CANACOL ENERGY LTD.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
THREE AND SIX MONTHS ENDED DECEMBER 31, 2013

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(UNAUDITED)

(in thousands of United States dollars)

As at	Note	December 31, 2013	June 30, 2013 (restated) (note 17)	July 1, 2012 (restated) (note 17)
ASSETS				
Current assets				
Cash and cash equivalents		$ 56,468	$ 52,290	$ 30,789
Restricted cash	6	6,563	7,127	6,072
Trade and other receivables		33,016	38,141	31,810
Prepaid expenses and deposits		11,807	11,331	4,630
Embedded derivatives asset		-	1,875	3,156
Crude oil inventory		4,690	3,261	8,136
		112,544	114,025	84,593
Non-current assets				
Restricted cash	6	35,767	19,267	483
Embedded derivatives asset		-	839	3,942
Exploration and evaluation assets	4	103,866	92,753	126,295
Property, plant and equipment	5	252,424	238,278	183,838
Investment in joint venture	16	5,707	1,963	4,361
Investments		2,492	2,467	2,690
Deferred tax assets		-	-	626
		400,256	355,567	322,235
Total assets		$ 512,800	$ 469,592	$ 406,828
LIABILITIES AND EQUITY				
Current liabilities				
Bank debt		$ 9,333	$ -	$ 12,000
Trade and other payables		62,704	37,219	47,602
Commodity contracts	14	85	280	303
Warrants	8	137	37	-
Restricted share units	14	6,275	3,914	-
Equity tax payable		1,114	1,294	1,236
Taxes payable		4,829	575	3,893
		84,477	43,319	65,034
Non-current liabilities				
Bank debt		125,868	134,316	15,986
Deferred income		3,731	3,731	-
Commodity contracts	14	-	-	124
Decommissioning obligations		9,038	7,995	6,642
Convertible debentures	7	24,353	22,091	25,381
Warrants	8	11,094	1,834	896
Phantom warrants	14	8,795	1,866	-
Equity tax payable		-	512	1,671
Other long term obligations		10,764	10,764	-
Deferred tax liabilities		910	3,861	-
Total liabilities		279,030	230,289	115,734
Equity				
Share capital	9	409,569	408,770	340,775
Other reserves		41,173	40,074	32,053
Accumulated other comprehensive loss		347	347	347
Deficit		(217,319)	(209,888)	(82,081)
Total equity		233,770	239,303	291,094
Total liabilities and equity		$ 512,800	$ 469,592	$ 406,828

Commitments and contingencies (note 15)
Subsequent event (note 18)
See accompanying notes to interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

(UNAUDITED)

(in thousands of United States dollars, except per share amounts)

	Note	Three months ended December 31, 2013	Three months ended December 31, 2012 (restated) (note 17)	Six months ended December 31, 2013	Six months ended December 31, 2012 (restated) (note 17)
Revenues					
Petroleum and natural gas revenues, net of royalties	12	**$ 42,168**	$ 26,200	**$ 90,390**	$ 67,792
Share of joint venture profit (loss)	16	**1,023**	(360)	**1,193**	(1,134)
Expenses					
Production and transportation expenses		**14,790**	18,369	**32,551**	44,096
Pre-license and exploration costs		**213**	14,130	**240**	14,354
General and administrative		**8,980**	5,910	**14,391**	10,633
Stock-based compensation	9	**519**	859	**750**	2,040
Depletion and depreciation	5	**7,530**	9,893	**14,828**	23,139
Foreign exchange (gain) loss and other		**(577)**	(813)	**1,230**	573
Loss (gain) on derivatives and financial instruments	12	**16,939**	(524)	**26,656**	3,190
Gain on business acquisition		**-**	(28,147)	**-**	(28,147)
		48,394	19,677	**90,646**	69,878
Net finance expense	10	**2,206**	2,409	**4,149**	2,620
Income (loss) before income taxes		**(7,409)**	3,754	**(3,212)**	(5,840)
Income taxes (recovery)					
Current		**5,548**	(758)	**7,170**	(1,643)
Deferred		**(2,545)**	2,692	**(2,951)**	1,139
		3,003	1,934	**4,219**	(504)
Net (loss) income and comprehensive (loss) income		**(10,412)**	1,820	**(7,431)**	(5,336)
Earnings (loss) per share					
Basic	11	**$ (0.12)**	$ 0.03	**$ (0.09)**	$ (0.08)
Diluted	11	**$ (0.12)**	$ 0.03	**$ (0.09)**	$ (0.08)

Effective December 20, 2012, the Corporation completed a 10:1 consolidation of its common shares. Consequently, all the earnings per share information presented above was restated to a post-consolidation basis for comparability.

See accompanying notes to interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(UNAUDITED)

(in thousands of United States dollars, number of shares in thousands)

	Number of Common Shares		Share Capital		Other Reserves		Accumulated Other Comprehensive Income		Deficit		Total Equity
Balance as at June 30, 2012	61,898	$	340,775	$	32,053	$	347	$	(82,081)	$	291,094
Issue of common shares, net of costs	24,601		67,985		-		-		-		67,985
Stock-based compensation	-		-		3,592		-		-		3,592
Net loss for the period	-		-		-		-		(5,336)		(5,336)
Balance at December 31, 2012	**86,499**	**$**	**408,760**	**$**	**35,645**	**$**	**347**	**$**	**(87,417)**	**$**	**357,335**
Balance as at June 30, 2013	86,506	$	408,770	$	40,074	$	347	$	(209,888)	$	239,303
Stock options and warrants exercised	182		799		(310)		-		-		489
Stock-based compensation	-		-		1,409		-		-		1,409
Net loss for the period	-		-		-		-		(7,431)		(7,431)
Balance at December 31, 2013	**86,688**	**$**	**409,569**	**$**	**41,173**	**$**	**347**	**$**	**(217,319)**	**$**	**233,770**

Effective December 20, 2012, the Corporation completed a 10:1 consolidation of its common shares. Consequently, all previous share information was restated to a post-consolidation basis.

See accompanying notes to interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(in thousands of United States dollars)

	Note	Three months ended December 31, 2013	Three months ended December 31, 2012 (restated) (note 17)	Six months ended December 31, 2013	Six months ended December 31, 2012 (restated) (note 17)
Operating activities					
Net (loss) income for the period		$ (10,412)	$ 1,820	$ (7,431)	$ (5,336)
Adjustments:					
Net financing expense		2,206	2,409	4,149	2,620
Share of joint venture (profit) loss		(1,023)	360	(1,193)	1,134
Stock-based compensation	9	519	859	750	2,040
Depletion and depreciation	5	7,530	9,893	14,828	23,139
Unrealized loss (gain) on derivatives and financial instruments	12	16,738	(918)	25,606	2,279
Unrealized foreign exchange (gain) loss and other		(1,233)	(927)	221	542
Deferred income		-	-	-	2,500
Settlement of restricted share units liability	14	-	-	(1,321)	-
Deferred income tax		(2,545)	2,692	(2,951)	1,139
Exploration costs		-	14,011	-	14,011
Gain on business acquisition		-	(28,147)	-	(28,147)
Changes in non-cash working capital	12	24,626	4,393	23,472	(3,085)
		36,406	6,445	56,130	12,836
Investing activities					
Expenditures on exploration and evaluation assets		(4,077)	(12,854)	(11,113)	(17,635)
Expenditures on property, plant and equipment		(18,046)	(5,058)	(27,678)	(14,410)
Investments		(2,546)	-	(2,840)	-
Change in restricted cash		(14,033)	(11,425)	(15,936)	(15,248)
Cash paid for business acquisition		-	(40,224)	-	(40,224)
Cash acquired in business acquisition		-	8,300	-	8,300
Changes in non-cash working capital	12	(1,467)	538	8,038	(1,651)
		(40,169)	(60,723)	(49,529)	(80,868)
Financing activities					
Net financing expense paid		(1,579)	(231)	(2,905)	(178)
Issue of common shares		187	-	482	-
Share issuance costs		-	(361)	-	(361)
Draw on bank debt		-	60,035	-	77,035
Repayment of bank debt		-	(3,000)	-	(6,000)
		(1,392)	56,443	(2,423)	70,496
Change in cash and cash equivalents		(5,155)	2,165	4,178	2,464
Cash and cash equivalents, beginning of period		61,623	31,088	52,290	30,789
Cash and cash equivalents, end of period		$ 56,468	$ 33,253	$ 56,468	$ 33,253
Cash and cash equivalents consists of:					
Cash				$ 56,448	$ 31,707
Cash equivalents				20	1,546
Cash and cash equivalents, end of period				$ 56,468	$ 33,253

See accompanying notes to interim condensed consolidated financial statements.

NOTE 1 - GENERAL INFORMATION

Canacol Energy Ltd. ("Canacol" or the "Corporation") and its subsidiaries are primarily engaged in petroleum and natural gas exploration and development activities in Colombia and Ecuador, with non-core activities in Brazil, Guyana and Peru. The Corporation's head office is located at 4500, 525 - 8th Avenue SW, Calgary, Alberta, T2P 1G1, Canada. The Corporation's shares are traded on the Toronto Stock Exchange under the symbol CNE and the Bolsa de Valores de Colombia under the symbol CNEC.

The Board of Directors approved these interim condensed consolidated financial statements (the "financial statements") for issuance on February 11, 2014.

NOTE 2 - BASIS OF PREPARATION

The financial statements have been prepared by management in accordance with International Accounting Standard 34, "Interim Financial Reporting". These financial statements do not include all of the information required for full annual consolidated financial statements and should be read in conjunction with the Corporation's annual consolidated financial statements for the year ended June 30, 2013.

Basis of Measurement

These financial statements have been prepared on a historical cost basis, except for commodity contracts, convertible debentures, embedded derivatives, investments, warrants, phantom warrants, restricted share units and overlifted volumes payable, which are measured at fair value with changes in fair value recorded in profit or loss ("fair value through profit or loss").

These financial statements have been prepared on a going concern basis.

Functional and Presentation Currency

These financial statements are presented in United States dollars, which is both the functional and presentation currency.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared using the same accounting policies and methods of computation as disclosed in note 3 of the annual consolidated financial statements as of and for the year ended June 30, 2013 except as follows.

Application of New and Revised International Financial Reporting Standards ("IFRS")

The International Accounting Standards Board released the following new standards: IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements", IFRS 12 "Disclosures of Interests in Other Entities" and IFRS 13 "Fair Value Measurement". These standards have been adopted in the financial statements for the fiscal period beginning July 1, 2013. The following describes the impact as a result of the application of the new and revised standards.

(i) Consolidated Financial Statements

IFRS 10 "Consolidated Financial Statements" supersedes IAS 27 "Consolidation and Separate Financial Statements" and SIC-12 "Consolidation – Special Purpose Entities". This standard provides a single model to be applied in control analysis for all investees, including special purpose entities.

The adoption of this standard had no impact on the financial statements.

(in United States dollars (tabular amounts in thousands) except as otherwise noted)

(ii) Joint Arrangements

IFRS 11 "Joint Arrangements" divides joint arrangements into two types, joint operations and joint ventures, each with their own accounting model. All joint arrangements are required to be reassessed on transition to IFRS 11 to determine their type to apply the appropriate accounting.

Upon the adoption of IFRS 11, the Corporation reviewed and assessed the legal form and terms of the contractual arrangements in relation to the Corporation's investments in joint arrangements. The adoption of IFRS 11 resulted in a change in the method of accounting for the Corporation's interest in the incremental production contract for the Libertador and Atacapi fields in Ecuador (the "Ecuador IPC") from a jointly-controlled entity, using the proportionate consolidation method, to being accounted for using the equity method. This change in accounting for the Corporation's investment in the Ecuador IPC has been applied in accordance with the relevant IFRS transitional provisions. The initial investment in the Ecuador IPC as at July 1, 2012 for the purposes of applying the equity method was measured as the aggregate of the carrying amounts of the assets and liabilities that the Corporation had previously proportionately consolidated. The change in accounting method has affected the amounts previously reported in the Corporation's financial statements (see note 17).

(iii) Disclosure of Interests in Other Entities

IFRS 12 "Disclosure of Interests in Other Entities" combines in a single standard the disclosure requirements for subsidiaries, associates and joint arrangements as well as unconsolidated structured entities.

The adoption of this standard had no impact on the financial statements for interim disclosures.

(iv) Fair Value Measurement

IFRS 13 "Fair Value Measurement" defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. This standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The adoption of this standard had no impact on the financial statements.

NOTE 4 – EXPLORATION AND EVALUATON ASSETS

Balance at July 1, 2012	$	126,295
Acquisition of Shona Energy Company, Inc. ("Shona")		6,523
Additions		24,813
Dispositions		(6,249)
Transferred to Property, Plant and Equipment (note 5)		(8,377)
Transferred to exploration expense		(50,252)
Balance at June 30, 2013		92,753
Additions		11,113
Balance at December 31, 2013	**$**	**103,866**

(in United States dollars (tabular amounts in thousands) except as otherwise noted)

NOTE 5 – PROPERTY, PLANT AND EQUIPMENT

	Crude Oil Assets	Gas Processing Facilities	Corporate and Other Assets	Total
Cost or deemed cost				
Balance at July 1, 2012	$ 238,212	$ 31,745	$ 5,456	$ 275,413
Acquisition of Shona	162,063	-	-	162,063
Net additions	30,726	(22)	1,272	31,976
Transferred from Exploration and Evaluation assets (note 4)	8,377	-	-	8,377
Reclassifications	3,860	(1,964)	-	1,896
Balance at June 30, 2013	443,238	29,759	6,728	479,725
Additions	28,318	46	680	29,044
Balance at December 31, 2013	**$ 471,556**	**$ 29,805**	**$ 7,408**	**$ 508,769**
Accumulated depletion and depreciation				
Balance at July 1, 2012	$ (88,085)	$ (847)	$ (2,643)	$ (91,575)
Depletion and depreciation	(38,852)	(6,547)	(1,511)	(46,910)
Impairment	(106,755)	-	-	(106,755)
Reclassifications	(1,893)	-	-	(1,893)
Derecognition, inventory adjustments and other	5,663	-	23	5,686
Balance at June 30, 2013	(229,922)	(7,394)	(4,131)	(241,447)
Depletion and depreciation	(12,414)	(1,941)	(473)	(14,828)
Inventory adjustments and other	(70)	-	-	(70)
Balance at December 31, 2013	**$ (242,406)**	**$ (9,335)**	**$ (4,604)**	**$ (256,345)**
Carrying amounts				
At July 1, 2012 (restated – note 17)	$ 150,127	$ 30,898	$ 2,813	$ 183,838
At June 30, 2013 (restated – note 17)	$ 213,316	$ 22,365	$ 2,597	$ 238,278
At December 31, 2013	**$ 229,150**	**$ 20,470**	**$ 2,804**	**$ 252,424**

During the three and six months ended December 31, 2013, $1.4 million and $2.3 million (2012 - $1.2 million and $2.5 million) of compensation and other costs were capitalized, respectively, which reduced general and administrative expense and stock-based compensation expense for the periods.

NOTE 6 – RESTRICTED CASH

	December 31, 2013	June 30, 2013 (restated) (note 17)	July 1, 2012
Restricted cash – current	**$ 6,563**	$ 7,127	$ 6,072
Restricted cash – long term	**35,767**	19,267	483
	$ 42,330	$ 26,394	$ 6,555

At December 31, 2013, restricted cash consisted of $26.5 million of term deposits used as collateral to secure the Ecuador IPC's borrowings, $9.1 million for work commitments and other capital commitments, and $6.7 million held in a debt reserve account as required under its senior secured term loan.

NOTE 7 – CONVERTIBLE DEBENTURES

Convertible Debentures

Convertible debentures are recorded at fair value through profit or loss. Subsequent to initial recognition, these financial instruments are measured at fair value and changes therein are recognized in profit or loss. A reconciliation of convertible debentures is provided below.

Balance at July 1, 2012	$	25,381
Unrealized gain		(2,614)
Foreign exchange gain		(676)
Balance at June 30, 2013		22,091
Unrealized loss		2,595
Foreign exchange gain		(333)
Balance at December 31, 2013	**$**	**24,353**

NOTE 8 – WARRANTS

	Number (000s)		Amount
Balance at July 1, 2012	329	$	896
Issued on Shona acquisition	5,053		2,231
Unrealized gain	-		(1,085)
Foreign exchange gain	-		(171)
Balance at June 30, 2013	5,382		1,871
Exercised	(12)		(7)
Expired	(1,114)		(650)
Unrealized loss	-		10,085
Foreign exchange loss	-		(68)
Balance at December 31, 2013	**4,256**	**$**	**11,231**

NOTE 9 – SHARE CAPITAL

Authorized

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

Issued and Outstanding

	Number (000s)		Amount
Balance at July 1, 2012	61,898	$	340,775
Issued on Shona acquisition	24,601		68,346
Issued on exercise of stock options	7		7
Transfer from other reserves for stock options exercised	-		3
Share issuance costs	-		(361)
Balance at June 30, 2013	86,506		408,770
Issued on exercise of stock options and warrants	182		482
Transfer from other reserves and warrants for stock options and warrants exercised	-		317
Balance at December 31, 2013	**86,688**	**$**	**409,569**

Stock Options

The number and weighted-average exercise prices of stock options were as follows:

	Number	Weighted-Average Exercise Price
	(000s)	(C$)
Balance at June 30, 2013	7,451	6.61
Granted	83	4.67
Exercised	(170)	2.63
Forfeited and cancelled	(529)	9.32
Balance at December 31, 2013	**6,835**	**6.48**

Information with respect to stock options outstanding at December 31, 2013 is presented below.

	Stock Options Outstanding			Stock Options Exercisable	
Range of Exercise Prices	Number of Stock Options	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number of Stock Options	Weighted-Average Exercise Price
(C$)	(000s)	(years)	(C$)	(000s)	(C$)
$1.00 to $3.50	2,514	2.90	3.10	1,663	2.95
$3.60 to $7.00	1,513	2.42	5.30	1,306	5.42
$7.10 to $10.50	2,144	2.37	8.84	1,843	8.85
$10.60 to $14.00	135	2.18	12.10	121	12.11
$14.10 and higher	529	2.07	14.90	490	14.90
	6,835	**2.55**	**6.48**	**5,423**	**6.83**

Stock-based compensation of $0.5 million and $0.8 million (2012 – $0.9 million and $2.0 million) were expensed and $0.3 million and $0.6 million (2012 – $0.7 million and $1.6 million) were capitalized during the three and six months ended December 31, 2013, respectively.

NOTE 10 – FINANCE INCOME AND EXPENSE

	Three months ended December 31,		Six months ended December 31,	
	2013	2012	**2013**	2012
Finance income				
Interest and other income	**$ (162)**	$ (430)	**$ (857)**	$ (699)
Finance expense				
Fair value adjustment on equity tax payable	**14**	28	**33**	62
Accretion on decommissioning obligations	**142**	77	**270**	140
Amortization of upfront fees	**471**	167	**941**	334
Phantom warrants issued on closing of term loan	**-**	1,906	**-**	1,906
Interest and other expense	**1,741**	661	**3,762**	877
	2,368	2,839	**5,006**	3,319
Net finance expense	**$ 2,206**	$ 2,409	**$ 4,149**	$ 2,620

(in United States dollars (tabular amounts in thousands) except as otherwise noted)

NOTE 11 – EARNINGS (LOSS) PER SHARE

Basic and diluted earnings per share were calculated as follows:

	Three months ended December 31,		Six months ended December 31,	
	2013	2012	**2013**	2012
		(restated) (note 17)		(restated) (note 17)
Net income (loss), basic and diluted	**$ (10,412)**	1,820	**$ (7,431)**	(5,336)
Weighted-average common share adjustments				
Weighted-average common shares outstanding, basic	**86,673**	64,840	**86,617**	63,369
Effect of warrants	**-**	-	**-**	-
Effect of stock options	**-**	284	**-**	-
Weighted-average common shares outstanding, diluted	**86,673**	65,124	**86,617**	63,369

Effective December 20, 2012, the Corporation completed a 10:1 consolidation of its common shares. Consequently, all the earnings per share information presented above was restated to a post-consolidation basis for comparability.

For the three and six months ended December 31 2013 and 2012, the effect of the convertible debentures was anti-dilutive. For the three and six months ended December 31, 2013 and the six months ended December 31, 2012, all other items were anti-dilutive due to the net loss.

NOTE 12 – SUPPLEMENTAL INFORMATION

The Corporation records petroleum and natural gas sales net of royalties. Royalties incurred were as follows:

	Three months ended December 31,		Six months ended December 31,	
	2013	2012	**2013**	2012
Petroleum and natural gas royalties	**$ 4,176**	$ 2,140	**$ 8,845**	$ 5,648

Income taxes and interest paid were as follows:

	Three months ended December 31,		Six months ended December 31,	
	2013	2012	**2013**	2012
Income taxes paid	**$ -**	$ -	**$ -**	$ -
Interest paid	**$ 2,883**	$ 1,400	**$ 4,866**	$ 1,660

(in United States dollars (tabular amounts in thousands) except as otherwise noted)

Loss (gain) on derivatives and financial instruments:

	Three months ended December 31, 2013	Three months ended December 31, 2012	Six months ended December 31, 2013	Six months ended December 31, 2012
Embedded derivatives	**$ 2,302**	$ 871	**$ 2,714**	$ 908
Convertible debentures – unrealized	**300**	(1,411)	**2,595**	(1,634)
Warrants – unrealized	**7,208**	583	**10,085**	234
Warrants – realized	**(611)**	-	**(611)**	-
Phantom warrants – unrealized	**5,134**	623	**7,013**	623
Restricted share units – unrealized	**2,394**	-	**3,741**	-
Restricted share units - realized	**-**	-	**618**	-
Share investments – unrealized	**167**	-	**264**	-
Commodity contracts – unrealized	**(156)**	(1,584)	**(195)**	2,148
Commodity contracts – realized	**201**	394	**432**	911
	$ 16,939	$ (524)	**$ 26,656**	$ 3,190

Changes in non-cash working capital are comprised of:

	Three months ended December 31, 2013	Three months ended December 31, 2012	Six months ended December 31, 2013	Six months ended December 31, 2012
Change in:				
Trade and other receivables	**$ 17,334**	$ 10,531	**$ 5,125**	$ 12,836
Prepaid expenses and deposits	**793**	672	**(476)**	(364)
Crude oil inventory	**(2,123)**	(719)	**(1,319)**	3,953
Trade and other payables	**4,197**	(4,400)	**24,651**	(18,539)
Equity tax payable	**(13)**	46	**(725)**	(560)
Taxes payable	**2,971**	(1,199)	**4,254**	(2,062)
	23,159	4,931	**31,510**	(4,736)
Attributable to:				
Operating activities	**24,626**	4,393	**23,472**	(3,085)
Investing activities	**(1,467)**	538	**8,038**	(1,651)
	$ 23,159	$ 4,931	**$ 31,510**	$ (4,736)

NOTE 13 – SEGMENTED INFORMATION

The Corporation's only reportable segment is "Colombia" (previously "Colombia" and "Ecuador"). As a result of the adoption of IFRS 11, "Ecuador" no longer meets the definition of a reportable segment under IFRS 8. Consequently, "Ecuador" has been removed from the composition of the Corporation's reportable segments during the three and six months ended December 31, 2013. The Corporation's investment and its share of profit in the Ecuador IPC (the unconsolidated joint venture that was previously proportionately consolidated as "Ecuador") have been added to "Other Segments". The main purpose of "Other Segments" is to reconcile the reportable segment to the Corporation's combined results. "Other Segments" is not a reportable segment. The Corporation's chief operating decision maker is its executive officers.

(in United States dollars (tabular amounts in thousands) except as otherwise noted)

The following tables show information regarding the Corporation's segments.

		Colombia (reportable)		Other Segments (non-reportable)		Total
Three months ended December 31, 2013						
Revenues	$	42,168	$	-	$	42,168
Share of joint venture profits		-		1,023		1,023
Expenses, excluding income taxes		(33,555)		(17,045)		(50,600)
Net income (loss) before taxes		8,613		(16,022)		(7,409)
Income taxes		3,003		-		3,003
Net income (loss)	$	5,610	$	(16,022)	$	(10,412)
Capital expenditures, net	$	22,209	$	540	$	22,749
Three months ended December 31, 2012						
Revenues	$	26,200	$	-	$	26,200
Share of joint venture loss		-		(360)		(360)
Expenses, excluding income taxes		(16,414)		(5,672)		(22,086)
Net income (loss) before taxes		9,786		(6,032)		3,754
Income taxes		1,422		512		1,934
Net income (loss)	$	8,364	$	(6,544)	$	1,820
Capital expenditures, net	$	199,567	$	816	$	200,383
Six months ended December 31, 2013						
Revenues	$	90,390	$	-	$	90,390
Share of joint venture profits		-		1,193		1,193
Expenses, excluding income taxes		(66,346)		(28,449)		(94,795)
Net income (loss) before taxes		24,044		(27,256)		(3,212)
Income taxes		4,219		-		4,219
Net income (loss)	$	19,825	$	(27,256)	$	(7,431)
Capital expenditures, net	$	39,477	$	680	$	40,157
Six months ended December 31, 2012						
Revenues	$	67,792	$	-	$	67,792
Share of joint venture loss		-		(1,134)		(1,134)
Expenses, excluding income taxes		(66,479)		(6,019)		(72,498)
Net income (loss) before taxes		1,313		(7,153)		(5,840)
Income taxes (recovery)		(1,034)		530		(504)
Net income (loss)	$	2,347	$	(7,683)	$	(5,336)
Capital expenditures, net	$	214,409	$	945	$	215,354

(in United States dollars (tabular amounts in thousands) except as otherwise noted)

		Colombia (reportable)		Other Segments (non-reportable)		Total
As at December 31, 2013						
Total assets	$	422,527	$	90,273	$	512,800
Total liabilities	$	158,319	$	120,711	$	279,030
As at June 30, 2013 (restated) (note 17)						
Total assets	$	383,651	$	85,941	$	469,592
Total liabilities	$	123,625	$	106,664	$	230,289
As at July 1, 2012						
Total assets	$	314,394	$	92,434	$	406,828
Total liabilities	$	64,658	$	51,076	$	115,734

NOTE 14 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair Value of Financial Instruments

The carrying values and respective fair values of financial assets and liabilities at December 31, 2013 are summarized as follows:

		Carrying Value		Fair Value
Fair value through profit or loss				
Cash and cash equivalents	$	56,468	$	56,468
Restricted cash		42,330		42,330
Convertible debentures		24,353		24,353
Commodity contracts liabilities		85		85
Phantom warrants		8,795		8,795
Warrants		11,231		11,231
Restricted share units		6,275		6,275
Investments		2,492		2,492
Loans and receivables				
Bank debt		135,201		140,000
Trade and other receivables		33,016		33,016
Other liabilities				
Trade and other payables		62,704		62,704
Equity tax payable		1,114		1,114
Other long term obligations		10,764		10,764
Deferred income		3,731		3,731

The Corporation classifies the fair value of financial instruments measured at fair value according to the following hierarchy based on the amount of observable inputs used to value the instrument.

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

- Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The Corporation's financial instruments have been assessed on the fair value hierarchy described above. Cash and cash equivalents, restricted share units and convertible debentures are classified as Level 1. Commodity contracts liabilities and investments are classified as Level 2. Warrants and phantom warrants are classified as Level 3. Assessment of the significance of a particular input to the fair value measurement requires judgement and may affect the placement within the fair value hierarchy level.

During the three months ended December 31, 2013, the Corporation amended its trucking contract whereby i) the Corporation no longer has the option to purchase up to 50 trucks at the end of the contract and ii) any excess or shortage of the fees charged over the actual operating costs will no longer be shared between the Corporation and the trucking company. Consequently, the embedded derivatives asset was de-recognized as at December 31, 2013, resulting in a loss on embedded derivatives of $2.3 million and $2.7 million for the three and six months ended December 31, 2013, respectively. The amended trucking contract will expire in June 2016.

Restricted Share Units

	Number (000s)	Amount
Balance at July 1, 2012	-	$ -
Granted	1,404	3,592
Unrealized loss	-	468
Foreign exchange gain	-	(146)
Balance at June 30, 2013	1,404	3,914
Settled	(468)	(1,321)
Unrealized loss	-	3,741
Foreign exchange loss	-	(59)
Balance at December 31, 2013	**936**	**$ 6,275**

Phantom Warrants

In connection with the closing of the Shona business acquisition on December 21, 2012, the Corporation entered into a credit agreement for $45.0 million, which has since been replaced. In consideration for entering into the credit agreement, the Corporation agreed to a "phantom warrant payment" arrangement such that the Corporation would pay an amount (in cash or Canacol Shares, at the election of the Corporation) equal to the in-the-money amount of 2,697,292 common share purchase warrants of the Corporation at an exercise price of C$4.50 per Canacol Share. The phantom warrant payment may be demanded partially or in full at any time for a period of three years.

	Number (000s)	Amount
Balance at July 1, 2012	-	$ -
Issued	2,697	1,906
Unrealized loss	-	120
Foreign exchange gain	-	(160)
Balance at June 30, 2013	2,697	1,866
Unrealized loss	-	7,013
Foreign exchange loss	-	(84)
Balance at December 31, 2013	**2,697**	**$ 8,795**

(in United States dollars (tabular amounts in thousands) except as otherwise noted)

The fair value of the phantom warrants was estimated using the Black-Scholes option pricing model with the following inputs:

	December 31, 2013	June 30, 2013
Fair value at grant date (C$)	**0.70**	0.70
Share price (C$)	**7.13**	2.93
Exercise price (C$)	**4.50**	4.50
Volatility	**57.73%**	60.76%
Remaining warrant life	**2.0 years**	2.5 years
Dividends	**Nil**	Nil
Risk-free interest rate	**1.13%**	1.22%

Market Risk

Market risk is the risk that changes in market factors, such as commodity prices, foreign exchange rates, and interest rates will affect the Corporation's cash flows, profit or loss, liquidity or the value of financial instruments. The objective of market risk management is to mitigate market risk exposures where considered appropriate and maximize returns.

(i) Commodity Price Risk

Commodity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in commodity prices. Lower commodity prices can also impact the Corporation's ability to raise capital. Commodity prices for crude oil are impacted by world economic events that dictate the levels of supply and demand. From time to time the Corporation may attempt to mitigate commodity price risk through the use of financial derivatives. The Corporation's policy is to only enter into commodity contracts considered appropriate to a maximum of 50% of forecasted production volumes. During the three months ended December 31, 2013, the Corporation entered into one new commodity contract, as described in the table below, to meet its obligations under its Senior Secured Term Loan.

At December 31, 2013, the Corporation had one financial oil collar outstanding under the following terms:

Period	Volume	Type	Price Range
Jan 2014 – Dec 2014	500 bbls/day	Financial Brent Oil Collar	$75.00 – $123.50

(ii) Foreign Currency Risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in foreign currency exchange rates. The Corporation is exposed to foreign currency fluctuations as certain expenditures are denominated in Colombian pesos and Canadian dollars, and to a lesser extent, Brazilian reais and Peruvian sol.

The Corporation had no forward exchange rate contracts in place as at or during the three and six months ended December 31, 2013.

(iii) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates. The Corporation is exposed to interest rate risk on certain variable interest rate debt instruments, to the extent they are drawn. The remainder of the Corporation's financial assets and liabilities are not exposed to interest rate risk. The Corporation had no interest rate swap or financial contracts in place as at or during the three and six months ended December 31, 2013.

(in United States dollars (tabular amounts in thousands) except as otherwise noted)

Liquidity Risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they become due. The Corporation's approach to managing liquidity is to ensure, within reasonable means, sufficient liquidity to meet its liabilities when due, under both normal and unusual conditions, without incurring unacceptable losses or jeopardizing the Corporation's business objectives. The Corporation prepares annual capital expenditure budgets which are monitored regularly and updated as considered necessary. Petroleum and natural gas production is monitored daily to provide current cash flow estimates and the Corporation utilizes authorizations for expenditures on projects to manage capital expenditures.

The following table outlines the contractual maturities of the Corporation's financial liabilities at December 31, 2013:

	Less than 1 year	1-2 years	Thereafter	Total
Bank debt – principal	9,333	37,332	93,335	140,000
Trade and other payables	62,704	-	-	62,704
Deferred income	-	3,731	-	3,731
Equity tax payable – undiscounted	1,143	-	-	1,143
Other long term obligations	-	10,764	-	10,764
Convertible debentures – principal	-	23,993	-	23,993
Commodity contracts	85	-	-	85
Phantom warrants	-	8,795	-	8,795
Warrants	137	10,309	785	11,231
Restricted share units	6,275	-	-	6,275
	79,677	94,924	94,120	268,721

In addition to the above, the Corporation has issued letters of credit totalling $30.5 million to guarantee certain obligations under its exploration contracts and to guarantee other contractual commitments. Such amounts only become payable should the Corporation not meet those obligations.

Credit Risk

Credit risk reflects the risk of loss if counterparties do not fulfill their contractual obligations. The majority of the Corporation's trade receivable balances relate to petroleum and natural gas sales. The Corporation's policy is to enter into agreements with customers that are well established and well financed entities in the oil and gas industry such that the level of risk is mitigated. To date, the Corporation has not experienced any material credit losses in the collection of its trade receivables. In Colombia, a significant portion of crude oil sales are with customers that are directly or indirectly controlled by the government. The Corporation has also entered into sales agreements with certain Colombian private sector companies.

The Corporation's trade receivables primarily relate to sales of petroleum and natural gas, which are normally collected within 45 days of the month of production. The Corporation has historically not experienced any collection issues with its customers.

Capital Management

The Corporation's policy is to maintain a strong capital base in order to provide flexibility in the future development of the business and maintain investor, creditor and market confidence. The Corporation manages its capital structure and makes adjustments in response to changes in economic conditions and the risk characteristics of the underlying assets. The Corporation considers its capital structure to include common share capital, convertible debentures, bank debt and working capital, defined as current assets less current liabilities, excluding non-cash items such as the current portion of commodity contracts, warrants and any embedded derivatives asset/liability. In order to maintain or adjust the capital structure, from time to time the Corporation may issue common shares or other securities, sell assets or adjust its capital spending to manage current and projected debt levels.

(in United States dollars (tabular amounts in thousands) except as otherwise noted)

The Corporation monitors leverage and adjusts its capital structure based on the ratio of net debt to funds from operations. This ratio is calculated as net debt, defined as the principal amount of its outstanding bank debt plus the principal amount of its convertible debentures, unless the debentures are in-the-money or may otherwise be settled in common shares at the option of the Corporation, less working capital, as defined above and less the current portion of bank debt and convertible debentures included above, divided by annualized adjusted funds from operations, defined as cash flows from operating activities, excluding changes in non-cash working capital, and adjusted for the Corporation's share of operating funds flows under the Ecuador IPC, which was previously proportionately consolidated and is now accounted for under the equity method (see note 16). The Corporation uses the ratio of net debt to adjusted funds from operations as a key indicator of the Corporation's leverage and to monitor the strength of its financial position.

In order to facilitate the management of this ratio, the Corporation prepares annual budgets, which are updated as necessary depending on varying factors including current and forecast crude oil prices, changes in capital structure, execution of the Corporation's business plan and general industry conditions. The annual budget is approved by the Board of Directors and updates are prepared and reviewed as required.

		December 31, 2013
Bank debt (current and long-term) – principal	$	140,000
Working capital surplus, excluding the current portion of bank debt, warrants, and derivatives		(37,622)
Net debt	$	102,378
Annualized adjusted funds from operations (1)	$	79,754
Net debt to adjusted funds from operations		1.3

(1) Adjusted funds from operations for the six months ended December 31, 2013, annualized, and inclusive of amounts related to the Ecuador IPC.

NOTE 15 – COMMITMENTS AND CONTINGENCIES

Presented below are the Corporation's contractual commitments at December 31, 2013:

		Less than 1 year		**1-3 years**		**Thereafter**		**Total**
Exploration and production contracts	$	13,087	$	22,808	$	-	$	35,895
Office lease		1,042		1,735		4,308		7,085

Ecuador Incremental Production Contract

In addition to the commitments described above, the Corporation has a non-operated 25% equity participation interest (27.9% capital participation interest) in a joint-venture consortium which in 2012 was awarded an incremental production contract for the Libertador and Atacapi mature oil fields in Ecuador. The consortium is committed to incur project expenditures for a total of $334 million ($93.3 million net to the Corporation) over the 15 year term of the contract. As at December 31, 2013, the Corporation had incurred $36.9 million of expenditures in connection with its Ecuador IPC commitment.

Contingencies

In the normal course of operations, the Corporation has disputes with industry participants for which it currently cannot determine the ultimate results. The Corporation has a policy to record contingent liabilities as they become determinable and the probability of loss is more likely than not.

(in United States dollars (tabular amounts in thousands) except as otherwise noted)

NOTE 16 – INVESTMENT IN JOINT VENTURE

The Corporation conducts its operations in Ecuador through a 25% equity interest (27.9% capital participation interest) in the Ecuador IPC, which is reported in these financial statements using the equity method of accounting. Prior to the adoption of IFRS 11, the Ecuador IPC was accounted for using the proportionate consolidation method of accounting. Details of the Ecuador IPC's net assets, revenues and net income (loss) are shown below with comparative information due to the adoption of IFRS 11.

As at	December 31, 2013	June 30, 2013	July 1, 2012
Total assets	$ 161,985	$ 94,878	$ 21,154
Total liabilities	152,691	105,334	21,926
Equity	9,294	(10,456)	(772)
Investment in joint venture	5,707	1,963	4,361

	Three months ended December 31, 2013	2012	Six months ended December 31, 2013	2012
Joint venture net income (loss)	$ 4,093	$ (1,440)	$ 4,775	$ (4,536)
Corporation's share of joint venture profit (loss)	$ 1,023	$ (360)	$ 1,193	$ (1,134)

NOTE 17 – EFFECT OF IFRS 11 ADOPTION AND CHANGE OF COMPARATIVE STATEMENT OF CASH FLOWS

The adoption of IFRS 11 affected the Corporation's previously reported Consolidated Statement of Financial Position as at June 30, 2013 and the Consolidated Statement of Operations and Comprehensive Income (Loss), and Consolidated Statement of Cash Flows for the three and six months ended December 31, 2012. Prior to the adoption of IFRS 11, the Ecuador IPC was accounted for using the proportionate consolidation method and is now being accounted for using the equity method of accounting.

Impact on Consolidated Statements of Financial Position

As at July 1, 2012	As Previously Reported	Effect of IFRS 11 Adoption	Restated
Trade and other receivables	$ 32,801	$ (991)	$ 31,810
Property, plant and equipment	187,208	(3,370)	183,838
Investment in joint venture	-	4,361	4,361

As at June 30, 2013	As Previously Reported	Effect of IFRS 11 Adoption	Restated
Trade and other receivables	$ 41,957	$ (3,816)	$ 38,141
Restricted cash – non-current	4,849	14,418	19,267
Property, plant and equipment	257,586	(19,308)	238,278
Investment in joint venture	-	1,963	1,963
Deferred tax liabilities	3,409	452	3,861
Deficit	(202,693)	(7,195)	(209,888)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

For the three and six months ended December 31, 2013 and 2012

(in United States dollars (tabular amounts in thousands) except as otherwise noted)

Impact on Consolidated Statements of Operations and Comprehensive Income (Loss)

For the three months ended December 31, 2012		As Previously Reported		Effect of IFRS 11 Adoption		Restated
Petroleum and natural gas revenue, net of royalties	$	27,350	$	(1,150)	$	26,200
Share of joint venture loss		-		(360)		(360)
Depreciation and depreciation		10,195		(302)		9,893
Deferred tax expense		2,589		103		2,692
Net income and comprehensive income		3,131		(1,311)		1,820

For the six months ended December 31, 2012		As Previously Reported		Effect of IFRS 11 Adoption		Restated
Petroleum and natural gas revenue, net of royalties	$	69,145	$	(1,353)	$	67,792
Share of joint venture loss		-		(1,134)		(1,134)
Depreciation and depreciation		23,494		(355)		23,139
Deferred tax expense		1,018		121		1,139
Net loss and comprehensive loss		(3,083)		(2,253)		(5,336)

Further, at June 30, 2013, the Corporation changed the presentation of its statements of cash flows whereby interest expense paid was reclassified from operating activities to financing activities. The Corporation believes that this approach provides more reliable and relevant information on its operating activities and funds from operations. For the three and six months ended December 31, 2012, the effect of such reclassification was an increase in cash flows from operating activities, offset by a decrease of the same amount in cash flows from financing activities.

Impact on Consolidated Statements of Cash Flows

For the three months ended December 31, 2012		As Previously Reported		Effect of IFRS 11 Adoption		Effect of Reclassification		Restated
Cash flows from operating activities	$	4,617	$	1,597	$	231	$	6,445
Cash flows from investing activities		(59,126)		(1,597)		-		(60,723)
Cash flows from financing activities		56,674		-		(231)		56,443
Change in cash and cash equivalents	$	2,165	$	-	$	-	$	2,165

For the six months ended December 31, 2012		As Previously Reported		Effect of IFRS 11 Adoption		Effect of Reclassification		Restated
Cash flows from operating activities	$	15,021	$	(2,363)	$	178	$	12,836
Cash flows from investing activities		(83,231)		2,363		-		(80,868)
Cash flows from financing activities		70,674		-		(178)		70,496
Change in cash and cash equivalents	$	2,464	$	-	$	-	$	2,464

NOTE 18 – SUBSEQUENT EVENT

Subsequent to December 31, 2013, the Corporation entered into agreements to acquire rights to an 80% interest in each of the COR-4 and COR-12 exploration blocks located in the Upper Magdalena Basin of Colombia. Pursuant to the terms of the agreements, consideration paid for the block acquisitions included: i) a total payment of \$15 million (\$7.5 million for each block) payable entirely in newly issued common shares of the Corporation (the "Share Consideration"); ii) agreement to fund the vendors' remaining 20% share of exploration commitments in the first two phases (unified into a single phase in the case of COR-12) of each of the contracts; iii) the granting of a 3% overriding royalty to the applicable vendors for each block; and iv) agreeing to the payment of a one-time bonus totalling \$5 million in the event that any one of the two blocks is subsequently successfully farmed out by the Corporation to a third party. The Share Consideration was payable at a deemed price of C\$6.79 per common share and the Corporation issued 2,454,590 common shares in satisfaction thereof.