PACIFIC RUBIALES ENERGY CORP.

MANAGEMENT DISCUSSION AND ANALYSIS
November 14, 2008

Form 51-102F1
For the three and nine months period ended September 30, 2008

The following discussion is management's assessment and analysis of the results and financial condition of Pacific Rubiales Energy Corp. (the "Company"), and should be read in conjunction with the accompanying unaudited interim consolidated financial statements for the three month and nine month period ended September 30, 2008 and related notes. The preparation of financial data is in accordance with Canadian generally accepted accounting principles ("GAAP") and all figures are reported in thousands of United States dollars, except for production, share data or as otherwise stated. On May 9, 2008 the Company consolidated its common shares, stock options and warrants on a one for six basis. All references to net barrels or net production reflect only the Company's share of production after excluding royalties and the operating partner's working interest.

Multilateral Instrument 52-110 requires that an audit committee comprise three members, each of whom must be independent. As a result of the Company's August Convertible debenture financing (described in greater detail below), one of the members of the Committee voluntarily resigned from the committee as he no longer was considered independent. It is the board's intention to nominate a new independent member to the committee at its next meeting, but as this has not yet occurred, the audit committee comprised two members when the financial statements and this MD&A were approved.

Additional information relating to the Company, including the Company's Annual Financial Report and the Annual Information Form for the year ended December 31, 2007, is available on SEDAR at www.sedar.com.

Financial and Operating Summary

	Three months ended September 30,	
(in thousands of US$ except per share amounts or as noted)	2008	2007
Financials:		
Net sales	202,354	26,519
Net Income for the period	86,370	2,690
Net Income per share - basic and diluted[1]		
- basic	0.41	0.03
- diluted	0.39	0.03
Capital expenditures (includes $8,676 in accounts payables)	74,987	10,710
Total assets	2,312,091	480,525
Fund flow from operations [2]	117,032	14,750

	Three months ended September 30			
	2008 Oil	2008 Gas	2008 Combined	2007 Combined
Operations:				
Operating netback ($/boe) [3]				
Crude oil and natural gas sales price	123.30	36.53	103.34	41.83
Lifting costs	5.52	2.27	4.77	4.11
Transportation and other costs	13.30	0.70	10.40	13.75
Upgrading Cost (Diluent including transportation)	21.34	-	16.43	-
Other costs	6.81	1.74	5.64	1.50
Operating netback	76.33	31.82	66.10	22.47
Average daily net production (Boe/day) [4]	16,387	4,896	21,283	6,891

On May 9, 2008, the Company consolidated its common shares on a 1:6 basis by issuing one common share for every six common shares outstanding. On March 9, 2007, the Company split its issued and outstanding common shares on a 7:1 basis by exchanging seven common shares for every one common share outstanding. All references to earnings per share, weighted average number of common shares outstanding, common shares issued and outstanding, and authorized common shares have been adjusted to reflect the share split and subsequent share consolidation.

(1) Calculated based on cash flow from operations before changes in non-cash operating working capital.
(2) Combined operating netback data based on weighted average daily production.
(3) Natural gas conversion rate used was 6 mcf = 1 boe

Third Quarter Results Summary

- On August 28, 2008 the Company issued $224.9 million (Cdn$240 million) of convertible secured subordinated debtentures due August 29, 2013 and convertible into common shares of the Company at Cdn$13 per share. The debentures bear interest at 8% annually and payable semi-annually on June 30 and December 31. The Company used the net proceeds to pay for the acquisition of 100% of Kappa Energy Holdings Ltd. As a result, the operations of Kappa are included in the financial information from the September 2, 2008 date of acquisition.

- Production averaged 21,283 boe/day of oil and gas, an increase from 19,122 boe/day in the previous quarter and 6,891 boe/day production in the prior year. Average crude oil daily net production increased to 16,387 bod/day from 12,966 bod/day in the previous quarter whereas gas average net daily production decreased to 4,896 bod/day from 6,156 bod/day in the previous quarter. The decrease in gas production was due to the shut down of wells for gas pipeline maintenance.

- Revenues increased over the previous quarter primarily on the increased production achieved and on the strength of oil and gas prices. Operating netback increased over the previous quarter primarily on the increased crude oil and natural gas sales prices achieved. Net operating costs per barrel of $37,24 reflect the increasing costs of transport diluents due to oil market conditions and as such is recovered on the increased realized price per barrel of oil sold during the quarter. Net operating costs also included increases in tariffs for the trucking operations out of the Rubiales field due to governmental decrees.

- During the third quarter of 2008, the Company sold in the international market 18,587 Bbl/d as 18.5º API blended crude via blending at the Guaduas Station and pipeline to the Coveñas Terminal compared to 12,334 Bbl/d in the previous quarter and nil for the same period in the previous year.

  Capital expenditures during the third quarter of 2008 were $70.7 million, which includes $4.2 million on the appraisal well campaign to enhance the static model of the Rubiales field, $6.9 million on the construction as part of central processing facility at the Rubiales field, $22.8 million related to production and drilling costs, $19.4 million on acquisition and construction of additional facilities at the Rubiales field and $17.2 million for the La Creciente block.

- On May 9, 2008, the Company consolidated its common shares on a 1:6 basis by issuing one common share for every six common shares outstanding. On March 9, 2007, the Company split its issued and outstanding common shares on a 7:1 basis by exchanging seven common shares for every one common share outstanding. All references to earnings per share, weighted average number of common shares outstanding, common shares issued and outstanding and authorized common shares have been adjusted to reflect the share split and subsequent share consolidation.

Forward Looking Statements

Certain statements in this MD&A constitute forward-looking statements. Often, but not always, forward-looking statements use words or phrases such as: "expects", "does not expect" or "is expected", "anticipates" or "does not anticipate", "plans" or "planned", "estimates" or "estimated", "projects" or "projected", "forecasts" or "forecasted", "believes", "intends", "likely", "possible", "probable", "scheduled", "positioned", "goal", "objective" or state that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. Such forward-looking statements, including but not limited to statements with respect to anticipated levels of production, the estimated costs and timing of the Company's planned work programs and reserves determination involve known and unknown risks, uncertainties and other factors which may cause the actual levels of production, costs and results to be materially different from estimated levels of production, costs or results expressed or implied by such forward-looking statements. The Company believes the expectations reflected in these forward looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements should not be unduly relied upon. Factors that could cause actual results to differ materially from those anticipated in these forward-looking statements are described under the caption “Risks and Uncertainties”. Although the Company has attempted to take into account important factors that could cause actual costs or operating results to differ materially, there may be other unforeseen factors to cause costs to the Company's program and results may not to be as anticipated, estimated or intended.

Non-GAAP Measures

This report contains two financial terms, operating netback and funds flow from operations that are not considered measures under Canadian GAAP.

Corporate development highlights

Convertible Debt Offering

On August 7, 2008 the Company entered into an agreement with a syndicate of underwriters led by GMP Securities L.P., and including Canaccord Capital Corporation, Cormark Securities Inc., Macquarie Capital Markets Canada Ltd. and Thomas Weisel Partners Canada Inc., to issue Cdn$220 million principal amount of 8% convertible unsecured debentures. The debentures will expire five years and one day from the date of issue and will be convertible into common shares of the Company at Cdn$13.00 per share. The Company granted to the underwriters an option, exercisable in whole or in part for a period of 30 days following the closing of the issuance, to purchase up to an additional Cdn$20 million principal amount of debentures at the same offering price, to cover over-allotments, if any, and for market stabilization purposes. On August 28, 2008 the Company completed the offering and issued $224.9 million (Cdn$240 million) of convertible unsecured subordinated debentures due August 29, 2013 and convertible into common shares of the Company at Cdn$13 per share. The Company used the net proceeds of the offering to pay for the acquisition of Kappa Energy Holdings Ltd. (“Kappa”) and the excess funds were used for the general working capital requirements of the Company.

Kappa Energy Holdings Ltd. Acquisition

On September 2, 2008, the Company acquired 100% of Kappa for $170.3 million cash and acquisition costs of $2.7 million. Kappa is a Colombian oil and gas exploration and production company which has been operating since 1997 and operates nine exploration and production blocks in Colombia with gross acreage of 747,000. The nine leased blocks are in the Catatumbo, Lower, Middle and Upper Magdalena, Llanos basins of Colombia, with the following net working interests: Abanico (22.5% in the production area and in the Santana and Casablanca exploration areas, with 23.8% and 14.8% working interests, respectively, and 30.5% working interests in the remaining exploration areas), Alhucema (50%), Arrendajo (32.5%), Cerrito (average 75%), Chipalo (50%), Cicuco (100% for gas and oil), Guasimo (100%), Buganviles (49%) and Las Quinchas (50%).

The Abanico contract area includes the main oil producing field, Abanico (4,100 gross barrels per day) and gas producing field, Ventilador (4.3 gross million cubic feet per day). Three of the exploration contracts, with the ANH (Guasimo, Alhucema and Arrendajo), are in the drilling phase and the other two, with Ecopetrol (Chipalo and Buganviles), are in the exploration phase. Acacia Este (part of the Las Quinchas block) offers the largest exploration potential.

Rubiales-Monterey Oil Pipeline

On January 2, 2008, the Company announced that it had signed a memorandum of understanding for the construction of a 260 km long oil pipeline (the “Rubiales-Monterey oil pipeline”) that will allow for the transportation of the heavy crude oil produced out of the Rubiales oil field. The pipeline will originate at the Rubiales oil field and will connect with the Monterrey Station in Casanare, which is an integral part of Colombia’s oil transport system and is connected with the Oleoducto Central S.A. (“OCENSA”).

The Company, in conjunction with Ecopetrol S.A, established the company Oleducto de los Llanos Orientales S.A, (“ODL”) for the Rubiales-Monterey pipeline project. The Company ‘s interest in ODL is 35% with the balance of 65% owned by Ecopetrol S.A. ODL has entered into a construction contract to complete the construction of the 235 kilometre 24 inch pipeline between the Rubiales oil field and the Monterrey Station by September 30, 2009. The lump sum fixed price contract has a value of $190 million and does not include construction of the pumping station at the Rubiales oil field, which will be awarded separately. Total ODL capital commitments for the completion of this project will exceed $320 million. An additional 30 km branch will be constructed to connect the above pipeline to the Monterey station, which is also part of the OCENSA system. The additional branch will be 100% owned by the Company.

The initial capacity of the pipeline will be 160,000 Bbl/d of 18.5º API (pipeline grade) blended Rubiales heavy oil and can be upgraded to 260,000 Bbl/d of 18.5º API blended oil by adding booster pump stations. The Rubiales field heavy oil is to be diluted at the field with naphtha at a ratio of 85% heavy crude to 15% naphtha. The naphtha will initially be trucked to the Rubiales field. This would allow for the development and expansion of the Rubiales field together with exploration activities in the Quifa Block.

With the proposed pipeline, the Company intends to increase production to a rate of around 126,000 Bbl/d of 12.5º API crude oil, upgrade it to 18.5º API, eliminate the costs of trucking it to market, maximize the selling price of the oil by upgrading its API gravity, and selling the oil in the international market.

Corporate development highlights *(Continued)*

Rubiales field

The Company completed the RUB-53 exploratory well located outside the limits of the commercial area of the field. RUB-53 is a vertical well drilled to a final depth of 3,155 feet which has encountered 22 feet of pay zone. The initial production was 167 bopd with 41% water cut and the oil potential is 400 bopd with 54% of BSW. The results from the RB-53 well will allow the Company to request an extension of the commercial area of the Rubiales field, thereby incorporating an additional 12 km^2 to the production area. The possible reserves associated with this well will be upgraded to proven and probable.

As part of the appraisal and exploration plan of the Rubiales oil field in the Llanos Basin, three wells, identified as RUB-52, RUB-117 and RUB-119, were drilled during the third quarter and have added new production and petrophysical information. The new data will allow the Company to better evaluate the resources at the field as well as extend its known reservoir and recoverable reserves.

The wells found significantly larger net-pay sand than was orininally expected, based on existing mapping of the reservoir. Well RUB-52 identified a net-pay of 54 feet compared to an expected 10 feet, RUB-117 a net-pay of 53 feet and RUB-119 a net-pay of 56 feet compared to the expected 28 and 40 feet, respectively.

The Company has factored the results of these wells with the existing information at the field and will be able to prepare a new and improved prospective map of the reservoir. Management expects that once this data is processed, the STOIIP of the field will be increased and it will have a positive impact on recoverable reserves. The wider and better net-pay extentions will allow the Company to develop two additional clusters, comprising 10 horizontal wells and two vertical wells, in the area.

The exploratory well RUB-147, was drilled in the “Buffer zone” (a 5km strip that surrounds the Rubiales and Piriri Blocks). The petrophysical information confirmed the discovery of new oil and provides evidence of the presence of hydrocarbons in the contiguous Quifa Block. The Company has completed well RUB-147 as a vertical producer and plans to test the well, which showed initial rates of 200-250 barrels of oil per day.

As part of its development plan for the Rubiales field, the Company drilled 39 wells from January, 2008 to September, 2008 of which 27 were production wells (17 vertical and 10 horizontal), 9 were appraisal wells, 2 were exploration wells and 1 was an injection well. The Company expects to complete its program by drilling 41 additional wells during the remainder of 2008 through the simultaneous use of 8 drilling rigs in the field. The Company has also made significant progress in its seismic mapping program in the Rubiales field, having completed 310 km of 2D, 42 km of 3C and 251 Km of 3D.

As a result of these activities the Company has been able to increase the gross production of the Rubiales field from 20,487 barrels of oil per day (bopd) at the beginning of 2008 to 48,000 bopd, or 17,952 bopd net to the Company. Total Light/medium oil production including all oil-producing assets in Colombia as at October 29, 2008 reached 54,744 bopd or 20,062 bopd net to the Company.

La Creciente field

The Company’s La Creciente natural gas field, located in northwestern Colombia, continues to have production capacity at the well head at 100 million standard cubic feet per day (mmscfd). Promigas, the company that transports natural gas from the field, has completed laying the line loop that will increase the transport capacity out of the field to 60 mmscfd. On October 30, 2008 the La Creciente natural gas field had reached 61.3 million standard cubic feet per day.

The Company completed drilling an exploration well at La Creciente, well LC-J1, located in prospect J. The well found the Cienaga de Oro formation at 11,094 feet true vertical depth (TVD) (12,041 feet measures depth(MD), and the basement at 11,993 feet TVD (12,940 feet MD). Three intervals were tested; basement, middle and upper Cienaga de Oro. There was no evidence of gas in commercial quantities. The well was therefore suspended for further evaluation.

The Saxon-133 rig used by the company at the La Creciente block has been moved to the Moriche block in the Llanos Basin of Colombia, where exploration well Mauritia N-West 1 was spudded.

Corporate development highlights *(Continued)*

Investments

In June, 2008 the Company announced that it had acquired a 21.7% indirect interest in Promotora de Energia Electrica de Cartagena & Cia, S.C.A. E.S.P ("Proelectrica"), a private, Cartagena, Colombian-based 90 megawatt electrical utility. Pacific Rubiales acquired its interest in Proelectrica through a US$9.0 million equity investment in Ronter Inc., a private Panamanian company which owns 100% of the shares of Proelectrica. Proelectrica is paid a premium as a peak demand energy supplier to the fast growing Cartegena area, making it an attractive investment and the Company will supply gas from La Creciente to Proelectrica's gas-fired plant.

The Company, in conjunction with Ecopetrol S.A, established the company Oleducto de los Llanos Orientales S.A, ("ODL") for the Rubiales-Monterey pipeline project. The Company 's interest in ODL is 35% with the balance of 65% owned by Ecopetrol S.A. ODL has entered into a construction contract to complete the construction of the 235 kilometre 24 inch pipeline between the Rubiales oil field and the Monterrey Station by September 30, 2009. The lump sum fixed price contract has a value of $190 million and does not include construction of the pumping station at the Rubiales o9il field, which will be awarded separately. Total ODL capital commitments for the completion of this project will exceed $320 million. An additional 30 km branch will be constructed to connect the above pipeline to the Monterey station, which is also part of the OCENSA system. The additional branch will be 100% owned by the Company.

New Blocks

In July the Company was awarded a 100% interest in block CP-1 and a 50% working interest (Talisman Energy Colombia - 50%) in block CP-6 in the Heavy Oil Round for the Llanos Basin of Colombia, organized by the Agencia Nacional de Hidrocarburos de Colombia ("ANH"). Block CP-1 has an area of 989,963 hectares and is located in the northern part of the basin on the border with Venezuela, east of the giant Canon Limon Oil Field. It is also located at the eastern limit of the Arauca Technical Evaluation Area, where the Company is already performing exploration activities. The total investment for the block will be US$31.1 million. Block CP-6 has an area of 608,247 hectares and is located to the southwest of the Rubiales oil field and the Quifa Association contract. The total investment for this block will be US$49.4 million.

Also in July, 2008 the Company executed an agreement with Ecopetrol S.A., the national oil company of Colombia, to jointly develop the Alicante Black in the Llanos Orientales Basin of Colombia. Under this agreement, Ecopetrol will farm-out 55% of its working interest rights in the Alicante Block to the Company. Working commitments under this agreement include seismic acquisition during the third quarter of 2008 and drilling of one exploratory well in the second half of 2009.

On November 10 the Company was awarded six blocks in the "Ronda Colombia" through its Colombian subsidiaries, Meta Petroleum Ltd. and Pacific Stratus Energy Colombia Ltd. The ANH which organized this bidding, offered 43 blocks located in five geological basins: Llanos Orientales (17), Sinu San Jacinto (10), Cesar Rancheria (6), Cordillera Oriental (6) and Guajira (4), with 39 companies participating. The Company won rights to two blocks by itself and rights to four blocks in consortium with other companies, but in all of the six blocks that were awarded, the Company's subsidiaries will be the operator.

The blocks awarded to the company are:

CPO1: Pacific Rubiales has a 100% working interest and the block carries an additional royalty of 6%. The block has an area of 61,776 hectares and is located 80 kilometres north of the Rubiales field. The 36 month-long first exploration phase requires a minimum investment of US$9.6 million, which will be spent on the acquisition of 200 km of 2D seismic and the drilling of one exploratory well.

CPO12: This block was awarded to a consortium formed by Meta Petroleum (40%), CEPSA Colombia Ltd. (30%) and Talisman Colombia Oil and Gas (30%); the block carries an additional royalty of 28%. The block has an area of 286,827 hectares located to the southwest of the Rubiales field. During the first exploration phase, the consortium will invest in the acquisition of 850 km of seismic and the drilling of three exploratory wells, for a total amount of US$35 million.

CPO14: This block was awarded to a consortium formed by Meta Petroleum (62.5%) and CEPSA Colombia Ltd. (37.5%); the block carries an additional royalty of 2%. This block has an area of 209,488 hectares and is located to the southeast of the Rubiales field. The first exploration phase will require a minimum investment of US$32 million, to be spent on acquiring 850 km of 2D seismic and drilling three exploratory wells.

SSJN3: The Company has a 100% working interest and it offered an additional royalty of 2% for the block. This block has an area of 256,718 hectares and is located 70 km north of La Creciente. The first exploration phase includes the acquisition of 500 km of 2D seismic and the drilling of one exploratory well, for a total investment of US$23 million.

Corporate development highlights *(Continued)*

SSJN7: This block was awarded to a consortium formed by Pacific Stratus (50%) and ONGC Videsh (50%), offering an additional royalty of 14%. The block has an area of 270,702 hectares and is adjacent to La Creciente to the west. The first exploration phase will require an investment of US$23 million, to be spent on the acquisition of 550 km of 2D seismic and the drilling of one exploratory well.

CR1: This block was awarded to a consortium formed by Pacific Stratus (60%) and Petrobras Colombia Limited (40%); and the block carries a 22% additional royalty. The block, with an area of 124,394 hectares, is located in the northernmost part of the Cesar-Rancheria Basin in the La Guajira Peninsula on the boundary with Venezuela. This area is highly prospective because it represents the western extension of the Maracaibo Basin into the Colombian territory. The first exploration phase will require an investment of US$12 million, to be spent on the acquisition of 250 km of 2D seismic and the drilling of one exploratory well.

With the completion of the bidding process, Pacific Rubiales has become the second largest oil and gas company in Colombia, measured by total acreage for exploration and production. The exploration activities planned for these blocks must be completed within 36 months from the signature of the contracts; the Company expects that the first expenditures will occur in 2010. Pacific Rubiales has already executed the bidding round minutes and the final signature of the contracts with the ANH is expected to take place by mid-January, 2009.

Reserve reports

On March 3, 2008, the Company announced finalization of a new reserves report for the Rubiales field effective December 31, 2007. The report estimated gross 2P reserves to be 270.7 MMbbl of heavy oil (net 2P reserves 96.7 MMbbl), which represents an increase of approximately 47.5% over the gross quantities reported in the May 31, 2007 reserves report of 183.5 MMbbl (net 2P reserves 47.3 MMBbl). The gross 1P reserves have been estimated at 137.7 MMbbl (net 1P reserves 50.2 MMBbl) from the 24.5 MMbbl reported on May 31, 2007 (net 1P reserves 5.9 MMBbl), representing an increase of 462% for the gross reserves. Gross proved plus probable plus possible (3P) reserves were estimated to be 315.4 MMbbl of heavy oil.

On July 28 the Company filed on SEDAR the Kappa independent reserve and resource assessment report in conjunction with the acquisition of Kappa. The report estimates net 2P reserves of 5.6 MMbbl of L&M Crude and Heavy Oil of which net proved reserves or 1P reserves are 2.5 MMBbl

Summary of Properties

As at the date of this MD&A the Company has working interests in the following oil and gas properties:

<u>Producing Blocks:</u>

Rubiales/Piriri (36% interest)
La Creciente (100% interest with a significant gas discovery)
Guaduas (90.6% interest)
Rio Ceibas (27.3% interest)
Abanico (22.5% interest)
Cerrito (75% interest)
Chipalo (50% interest)
Cicuco (100%)

Summary of Properties (continued)

Exploration Blocks:

Moriche (80% interest with an oil discovery)
Guama (100% interest)
Quifa (60% interest)
Arauca TEA (95% interest)
Tacacho TEA (100% interest)
Puli-B Block – Puli 7 well (50% interest)
135, 137 and 138 (Peru) (100% interest)
Jagueyes 3433-A Block (55% interest)
Llanos Basin CP-1 (100% interest), CP-6 (50% interest), CP01 (100%), CP012 (40%), CP014 (62.5%)
Alicante Block (55% interest)
Las Quinchas (50% interest)
Alhucema (50% interest)
Arrendajo (32.5% interest)
Guasimo (100% interest)
Buganvilles (49% interest)
Sinu San Jacito SSJN3 (100%), SSJN7 (50%)
Cesar Rancheria CR1 (60% interest)

Business Acquisition

Kappa Energy

On September 2, 2008, the Company acquired 100% of Kappa for US$170.3 million cash and acquisition costs of $2.7 million.

The above acquisition has been accounted for using the purchase method with the Company being identified as the acquirer and Kappa as the acquiree. Therefore the results of operations for Kappa commencing August 28, 2008 are included in the Company's results. The purchase price allocation has been done on a preliminary basis to the fair value of the assets acquired and liabilities assumed based on management's best estimate and taking into account all relevant information available at the time these consolidated financial statements were prepared. Management is performing further analysis with respect to these assets, including an independent valuation prior to finalizing the purchase price allocation. Amounts reported in this preliminary purchase price allocation will change to the extent the independent valuation differs from the preliminary estimate of fair value.

A summary of the preliminary allocation of the purchase price for the above acquisition is summarized in the following table:

Purchase price:	
Cash	$ 170,399
Acquisition costs	2,697
	$ 173,096
Net assets acquired:	
Cash	$ 5,349
Non-cash working capital deficiency	(27,676)
Proved properties and wells	173,062
Unproved properties	119,902
Investments	471
Asset retirement obligation	(1,046)
Asset retirement obligation	(10,000)
Future income tax liability	(86,966)
	$ 173,096

Kappa has gross acreage of 747,000 gross acres. This acreage consists of nine leased blocks in the Catatumbo, Lower, Middle and Upper Magdalena, and Llanos basins of Colombia.

Business Acquisition *(Continued)*

Pacific Stratus

On January 23, 2008, the Company completed the Pacific Stratus Acquisition through an amalgamation with a wholly-owned subsidiary of the Company. Consideration for the acquisition was the issuance of 79.3 million (475.5 million pre-consolidation) shares of the Company to Pacific Stratus shareholders at a fair value of C$8.34 (C$1.39 pre-consolidation) per each share issued and for a total amount of $648.9 million in exchange for all the shares of Pacific Stratus that were outstanding at closing, at a ratio of 9.5 pre-consolidation shares of the Company for every Pacific Stratus share. 5.1 million (30.4 million pre-consolidation) warrants with a fair value of $28.0 million and 6 million (35.8 million pre-consolidation) Company incentive stock options with a fair value of $29.6 million were issued to Pacific Stratus option and warrant-holders upon closing and exchanged based upon the same ratio. Acquisition costs amounted to $8.8 million.

The acquisition has been accounted for using the purchase price method with the Company being identified as the acquirer and Pacific Stratus as the acquiree. The purchase price allocation was done on a preliminary basis to the fair value of the assets acquired, estimated liabilities assumed and taking into account all relevant information available at the time the consolidated balance sheet was prepared. Management is performing further analysis with respect to these assets, and obtaining an independent valuation prior to finalizing the purchase price allocation. Amounts reported in this preliminary purchase price allocation may be changed depending on the independent valuation from the preliminary estimate.

A summary of the preliminary allocation of the purchase price for the above acquisition is summarized in the following table:

Purchase price:	
Common shares, warrants and stock options	$ 707,041
Acquisition costs	8,780
	$ 715,821
Net assets acquired:	
Cash	$ 28,270
Non-cash working capital deficiency	(21,576)
Future income tax asset	10,962
Proved properties and wells	690,200
Probable and unproved exploration properties	222,994
Restricted cash	13,930
Investments	3,919
Asset retirement obligation	(9,323)
Future income tax liability	(223,555)
	$ 715,821

Pacific Stratus holds a 100% interest in the La Creciente producing block, 90.6% interest in the Guaduas producing block, 27.3% interest in the Rio Ceibas producing block, 80% interest in the Moriche exploration block, 100% interest in the Guama exploration block, 100% interest in the Tacacho technical evaluation agreement ("TEA") and a 50% interest in the Puli-7 exploration well, all located in Colombia. Pacific Stratus also holds 100% interests in exploration blocks 135, 137 and 138 located in Peru.

Pursuant to the Pacific Stratus Acquisition, the following Pacific Stratus properties became the properties of the Company:

La Creciente Block

The Company holds a 100% interest in the La Creciente block located in the Lower Magdalena Basin, Colombia, pursuant to an exploration contract executed with the ANH in Colombia on August 19, 2004. The La Creciente Exploration Contract encompasses: (i) five exploration phases totalling 65 months; (ii) 2 to 4 years for an evaluation phase; and (iii) a 24 year exploitation phase, with the exploitation phase extendable for an additional 10 years.

Business Acquisition *(Continued)*

La Creciente A-1 ("LCA-1") well

The LCA-1 well is located in the west central portion (Prospect "A") of the Block. The well was spudded on October 13, 2006 and drilled to the total depth of 11,572 feet. The primary objective was the Ciénaga de Oro Formation and was encountered between 10,933 and 11,372 feet. This section was completed as an open hole due to a stuck drill pipe while changing to heavy mud and was left as is.

The secondary target was the Porquero Formation and was tested non-commercial.

La Creciente A-2 ("LCA-2") well

The LCA-2 well was spudded on April 26, 2007 and drilled within the Prospect "A" area to a total depth of 11,965 feet. Five intervals (11,324-34 feet, 11,335-41 feet, 11,356-65 feet, 11,394-400 feet, and 11,404-408 feet) were perforated and tested wet. The well was suspended on September 13, 2007. A side-track was started in the first quarter of 2008 to target a gas anomaly within the Prospect "A" area.

La Creciente A-3 ("LCA-3") well

The LCA-3 well was spudded on July 26, 2007 and drilled within the Prospect "A" area to a total depth of 12,950 feet or 11,518 feet true vertical depth. A number of intervals (11,965-75 feet, 11,979-12,003 feet, 12,027-42 feet, 12,063-69 feet, 12,074-77 feet, 12,081-12,085, 12,091-12,107 feet, 12,152-62 feet, and 12,176-86 feet) were perforated and tested gas. The bottom two intervals (12,152-62 feet and 12,176-86 feet) were tested but the test was suspended due to safety concerns. The upper intervals (11,965-75 feet, 11,979-12,003 feet, 12,027-42 feet, 12,063-69 feet, 12,074-77 feet, 12,081-12,085, and 12,091-12,107 feet) with a total of 78 feet were perforated and tested.

La Creciente D-1 ("LCD-1") well

The LCD-1 well was spudded on October 29, 2007 and drilled within the La Creciente D field to a total depth of 11,450 feet measured depth (11,307 feet true vertical depth and 10,711 feet true vertical depth to sea level) on December 29, 2007. The top of the Ciénaga de Oro formation was encountered at 10,834 feet measured depth (10,693 feet true vertical depth and 10,097 feet true vertical depth to sea level). The gas water contact was encountered at 10,869 feet measured depth (10,727 feet true vertical depth, 10,131 feet true vertical depth to sea level). The interval between 10,836 and 10,848 feet was perforated and tested.

La Creciente A-4 ("LCA-4") well

The LCA-4 well is a deviated development well in the La Creciente "A" field. On March 24, 2008 the Company announced that LCA-4 well had been completed and was expected to add approximately 30 million MMcf/d when connected to the existing production facilities at the La Creciente. LCA-4 was drilled to a measured depth of 12,530 feet or 10,874 feet true vertical depth at sub-sea level. The top of the reservoir in the Cienaga de Oro Formation was encountered at 11,803 feet measured depth or 10,429 feet true vertical depth. The petrophysical evaluation indicates a water gas contact at a measured depth of 11,978 feet or 10,540 feet true vertical depth.

As result of the petrophysical evaluation, 122 feet of net reservoir sandstones were identified, with a net to gross ratio of 88.5%, average porosity of 15% and an average water saturation of 38.5%. The formation pressure recorded at the reservoir was 6,600 psi, which is only 75 psi lower than the pressure registered at the same depth on Prospect "A".

The Company cemented the production liner in order to complete the well at the 10,852 to 11,902 feet measured depth interval. With similar production behavior to LCA-3, it is expected that this well will produce approximately 30 million MMcf/d with a ½ inch choke. Consequently the well will not be tested, but rather completed as a producing well and connected to the existing production facilities at the La Creciente field.

La Creciente E-1 well (LCE-1)

The company spudded the La Creciente E-1 well (LCE-1) on April 6, 2008 and on May 23, 2008 LCE-1 well reached a measured depth of 11,939 feet and encountered the top of the Cienaga de Oro Formation at 11,478 feet measured depth and the basement at 11,828 feet measured depth. The logging while drilling resistivity and gamma ray logs indicate that the target Cienaga de Oro Formation consists of shales without reservoir characteristics.

The Business Acquisition *(Continued)*

Production

In December 2007 the production facilities at the La Creciente Block were officially certified by the Colombian Ministry of Mines and Energy ("MME") As a result, the Company delivered an average of 35 million cubic feet of gas per day to the Guepaje-Sincelejo main pipeline in the first quarter of 2008.

Tacacho Block

In January 2008, the Company was advised by the ANH that it had secured the Tacacho TEA. The Tacacho block measures approximately 598,959 hectares and is located in the foreland basin of the Putumayo mountain range in the Eastern Cordillera of Colombia.

The main exploration targets in Tacacho are the tertiary Pepino formation and the cretaceous sandstones of the Villeta formation, prolific producers in the Ecuadorian portion of the basin. Oil generation in the Putumayo and nearby Napo basins is renowned and proved, as well as the charge of the petroleum system and trapping against structural highs in combined stratigraphic-structural traps.

A final agreement has not yet been executed. Work commitments comprise a minimum investment of $3.0 million to reprocess 640 km of 2D seismic, 4,400 km of aeromagnetogravimetric survey and the acquisition of 100 km of new 2D seismic.

Moriche Block

Under the agreement with the ANH, the Company and its partners had the obligation to complete a first phase exploration program at the Moriche block consisting of seismic reprocessing, building an access road and drilling an exploration well. This first phase was budgeted to cost approximately $2.8 million and was completed with the spudding of the Mauritia-1 well in February 2006.

The Mauritia-1 well reached the targeted reservoir, the Eocene Mirador Formation in the southernmost prospect of the Moriche Block, near the currently producing la Punta oil field, but on March 27, 2006, the Mauritia-1 well was plugged and abandoned. A preliminary interpretation of the results from the Mauritia-1 well indicated that the well either penetrated below the water-oil contact, or that the faultedblock trapping mechanism failed to retain hydrocarbons.

The Company mapped two additional prospects to the north of the block near the Rancho Hermoso oil field, and on February 12, 2007, a second well was spudded, the Mauritia Norte-1. The Mauritia Norte-1 well was drilled to a total measured depth of 10,000 feet, with the Carbonera C7, Mirador, Gacheta, and Ubaque Formations encountered at depths of 8,726, 8,793, 9,520 and 9,693 feet, respectively. The primary objective was the Mirador Reservoir, which presented one oil-bearing sandstone with five feet of net pay zone. Secondary target zones of Carbonera C7, Gacheta, and Ubaque reservoirs were also identified, with gross thicknesses of 254, 214, and 296 feet, respectively. Fluid samples taken from the Ubaque and Mirador Formations were heavy and light oils, with API gravity of 12.8° and 38.5° respectively.

Variable production of 13.7° API gravity oil was obtained from the Upper Ubaque Formation, resulting in a calculated open flow potential of 202 bbl/d with a bottoms, sediment & water content of 27.5%. This formation will be tested again with future development wells to determine whether it can yield commercial production levels.

In the third quarter of 2007 an 85 km^2 3D seismic acquisition program was completed at the Moriche block in order to better delimit the structure of the Mauritia Norte-1 well and to define new potential prospects.

The Company holds an 80% working interest in and is the operator of the Moriche block. By drilling the Mauritia Norte-1 well, the Company has fulfilled the second phase of its contractual commitment under the Moriche Association Contract.

Business Acquisition *(Continued)*

Puli-7

Drilling of the Puli-7 well commenced in December 2005 and final depth of 4,707 feet was reached in January 2006 with frequent oil shows in the Guaduala and Monserrate Formations. The well was logged and the petrophysical evaluation defined four hydrocarbon bearing intervals. Three of these intervals are located within the Monserrate Formation at depths of 4,412 to 4,428 feet, 4,433 to 4,486 feet and 4,500 to 4,509 feet respectively. The fourth hydrocarbon bearing interval was within the Guaduala Formation at a depth between 4,203 feet and 4,223 feet. Twenty reservoir fluid tests were conducted on these intervals and a static gradient for oil was obtained. On January 12, 2006, a natural flow test from the intervals in the Monserrate Formation accumulated 118 bbl/d of 33° API light oil. The well was completed and production started on February 9, 2006, after the approval of the production facilities by the MME. The initial production from the well was 110 bbl/d and Pacific Stratus planned and completed a fracturing workover and carried carry out a chemical treatment to dissolve paraffin that was precipitated in the reservoir during almost a month of inactivity. These workovers increased production to 200-220 boe/d.

The well has gross production of 200-220 boe/d with potential to increase to 300 (200 net) boe/d after a production-stimulating fracturing workover. The Company believes that the production rate can stabilize around 300 (200 net) boe/d, as has been the case in the nearby Puli-3 well.

Guaduas

The Guaduas field is located in the Dindal and Rio Seco blocks and covers 30,665 acres in the Middle Magdalena Valley, approximately 100 km northwest of Bogotá. The Company has a 90.6% working interest. The remaining 9.4% working interest belongs to Cimarrona Oil & Gas.

The Guaduas field is located in the Middle Magdalena Valley Basin on the west flank of the Guaduas syncline. To date, 21 wells have been drilled with nine producing oil wells, one water disposal well, and one gas injector currently operating.

The Guaduas field's crude oil production is marketed by Ecopetrol, and is exported to the Caribbean and the U.S. Gulf Coast. During 2007, the Company focused its efforts on maintaining production, which averaged 1,122 bbl/d, 6.3 MMcf/d and 1,230 barrels of water per day, for a total production of 409,846 bbl of 18.5° API crude.

Net proved producing reserves at Guaduas consist of 1.313 million bbl and net non-producing reserves are estimated to be 0.114 million bbl. As well, there are estimated to be 1.271 million bbl of proved undeveloped reserves and probable undeveloped reserves of 1.256 million bbl.

In 2007 Pacific Stratus conducted an analysis of how it could increase its return on investment in the Guaduas field, and identified two alternative uses to the traditional sale of crude from the field. The first consisted of utilizing idle storage and pumping capacity at the field by constructing facilities to receive a mix of heavy-light crude in order to ultimately pump 20,000 bbl/d of oil per day of this blended crude. As well, in November 2007, the PF1 production facilities at the field were adapted to receive 5,600 bbl/d, allowing the receipt, mixing and pumping of 125,169 bbl by year-end.

The second use related to the sale of gas produced at the field; accordingly, a purchaser of 1 MMcf/d was identified and an agreement reached. Construction of the gas delivery facilities was performed in parallel with the development of the crude receiving project and was completed in April 2008. Deliveries commenced in May 2008.

Rio Ceibas

The Rio Ceibas field is located in the Caguan Block that covers 1,674 acres in the Upper Magdalena Valley. The drilling of the Rio Ceibas 1 and 2 wells at the beginning of 1988 established the discovery of a hydrocarbon field and the production began in 1994. Most development and drilling activity took place between 1997 and 1999, with a secondary recovery project beginning in 1999. There are currently 70 active wells: 45 oil producers, 21 water injection wells, and 4 gas injectors. The Rio Ceibas field's crude oil production is marketed by Ecopetrol, and is exported to the Caribbean and the U.S. Gulf Coast.

The Company has a 27.27% working interest. The operator is Petrobras with a working interest of 22.73%. Ecopetrol elected to back-in to the Rio Ceibas field and has the remaining 50% working interest. The contract on this block expires on December 31, 2011. The Company believes that obtaining a 10-year extension to 2021 from Ecopetrol is possible.

The Rio Ceibas field is part of the Caguan Block, located in the northeastern part of the Neiva sub-basin of the Upper Magdalena Valley Basin and is approximately 200 km southwest of Bogotá. The block includes a field development area and a surrounding exploration area that covers a total of 1,674 acres.

Business Acquisition *(Continued)*

The basin is structurally complex due to its multiple evolutionary stages. The basin is characterized as a backarc basin in the Cretaceous and a foreland basin in the early Tertiary. During 2007, production maintenance was performed on 42 wells at a cost of $3.4 million. Average production for 2007 was 2,729 bbl/d, 4.422 MMcf/d and 5,906 barrels of water per day, for a total production of 996,250 bbl of 25.4° API crude oil from 54 active wells. Total gas sales for the year were 0.13 MMcf. Historical accumulated production at Rio Ceibas is 19 million bbl, and net proved producing reserves at Rio Ceibas stand at 0.637 million bbl.

Guama

On March 14, 2007, Pacific Stratus announced that the ANH had awarded it a 100% interest in the 87,465 hectare Guama Block located in the Lower Magdalena Valley Basin in the north of Colombia. The obligations for the first 18-month phase of this contract included the reprocessing of 300 km of 2D seismic and the acquisition of 200 km of 2D seismic. During 2007, these commitments were satisfied by the acquisition of 255 km of 2D seismic and the reprocessing of an additional 300 km of 2D seismic. $3.5 million was expended on this phase.

Blocks 135, 137 and 138 (Peru)

In July 2007, Pacific Stratus was awarded blocks 135, 137 and 138 in Peru by Perupetro in the 2007 bidding program. These blocks total 1,883,553 hectares and are located in the prolific Marañon Basin and to the south of the producing Ecuadorian Napo and Colombian Putumayo Basins.

The commitments for the first exploration phase include regional studies and seismic acquisition. Upon the successful completion of phase one, the Company has the option to continue the exploration program with additional seismic acquisition and drilling one well for each block.

Pipelines

The Company has a 94.6% interest in the Guaduas-La Dorada pipeline (“OGD”) and minority interests in two trunk oil pipelines, Oleoducto de Colombia (“ODC”) and Oleoducto Alto Magdalena (“OAM”). The OGD is a 10” pipeline that runs 63 km from the production facilities at Guaduas field to the OAM pipeline at La Dorada. The ODC pipeline runs 481 km from Vasconia to the Covenas terminal and has a 24” diameter pipeline with a capacity of 210,000 barrels of oil per day. The OAM pipeline is a 20” diameter pipeline that runs 396 km from Tenay to Vasconia and has a capacity of 100,000 barrels per day. Currently crude oil production is transported via the OAM pipeline to Vasconia and from Vasconia to the Covenas terminal via the OCENSA pipeline.

Rubiales

On July 16, 2007, the Company acquired 75% of the outstanding shares of Rubiales Holdings Ltd. (“RHL”) in consideration for $255 million, of which $245 million was paid in cash and $10 million was paid by the issuance of 12,701,176 units of the Company at a price of C$0.85 per unit (the “Rubiales Acquisition”). Each unit consisted of one pre-consolidation common share of the Company and one-half of one common share purchase warrant, with each whole warrant entitling the vendors to acquire one additional pre-consolidation common share at an exercise price of C$1.30 per pre-consolidation common share until July 12, 2012.

On December 4, 2007, the Company increased its ownership of RHL from 75% to 100% by acquiring the remaining 25% of RHL’s outstanding shares. Consideration was $10 million in cash and the issuance of 14.2 million (85 million pre-consolidation) common shares of the Company at a price of C$9.72 (C$1.62 pre-consolidation). Acquisition costs were $0.1 million.

The above step-by-step acquisitions have been accounted for using the purchase price method with the Company identified as the acquirer and RHL as the acquiree in accordance with CICA Handbook Section 1581 “Business Combinations”. The results have been included in the Consolidated Financial Statements from the dates of acquisition.

***Business Acquisition** (Continued)*

The allocation of the purchase price for the step-by-step acquisitions is summarized in the following table:

	Acquisition 75%	Acquisition 25%
Purchase price:		
Cash consideration	$ 245,000	$ 10,000
Units and shares consideration respectively	10,000	141,779
Acquisition costs	8,831	37
	$ 263,831	$ 151,816
Net assets acquired:		
Cash	$ 11,363	$ 4,523
Non-cash working capital deficiency	(5,265)	(145)
Proved properties and wells	61,773	218,155
Unproved properties	311,191	-
Other long-term liabilities	(9,876)	(2,478)
Future income tax liability	(105,355)	(68,239)
	$ 263,831	$ 151,816

RHL holds interests in certain hydrocarbon properties pursuant to three contracts with Ecopetrol, for the exploration and exploitation of hydrocarbons in the Meta Department, Llanos Basin in Colombia:

(a) 40% of the Rubiales Association Contract (the "Rubiales concession");

(b) 50% of the Piriri Association Contract (the "Piriri concession"); and

(c) 60% of the Quifa Exploration Contract (the "Quifa concession").

RHL currently produces heavy crude oil from its Rubiales and Piriri concessions which expire in July 2016. The Quifa concession expires in December 2031 and it is currently in the exploration stage of development.

The remaining production interest partner in both Rubiales and Piriri blocks is Ecopetrol. Under both Association Contracts, the royalty rate is 20%. The royalties on the oil are paid in kind.

Jagüeyes 3433-A Block

On February 8, 2008, the ANH awarded the Company the Jagüeyes 3433-A block, in the Casanare Department, Llanos Orientales, Colombia. The Jagüeyes 3433-A block has an area of 21,500 hectares and is surrounded by producing oil fields and provides easy ground access. The Company’s work commitment for this block consists of 112 km2 of 3D seismic in the first phase (eight months), at an investment of approximately $3.0 million. If exploratory targets are then identified, the proposal calls for the drilling of three exploratory wells in three different phases (10, 12 and 12 months respectively), at an investment of $5.0 million for each well. No costs were incurred as at June 30, 2008.

TEA Arauca

On May 3, 2007, the ANH granted the Company a TEA over an area of approximately 300,000 hectares in the Arauca Department, Llanos Basin, Colombia (the “Arauca Area”). The exploratory costs required under the TEA are estimated at $10.5 million.

As at September 30, 2008, $0.2 million of the required cost were incurred. Free Traders Group Inc. was granted a 5% carried interest in the TEA and in any exploration and production contract which results from the TEA.

The Arauca Area consists of 301,377 hectares, 60 km east of the Caño Limón field, south of the Colombian-Venezuela borders and 70 km from the oil-delivery point to the pipeline Cañon Limón-Coveñas.

Financial position

Total assets were $2.3 billion as at September 30, 2008 (December 31, 2007 - $789.5 million). Total assets primarily consisted of $1.9 billion in oil and gas properties and equipment (December 31, 2007 - $611.2 million), $169.3 million in cash and cash equivalents (December 31, 2007 - $140.5 million) and $95.4 million in accounts receivable (December 31, 2007- $23.6 million). The increase in total assets, oil and gas properties and accounts receivable is primarily the result revenue and production growth and acquisitions. Acquisitions of Kappa and Pacific Stratus were completed in the third and the first quarter of 2008 respectively. A portion of the cash and cash equivalent balance is held in short term investment. Cash generated from operations before non-cash working capital or fund flows from operations was $117 million.

Long term debt of $13.0 million (December 31, 2007 - $7.7 million) represents the non-current portion of a balance of $19.1 million (December 31, 2007 - $22.7 million) in debt existing as at September 30, 2008. The debt is held in Colombia and repayable as indicated under the "*Liquidity and Capital Resources"* section of this MD&A.

On August 28, 2008 the Company issued $228.2 million (Cdn$240 million) of convertible unsecured subordinated debentures due August 29, 2013 and convertible into common shares of the Company at Cdn$13 per share. The Debentures bear interest at 8% annually and is payable semi-annually in arrears on June 30 and December 31. The Company used the net proceeds of the offering to pay for the acquisition of Kappa. Any excess funds will be used for the general working capital requirements of the company.

The debentures have been classified into their debt and equity components based on fair values. The fair value of the equity component was valued using the Black-Scholes pricing model using the a risk free rate of 3.65%, no dividends paid, expected life of 5 years and an expected volatility of 56.9%. As a result, on the issuance of the debentures $138.6 million (net of $7,791 issuance costs) was classified as the debt component and $77.4 million (net of $4,353 issuance costs) was classified as the equity component. The liability portion will accrete up to the principal balance over the term of the debenture. The accretion and interest paid are expensed as interest expense yielding an effective rate annual rate of 18%. If the debentures are converted to common shares, the relative portion of the value of the conversion in shareholders' equity and in the convertible debt component will be reclassified to common shares capital.

		Amount
Gross proceeds	$	228,158
Costs		12,144
	$	216,014
Fair value of equity component (net of share of cost)		77,433
Value attributed to liability component on issuance		138,581
Accretion to September 30, 2008		1,180
Foreign exchange effect upon conversion to $US		(1,649)
Balance of liability component, September 30, 2008	$	138,112

Results of Operations of the third quarter of 2008 compared to third quarter of 2007

Net sales for the third quarter of 2008 were $202.4 million (2007 – $26.5 million) and cost of operations were $73.1 million (2007 - $12.3 million). During the third quarter of 2008, $25.1 million was charged to depletion, depreciation and amortization ("DD&A") (2007- $2.7 million). Depletion charge is based on $1.6 billion of oil and gas property costs subject to depletion of which $690 million is attributed to the proved portion of oil and gas properties acquired with the Pacific Stratus Acquisition and $173 million in the Kappa acquisition. Included in the costs subject to depletion is $259 million of future development costs that are estimated to bring proved undeveloped reserves to development. Production for the third quarter of 2008 was 19,122 boe/day (2007 – 6,891 boe/day).

The Company did not have an active business prior to July 16, 2007. The production data for the third quarter of 2008 includes the Kappa production from the date of acquisition.

Operating income is calculated as revenues less operating costs, less depletion, depreciation and amortization, less general and administrative and less stock-based compensation. The operating income in the quarter of $92.0 million included general and administrative expenses, which increased to $11.8 million from $0.8 million the previous year due to the Rubiales, Pacific Stratus and Kappa acquisitions.

The Company is exposed to foreign currency fluctuations as certain expenditures are incurred in Colombian pesos and Canadian dollars. The Company entered into forward exchange contracts with the objective of reducing the foreign exchange risk between the US dollar and the Colombian peso used in operations. Any gains or losses in the estimated value of these contracts are expensed in the period. As at June 30, 2008 approximately $8.5 million exchange loss, representing the fair value of the exchange contracts, was incurred on these contracts. During Q3 the contracts were settled for a loss total loss of $3.0 million. The gains or losses on these contracts are offset against operations upon the use of Colombian pesos. The forward exchange contracts for the forward purchase of Colombian pesos are listed below:

No.	Non-delivery fund rate	Amount in US dollar	Expiry date	Estimated Fair Value
1	1,688.49	20,000,000	July 3, 2008	$ (685,644)
2	1,813.71	10,000,000	July 3, 2008	373,364
3	1,690.97	15,000,000	July 10, 2008	(654,265)
4	1,688.90	20,000,000	July 18, 2008	(1,111,037)
5	1,701.03	15,000,000	August 8, 2008	(951,576)
Total		80,000,000		$ (3,029,158)

The Company earned $ 0.2 million of interest income during third quarter of 2008 on its short term investments held in Canadian and United States banking institutions (third quarter of 2007 - $ 1.5 million). Interest expense was $3.6 million primarily on the long-term debt and interest on the convertible debt which included a $1.2 million in non-cash accretion charge.

Income tax expense amounted to $5.0 million during the third quarter of 2008 (2007- $ 1.4 million). The future income tax liabilities of $495.7 million consisted of primarily related to the temporary difference originated on the value assigned to oil and gas properties in Colombia versus their tax basis, when RHL and Pacific Stratus were acquired. The liability is being reversed to a recovery from income tax at the same rate as the value of oil and gas properties is being depleted. The liability is denominated in Colombian pesos and translated to U.S. dollars at the quarter end exchange.

Results of Operations (continued)

Average benchmark crude oil and natural gas prices for the first, second and third quarters of 2008 were as follows:

Average Crude Oil Reference Prices	Q3 2008 $/Bbls	Q2 2008 $/Bbls	Q1 2008 $/Bbls	API
Domestic Market	$ 78.99	$ 64.48	$ 46.15	12.50
WTI	$ 118.05	$ 133.88	$ 97.94	38.00
Vasconia	$ 107.38	$ 117.04	$ 89.38	25.00
Rubiales (indexed to Vasconia)	$ 90.68	$ 110.17	$ 83.48	18.50
Average Natural Gas Reference Price ($/mcf)	$ 4.37	$ 4.87	$ 4.48	
Henry Hub Natural Gas ($/mcf)	$ 14.33	$ 13.27	$ 8.75	

Realized oil sales prices in Colombia averaged $107.47 per barrel for the third quarter of 2008, representing a $10.58 per barrel discount to WTI of $118.05 per barrel (9% discount to WTI). The discount is a primarily due to the difference in API degrees.

Realized natural gas sales prices in Colombia averaged $4.37 per mcf in the third quarter representing a $9.96 per mcf or 69% discount to the Henry Hub Natural Gas rate.

Selected Quarterly Information

(In thousands of US$ except per share amounts or as noted)	Q3 2008	Q2 2008	Q1 2008	Q4 2007	Q3 2007	Q2 2007	Q1 2007	Q4 2006
Financials:								
Net sales	202,354	158,567	94,927	53,897	26,519	-	-	-
Net income (loss) for the period	86,370	47,193	(53,219)	17,475	1,293	(918)	(36)	(43)
Capital expenditures (net of amounts in accounts payable)	74,987	64,877	25,998	24,790	10,710	-	-	-
Fund flow from operations (1)	117,032	62,145	37,996				(42)	
Earnings (loss) per share (2)								
- basic	$ 0.39	$ 0.23	$ (0.30)	$ 0.02	$ 0.03	$ (0.00)	$ (0.00)	$ (0.00)
- diluted	$ 0.36	$ 0.21	$ (0.30)	$ 0.02	$ 0.03	$ (0.00)	$ (0.00)	$ (0.00)
Operations:								
Operating netback ($/boe) (3)								
Crude oil and natural gas sales price	103.34	91.12	62.06	55.93	41.83	-	-	-
Lifting cost	4.77	4.34	5.08	4.63	4.11	-	-	-
Transportation and other cost s	32.56	30.32	18.30	14.70	15.25	-	-	-
Operating netback	66.01	56.46	38.68	36.60	22.47			
Average daily crude oil production (Bbls/day)	16,387	12,966	12,016	8,409	6,891	-	-	-
Average daily natural gas production (Boe/day) (4)	4,896	6,156	6,555	-	-	-	-	-
Average daily oil and gas production (Boe/day)	21,283	19,122	18,571	8,409	6,921	-	-	-

Amounts in the periods ending on or before June 30, 2007 have been translated and restated in United States dollars from previously reported Canadian dollar amounts. See "Significant accounting policies".

Figures for the first quarter of 2008 include 100% of the Pacific Stratus' operations and net income from January 23, 2008 to March 31, 2008.

(1) Calculated based on cash flow from operations before changes in non-cash operating working capital.
(2) On May 9, 2008 subsequent to the quarter end the Company consolidated its common shares on a 1:6 basis by issuing one common share for every six common shares outstanding. On March 9, 2007, the Company split its issued and outstanding common shares on a 7:1 basis by exchanging seven common shares for every one common share outstanding. All references to earnings per share, weighted average number of common shares outstanding, common shares issued and outstanding and authorized common shares have been adjusted to reflect the share split and subsequent share consolidation.
(3) Operating netback data based on weighted average daily production.
(4) Natural gas conversion rate used was 6 mcf = 1 boe.

The following discussion highlights some of the significant factors that had impact on the results in the eight most recently completed quarters ended September 30, 2008.

Revenue in the third quarter of 2008 increased $43.8 million over the second quarter of 2008 to 2023 million primarily due to higher oil and gas prices realized and higher production. Operating netback improved primarily due to increased realized prices in Q3 over Q2.

Revenue in the second quarter of 2008 increased $63.6 million over the first quarter of 2008 to $158.6 million primarily due to higher oil and gas prices realized and higher production. Net income increased by $100.4 million over the previous quarter primarily due to increased revenues, a decrease in the non-cash stock compensation of $31.0 million and a decrease in foreign exchange loss of $52.6 million.

During the first quarter of 2008, net sales increased by $41.0 million to $94.9 million over the previous quarter due to higher production, increasing oil and gas prices, higher crude oil volume, sold in the international market due to the Company's new commercial scheme, and revenue from Pacific Stratus properties since the acquisition. Net loss increased by $70.7 million from the prior quarter due principally to increased DD&A expenses, non-cash stock based compensation expense of $31.3 million, non-cash foreign exchange loss of $41.0 million and partially offset by interest income and future income tax recovery.

During the fourth quarter of 2007, sales increased by $27.4 million over the previous quarter primarily due to increasing commodity prices, the increasing production at the Rubiales field, selling 3,000 Bbl/d in the international market for first time according to a

Selected Quarterly Information (Continued)

new operational and commercial scheme, instead of domestically, and the inclusion of revenue from the Company's variable interest entity, Transportadora del Meta S.A. Net income increased by $16.2 million from the prior quarter as a result of higher

revenue combined with a reduction in stock-based compensation, as a majority of the stock options were issued in the previous quarter and the foreign exchange gain more than offset the impact of the increase in operating expenses due to an increase in water dehydration and treatment costs, in general and administrative expenses, in DD&A due to the increase in the value of oil and gas properties subject to depletion and future development costs to bring proved reserves to development, and income tax expense.

During the third quarter of 2007, sales increased by $26.5 million over the previous quarter as the Company did not have any sales in the previous quarter as it did not have an active business before July 16, 2007. Net income increased by $2.2 million from the previous quarter due to the impact of having revenue from a business in the third quarter.

Liquidity and Capital Resources

Liquidity

Net cash provided by operating activities during the third quarter 2008 was $106.2 million (Q3 2007 - $20.8 million) and funds flow from operations during the third quarter 2008 was $117.0 million (third quarter 2007 – use of $14.8 million). Since the acquisitions of RHL and Pacific Stratus, the Company has been generating cash flows from operations from the sale of crude oil and natural gas and continues to plan increased future production.

As at September 30, 2008, the Company held debt denominated in U.S dollars with two Colombian banks for a total amount of $19.1 million (December 31, 2007 - $22.7 million). Maturities are in March 2009 of $0.7, April 2010 of $8.4 million and $10 million in October 2012.

During the quarter the Company issued convertible debt resulting in net proceeds after costs of $216 million. The debt is repayable August 29, 2013 and bears interest at 8% which is payable semi annually in July and December. The proceeds were used in the acquisition of Kappa and for general working capital purposes.

As at September 30, 2008 the Company had working capital of $156.0 million (December 31, 2007 - $133 million) of which $169.3 million was held in cash and cash equivalents (December 31, 2007 – $140.5 million).

Possible sources of funds available to the Company to finance its capital expenditure program and operations include cash flows from operations, which are expected to continue increasing with anticipated increases in production and current high oil and natural gas prices, the issuance of additional common shares (if necessary), existing working capital and incurring new debt.

In this environment of relatively low oil prices, the company's great advantage is that we are a low-cost producer. That, coupled with a fully funded investment plan, allows the Company to move forward with our expenditure program. We feel confident that the short term accommodations in our plan would allow us to achieve our short term goals, and preserve the implementation of our long term strategy that will maximize future shareholder value. As a result on November 12, 2008 the Company is restructuring its four-year investment program, as well as its plan to fund the program, while maintaining its production targets for its main oil and gas assets in Colombia.

The investment program calls for an expenditure of US$1,185 million (net) for the period 2009 - 2012, which will be funded through the cash flow generated by operations as well as financing from credit facilities already in place. The new, optimized capital expenditure program results from two main initiatives: the optimization of the production facilities at the Rubiales field and the rescheduling of the company's exploration plan.

The original development plan for Rubiales called for the expansion of the existing production facility (CPF1) to a capacity of 70,000 bopd and the construction of a second facility (CPF2) with an additional capacity of 100,000 bopd. The company has done some significant reengineering and the CPF1 will now be expanded to a capacity of 100,000 bopd, which will come on-line in the second half of 2009. A modified CPF2, with a capacity of 70,000 bopd, will now be operational in 2010. This re-engineering will synchronize the development of the production and pumping facilities with the original production profile for the field. The reengineering also modifies the capital expenditures profile, in particular reducing the outlays for 2009 by almost US$180 million (as compared to the original plan), but achieves this without affecting the company's original production targets for the Rubiales field or its exploration obligations.

Liquidity and Capital Resources (Continued)

In parallel with the reshaping of the capital expenditure profile, Phase I of the construction of the Oleoductos de los Llanos (ODL) oil pipeline that will ultimately connect the Rubiales field to the Monterrey station will be operational by July 2009. Phase I will see the Rubiales field connected to the main Colombian oil transportation system, significantly improving the company's costs of transportation and allowing early pumping of Rubiales' production, even before the main pumping facilities are completed. The

company has been able to create this two-phased approach to utilizing the ODL through the utilization of temporary pumping capacity that the company has located and put in place. This early utilization of the pipeline, in conjunction with the rescaling of the trucking currently used by the company to transport its crude, will set the foundation for ramping up the field to an average production of 90,000 bopd in the second half of 2009. Phase II of the ODL construction will see the pipeline reaching full capacity (170,000 bopd) by the end of 2009. The company has already funded its equity portion of the ODL, with no further equity contributions anticipated; the pipeline's development is proceeding well and on schedule. It is expected that the debt portion for the pipeline project will come from multilateral agencies and commercial banks and due diligence in that regard is well advanced.

At its light and medium oil assets in Colombia, and at the La Creciente natural gas field, the company will continue to focus on developing the proven reserves with a goal of reaching its production targets for 2009 of 8,000 bopd and 90 mmscf, respectively. While serving the goal of maximizing cash flow, this will allow the company to continue to increase the certainty of the resource base.

On the exploration side, the company has re-examined its commitments, and will concentrate its activity during 2009 on those blocks for which it has immediate contractual obligations to the Agencia Nacional de Hidrocarburos (ANH) to explore. The company will reschedule the rest of its exploration activity according to the same ANH obligations; for instance, the six new blocks that the company was recently awarded by the ANH will not require exploration expenditures until 2010. The company anticipates meeting all of its exploration obligations and remains committed to its exploration program, recognizing its major exploration position in Colombia, which management regards as one of the company's most enduring competitive advantages.

The company has also instituted a program of reducing costs and has signed a mandate with BNP Paribas and Sumitomo Bank to arrange up to $500 million in a corporate credit facility, which is expected to be closed early in 2009; the company expects, for the purposes of its investment program, to utilise in 2009 US$100 million of that facility. In addition, the company has already established credit facilities for US$66 million with banks located in Colombia, and maintains a credit line of up to US$20 million from the International Finance Corporation. These financial facilities will be utilized to fund the increased production profiles, which the company regards as the surest way to maximize cash flow. Additionally, if there are any delays in completing the financing of the ODL, the company will have its corporate facility to draw down.

The company is using the following financial projections, utilizing a forecast price of WTI US$60:

WTI $60	2009	2010	2011	2012
REVENUES	839	1,192	1,443	1,507
NET CASH FLOW OPERATING ACTIVITIES	216	376	507	459
CAPEX	363	333	299	190
OPEN CREDIT LINES	100	-	-	-
BEGINNING CASH	104	15	6	172
CLOSING CASH	15	6	172	431
EBITDA	324	507	617	642

N.B. All Figures in US$ millions

In this environment of relatively low oil prices, the company's great advantage is that we are a low-cost producer. That, coupled with a fully funded investment plan, allows us to move forward with our expenditure program. We feel confident that the short term accommodations in our plan will allow us to achieve our short term goals, and preserve the implementation of our long term strategy that will maximize future shareholder value.

Capital Expenditure Outlook

The Company has a substantial plan of development to bring the current gross capacity of the Rubiales field of ~ 48,000 gross Bbl/d (net – 17,280 Bbl/d) to 100,000 gross Bbl/d (net – 36,000 Bbl/d) by Q3 2009 when the construction of the Rubiales-Monterey oil pipeline will be operational.

The updated capital expenditure investment total $101.2 million, which includes $20 million of seismic 2D and 3D. $81 million will be spent in exploration drilling activities which will include four wells in the La Creciente field.

At Rubiales, 36 horizontal producer wells with an estimated cost of $2.2 million each and 15 vertical producer wells with an estimated cost of $1.8 million each and 17 appraisal wells with an estimated cost of $1.8 million will have to be drilled during 2008. Total net cost is estimated to be $76.6 million including flow lines and other development costs.

The Company will invest $5.5 million in developing the Abanico field and $5.7 million in developing the Guaduas field.

The Company revised its net production facilities budget to $133 million including oil and water handling facilities central power generation facility (IPP) and water disposal wells.

On the exploration side, the company has re-examined its commitments, and will concentrate its activity during 2009 on those blocks for which it has immediate contractual obligations to the Agencia Nacional de Hidrocarburos (ANH) to expore. The Company will reschedule the rest of its exploration activity according to the same ANH obligations such as the six new blocks that the Company was recently awarded will not require exploration expenditures until 2010. The Company anticipates meeting all of its exploration obligations and remains committed to its exploration program, recognizing its major exploration position in Colombia, which management regards as one of the Company’s most enduring competitive advantages.

Outstanding Share Data

Authorized

Unlimited number of common shares without par value

Issued and Fully Paid Common Shares

On March 9, 2007, the Company split its common shares on a 7:1 basis and on May 9, 2008 the Company consolidated its common shares on a 1:6 basis. All share and per share amounts in this MD&A have been adjusted to reflect the share split and subsequent share consolidation.

As at November 13, 2008, 210,566,340 common shares were issued and outstanding (September 30, 2008 – 210,566,340 and 118,993,149 – December 31, 2007)

The Company does not have shares subject to escrow restrictions or pooling agreements.

Stock Options and Warrants

As at November 13, 2008, 44,803,552 warrants to acquire an equal number of common shares were outstanding and exercisable (48,479,098 – December 31, 2007) and 15,051,885 stock options were outstanding (2,357,500 – December 31, 2007) of which all were exercisable (1,860,278 – December 31, 2007). On July 8, 2008 the Company waived the vesting period on 435,070 options which had vesting periods as a result 435,070 options became exercisable.

New Accounting Pronouncements

The Canadian Accounting Standards Board (AcSB) issued two new Sections in relation to financial instruments: Section 3862, Financial Instruments – Disclosures, and Section 3863, Financial Instruments – Presentation. Both sections will become effective for the Company's 2008 financial year and will require increased disclosure regarding financial instruments.

The AcSB issued Section 1535, Capital Disclosures. This standard requires disclosure regarding what the Company defines as capital and its objectives, policy and processes for managing capital. This standard will be effective for the Company's 2008 financial year. The Company expects that the only effect in the future will be additional disclosures on the Company's capital and how it is managed.

The AcSB issued Section 3031, Inventories. This standard prescribes the accounting treatment for inventories, and will be effective for the Company's 2008 financial year. The standard is not expected to have a material impact on the Company

The AcSB confirmed recently that public companies will be required to report under International Financial Reporting Standards ("IFRS") effective January 1, 2011. The Company will assess the impact of adopting IFRS, including an examination of recognition, measurement and disclosure differences.

Commitments and Contingencies

As part of the Company's normal course of business, the Company entered into arrangements that will impact the Company's future operations and liquidity, some of which are already reflected as liabilities in the consolidated financial statements at year end. The principal commitments of the Company are debt repayments, asset retirement obligations, service contracts with suppliers in relation with the exploration and operation of oil properties and engineering and construction contracts, among others. Disclosure about the Company's significant commitments can be found in note 11 to the consolidated financial statements. The Company has no off-balance sheet arrangements.

The Company is involved in various claims and litigation arising in the normal course of business. While the outcome of these matters is uncertain and there can be no assurance that such matters will be resolved in the Company's favor, the Company does not currently believe that the outcome of adverse decisions in any pending or threatened proceedings related to these and other matters or any amount which it may be required to pay by reason thereof would have a material impact on its financial position, results of operations or cash flows.

Related-party transactions

During the first quarter of 2008, the Company paid Endeavour Financial, a company related by way of a director in common, a success fee in connection with the Pacific Stratus Acquisition for a total amount of C$7.0 million, pursuant to an amending agreement dated November 8, 2007 to a financial advisory services agreement dated May 14, 2007.

During the first quarter of 2008, and pursuant to the above agreement, the Company paid C$105,000 in retainer fees for acting as the Company's financial advisor and $250,000 in financing fee for Endeavour's involvement in assisting the Company to obtain debt financing for the construction of Rubiales-Monterey oil pipeline.

At the time of the Pacific Stratus Acquisition, one member of the board of directors of the Company was also a member of the board of directors of Pacific Stratus Energy Ltd. As a consequence of the resulting conflict of interest, the affected director abstained from all decision making by the boards of directors of both companies in respect of all matters relating to the Pacific Stratus Acquisition.

All of the above transactions occurred 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.

Risks and Uncertainties

The Company is subject to a number of risk factors due to the nature of the resource business in which it is engaged, which include but are not limited to international geopolitical risk, liquidity risk, currency risk, volatility in oil and gas prices, the ability to secure drilling and completion services and success in exploration and development programs, which are difficult to forecast. For a comprehensive list of risk and uncertainties that the Company is subject to refer to the MD&A for the financial year ended December 31, 2007 available on SEDAR at www.sedar.com.

Disclosure controls and procedures

Disclosure controls and procedures have been designed to ensure that information to be disclosed by the Company is accumulated, recorded, processed, summarized and reported to the Company's management as appropriate to allow timely decisions regarding disclosure. The Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of the end of the period covered by this MD&A, that the Company's disclosure controls and procedures are effective to provide reasonable assurance that material information related to the Company, including its consolidated subsidiaries, is communicated to them as appropriate to allow timely decisions regarding required disclosure. Work is ongoing to improve the design, evaluation and the monitoring of the disclosure controls and procedures following the acquisitions of Rubiales and Pacific Stratus as well as the Company becoming a TSX Issuer on February 6, 2008 from a TSX Venture Issuer.

Internal Controls over Financial Reporting

Management of the Company is responsible for designing adequate internal controls over the Company's financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. There have been no changes in the Company's system of internal controls over financial reporting during the Third quarter of 2008 that materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

Work is ongoing to improve the design, evaluation and the monitoring of the internal controls over financial reporting following the acquisitions of Rubiales and Pacific Stratus as well as the Company becoming a TSX Issuer on February 6, 2008 from a TSX Venture Issuer. During the third quarter the Company has added a Chief Corporate Auditor to its management team and has also begun the process of integrating the Company's reporting units into one ERP system under SAP. The expected implementation of the ERP is the third quarter of 2009.

It should be noted that while the Company's Chief Executive Officer and Chief Financial Officer believe that the Company's disclosure controls and procedures provide reasonable level of assurance that they are effective and that the internal controls over financial reporting are adequately designed, they do not expect that the financial disclosure controls and procedures or internal control over financial reporting will prevent all errors and fraud. In reaching a reasonable level of assurance, management necessarily is required to apply its judgement in evaluating the cost-benefit relationship of possible controls and procedures. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

Outlook

The Company's current production is limited by infrastructure and transportation. An expansion of current facilities and the construction of the Rubiales-Monterey oil pipeline continue to be a focus as it is a key to the Company's future growth and development.

The Company will continue to sell on the international markets as 18.5 API blended crude via the blending process at the Guaduas station and pipeline to the Coveñas terminal. From October 2008 through to September 2009, the Company expects to increase sales to 18,000 bbl/d as 18.5 API blended crude on the international market through the same operational and commercial scheme. Subsequent to that the Rubiales-Monterey oil pipeline is expected to be complete and all of the Company's production from the Rubiales oil field of 45,360 bbl/d will be sold in the international markets as 18.5 API blended crude via blending at the Rubiales field and transportation through the pipeline to Monterey, where it will be connected to the Ocensa pipeline to Coveñas.

The exploration activities of the Company have continued at a steady pace during fiscal 2008. To date, the Company has processed or reprocessed 316 km of 3D and 5,198 km of 2D seimic data for the La Creciente, Guama, Moriche and Arauca blocks in preparation for the exploration campaign over the next 12 months.

The Company will focus on implementing its restructured investment program and the funding of the program as outlined above.

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