outcome. However, there are differences depending how the contract rewards RSHA. There are two cases:

In the case of Mirador in the RSHA field, it is a service contract because all of the crude belongs to Ecopetrol and RSHA gets paid through a tariff per barrel. RSHA provides the service for oil production. This is referred to as a Risk Service Contract.

In the other cases (such as Ubaque in Rancho Hermoso and all formations in Entrerrios), the contract is a participation contract because RSHA is entitled to a proportion of the production. Therefore, RSHA gets paid its share of the oil production sold in the market. This is referred to as a Risk Participation Contract.

Exploration contracts refer to activities that the Corporation performs to determine the existence and location of hydrocarbons in the subsurface, including but not limited to geophysical and geochemical methods, and other operations to determine whether the discovery is a commercial field.

With regards to the Corporation's accounting policies, certain policies are recognized as critical because in applying these policies management is required to make judgments, assumptions, and estimates that have a significant impact on the financial results of the Corporation. The estimates used in applying these critical accounting policies are regularly reviewed and have been discussed with the Audit Committee. These policies include:

Income taxes

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

Property, plant, and equipment

Depletion and depreciation

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

Ceiling test and unproved properties

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

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

Asset retirement obligations

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

of the underlying resources using the unit of production method. Actual costs incurred upon settlement of the asset retirement obligations are charged against the obligation to the extent of the liability recorded.

Stock based compensation plan

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

Financial instruments

The Corporation's financial assets and liabilities consist of cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities, convertible debentures, currency and commodity derivatives, and long-term debt. The fair value of these financial assets and liabilities approximates their carrying value, unless otherwise noted.

IMPACT OF NEW AND PROPOSED ACCOUNTING STANDARDS

Capital disclosures

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

Financial instruments

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

Inventories

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

Business combinations

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

Consolidated financial statements and Non-controlling interests

In January 2009, the AcSB issued Sections 1601, Consolidated Financial Statements, and 1602, Non-controlling Interests, which replaces existing guidance. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are effective on or after the beginning of the first annual reporting period beginning on or after January 2011 with earlier application permitted. The Corporation plans to

adopt these standards effective July 1, 2011 and does not expect the adoption will have a material impact on our results of operations or financial position.

Goodwill and intangible assets

In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets", replacing Section 3062, "Goodwill and Other Intangible Assets" and Section 3450, "Research and Development Costs". Various changes have been made to other sections of the CICA Handbook for consistency purposes. The new Section will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company has adopted the new standards for its fiscal year beginning July 1, 2009. It establishes standards for the recognition, measurement, presentation, and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062.

International Financial Reporting Standards (IFRS)

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

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

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

MAINTENANCE OF DISCLOSURE CONTROLS AND PROCEDURES (DC&P) AND INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)

Management and the Board of Directors are committed to the promotion of investor confidence by ensuring that trading in the Corporation's securities takes place in an efficient, competitive, and informed market. In accordance with the continuous disclosure requirements under the securities commission rules and TSX Venture Exchange policies, the Corporation has adopted a Corporate Disclosure Policy and has procedures in place to ensure that any sensitive information is identified, reviewed by management, and disclosed in a timely manner to the regulatory authorities, shareholders, and the public.

However, in contrast to the requirements under Multilateral Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings (MI 52-109), the Corporation has opted out under the rules afforded to TSX Venture issuers and Management and the Board do not make any representations relating to the establishment and maintenance of disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as defined in MI 52-109.

ADDITIONAL INFORMATION

Additional information relating to the Corporation's regulatory filings can be found on SEDAR at www.sedar.com.

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

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Auditors

Deloitte & Touche LLP Calgary, Alberta

Bankers

HSBC Bank Canada – Calgary, Canada

HSBC Bank Brasil - Rio de Janeiro, Brazil

Banco de Credito, Bogota, Colombia

Independent Reserve Engineers

DeGolyer and MacNaughton Canada Limited

Ryder Scott Company LP

Netherland, Sewell & Associates, Inc.

Legal Counsel

Davis LLP - Canada

Heenan Blaikie LLP - Canada

Schmidt, Valois, Miranda, Ferreira & Agel – Brazil

Gamboa Chalela, Salazar Abogados - Colombia

Stock Exchange Listing

TSX Venture Exchange: CNE

Transfer Agent & Registrar

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