PACIFIC RUBIALES ENERGY CORP.

Interim Consolidated Financial Statements

For the three months ended March 31, 2009 and 2008
(unaudited)
(In United States dollars)

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PACIFIC RUBIALES ENERGY CORP.
Interim Consolidated Balance Sheets
(unaudited)

(In thousands of U.S. dollars)	As at March 31, 2009	As at December 31, 2008
ASSETS		
Current		
Cash and cash equivalents	$ 36,195	$ 90,391
Restricted cash (note 12)	1,650	7,224
Accounts receivable	79,834	70,491
Inventories	9,997	13,873
Prepaid expenses	4,410	7,119
Future income tax	883	1,119
	132,969	190,217
Oil and gas properties and equipment (note 4)	1,939,821	1,907,504
Restricted cash (note 12)	12,602	11,441
Future income tax	5,737	8,431
Investments and other assets (note 5)	105,019	120,771
Goodwill	64,006	60,744
	$ 2,260,154	$ 2,299,108
LIABILITIES		
Current		
Accounts payable and accrued liabilities (note 3)	$ 142,080	$ 173,911
Risk management liability (note 13)	1,028	6,574
Income tax payable	8,641	19,482
Current portion of long-term debt (note 7)	36,466	18,392
Future income tax	194	1,144
	188,409	219,503
Long-term debt (note 7)	10,360	11,646
Convertible debentures (note 8)	129,253	132,001
Future income tax	364,499	420,502
Asset retirement obligation (note 6)	15,153	14,671
	707,674	798,323
Non-controlling interest (note 3)	-	1,270
Contingencies and commitments (note 12)		
SHAREHOLDERS' EQUITY		
Equity component of convertible debentures (note 8)	66,130	66,130
Common shares (note 9)	1,188,336	1,187,925
Contributed surplus (note 9)	158,578	158,660
Accumulated other comprehensive income	229	229
Retained earnings	139,207	86,571
	1,552,480	1,499,515
	$ 2,260,154	$ 2,299,108

See accompanying notes to the unaudited interim consolidated financial statements

PACIFIC RUBIALES ENERGY CORP.
Interim Consolidated Statements of Operations, Comprehensive Income and Retained Earnings
For the three months ended March 31,
(unaudited)

(In thousands of U.S. dollars, except share and per share amounts)	2009	2008
		(Restated see note 1)
Revenues		
Net sales	$ 110,000	$ 94,927
Gain on risk management contracts (note 13)	5,546	-
Interest income	891	1,222
	116,437	96,149
Expenses		
Operating	47,160	48,646
General and administrative	13,043	6,865
Stock-based compensation (note 9)	64	31,322
Interest expense	6,738	849
Foreign exchange (gain) loss	(60,932)	42,091
Other income	(1,318)	(158)
Other expense (note 3)	12,000	-
Depletion, depreciation and amortization	43,303	18,897
	60,058	148,512
Income (loss) before income taxes	56,379	(52,363)
Income tax expense (recovery)		
Current	4,168	2,032
Future	(425)	1,914
	3,743	3,946
Net income (loss) and comprehensive income (loss)	52,636	(56,309)
Retained earnings, beginning of period	86,571	9,873
Retained earnings (deficit), end of period	$ 139,207	$ (46,436)
Net Income per share (note 14)		
- Basic	$ 0.25	$ (0.32)
- Diluted	$ 0.25	$ (0.32)

PACIFIC RUBIALES ENERGY CORP.
Consolidated Balance Sheets
As at December 31,

See accompanying notes to the unaudited interim consolidated financial statements

(In thousands of U.S. dollars)	2009	2008
		(Restated see note 1)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	52,636	$ (56,309)
Items not affecting cash:		
Depletion, depreciation and amortization	43,303	18,897
Asset retirement obligation accretion (note 8)	482	81
Gain on risk management contracts	(5,546)	-
Non-cash interest expense on of convertible debentures (note 8)	2,105	-
Stock-based compensation	64	31,322
Future income tax recovery	(425)	1,914
Foreign exchange gain	(60,932)	42,091
Share of income from equity investment	(139)	-
Changes in non-cash working capital (note 11)	(9,428)	(38,490)
Net cash used in operating activities	22,120	(494)
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to oil and gas properties and equipment	(100,823)	(25,998)
Acquisition of Pacific Stratus		
cash acquired less acquisition costs (note 3)	-	19,490
Decrease in restricted cash	4,413	-
Decrease (increase) in investments and other assets	96	(1,609)
Net cash used in investing activities	(96,314)	(8,117)
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances from long-term debt	25,293	-
Repayment of debt	(6,046)	(553)
Proceeds from the exercise of warrants and options (note 9)	265	5,773
Net cash provided by financing activities	19,512	5,220
Effect of exchange rate changes on cash and cash equivalents	486	259
Change in cash and cash equivalents during the period	(54,196)	(3,132)
Cash and cash equivalents, beginning of the period	90,391	140,508
Cash and cash equivalents, end of the period	$ 36,195	$ 137,376
Cash and cash equivalents are comprised of:		
Cash	$ 35,817	$ 46,090
Short-term money market instruments	378	91,286
	$ 36,195	$ 137,376

Supplemental disclosure with respect to cash flows (note 11)

See accompanying notes to the interim consolidated financial statements

1. SIGNIFICANT ACCOUNTING POLICIES

These unaudited interim consolidated financial statements of the Company have been prepared by management in U.S. dollars and are presented in accordance with Canadian generally accepted accounting principles. The unaudited interim consolidated financial statements have been prepared following the same accounting policies and methods of computation as the audited consolidated financial statements for the fiscal year ended December 31, 2008, except as noted below. The unaudited interim consolidated financial statements do not include all of the disclosures included in the annual audited consolidated financial statement and accordingly should be read in conjunction with the audited annual consolidated financial statements and the notes thereto in the Company's annual report for the year ended December 31, 2008.

a) Restatement of 2008 unaudited interim consolidated financial statements

The Company has restated its March 31, 2008 interim consolidated financial statements as a result of its accounting for a special 40% tax deduction to be taken in the year of acquisition of qualified expenditures in Colombia. As the tax benefit from these expenditures is greater than its cost, the application of CICA 3465 requires the recognition of future tax asset and a reduction in the cost base of the expenditure capitalized in oil and gas properties. The effect is to recognize the special 40% deduction through a reduction in the cost of oil and gas properties and hence a reduction in depreciation and depletion over the life of the asset compared to the previous accounting which recorded a direct recognition of the income tax benefit in the year the eligible expenditure was made.

The impact of this restatement was already included in the annual consolidated financial statements for the year ended December 31, 2008. The impact on the 2008 interim consolidated financial statements is as follows:

Three months ended March 31, 2008	Previously Reported	Adjustment	Restated
Oil and gas properties and equipment	$ 1,546,677	$ (12,487)	$ 1,534,190
Future income tax asset	7,710	-	7,710
Future income tax liabilty	424,895	(4,858)	420,037
Retained earnings, end of period	(38,807)	(7,629)	(46,436)
Depletion, depreciation and amortization	19,040	(143)	18,897
Income tax expense	713	3,233	3,946
Net loss	(53,219)	(3,090)	(56,309)
Net income per share - basic	$ (0.30)	$ (0.02)	$ (0.32)
Net income per share - diluted	$ (0.30)	$ (0.02)	$ (0.32)

The correction had no effect on reported cash provided by operating activities.

2. CHANGES IN ACCOUNTING POLICIES

Adopted

a) Goodwill and Intangible Assets

In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets", replacing Section 3062, "Goodwill and Other Intangible Assets" and Section 3450, "Research and Development Costs". The changes are applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company adopted the new standards for its fiscal year beginning January 1, 2009. The new standard establishes the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets. This new guidance requires recognizing all goodwill and intangible assets in accordance with CICA section 1000, "Financial Statement Concepts." Section 3064 has eliminated the practice of recognizing items as assets that do not meet the section 1000 definition and recognition criteria. Under this new guidance, fewer items meet the criteria for capitalization. The adoption of this standard had no significant impact on the Company's consolidated financial statement.

b) Credit Risk and Fair Value of Financial Assets and Liabilities

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

Future accounting changes

a) International Financial Reporting Standards

The Accounting Standards Board confirmed recently that public companies will be required to report under IFRS effective January 1, 2011. The Company is currently assessing the impact of adopting IFRS, including an examination of recognition, measurement and disclosure differences. The Company has performed an initial scoping process and will complete a transition plan in order to ensure successful implementation within the required time frame. The Company will continue to monitor any changes in the adoption of IFRS and any key information will be disclosed as it becomes available during the transition period.

b) Business Combinations/Consolidated Financial Statements/Non-Controlling Interests

In January 2009, the CICA adopted sections 1582, "Business Combinations", 1601, "Consolidated Financial Statements", and 1602, "Non-Controlling Interests" which superseded current sections 1581, "Business Combinations" and 1600 "Consolidated Financial Statements". These sections will be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Earlier adoption is permitted. If an entity applies these sections before January 1, 2011, it will disclose that fact and apply each of the new sections concurrently. These new sections were created to converge Canadian GAAP with IFRS.

Under the guidance of new section 1582, the purchase price used in a business combination is based on the fair value of shares exchanged at their market price at the date of the exchange. Currently the purchase price used is based on the market price of the shares for a reasonable period before and after acquisition is agreed and announced. This new guidance generally requires all acquisition costs to be expensed, which currently are capitalized as part of the purchase price. Contingent liabilities are to be recognized at fair value at the acquisition date and re-measured at fair value through earnings each period until settled. Currently only contingent liabilities that are resolved and payable are included in the cost to acquire the business. In addition, negative goodwill is required to be recognized immediately in earnings, unlike the current requirement to eliminate it by deducting it from non-current assets in the purchase price allocation. Section 1582 is effective for the Company on January 1, 2011 with prospective application and early adoption permitted.

Under the guidance of new section 1602, when there is a change in control the previously held interest is revalued at fair value. Currently a gain of control is accounted for using the purchase method and a loss of control is accounted for as a sale resulting in a gain or loss in earnings. Minority interest currently referred to as non-controlling interest, and is presented within equity is recorded at carrying amount and can only be in

a deficit position if the non-controlling interest has an obligation to fund the losses. Under the new guidance non-controlling interest can be in a deficit position because it is recorded at fair value.

3. BUSINESS ACQUISITIONS

2009 acquisitions

On February 11, 2009, the Company acquired for $12 million the remaining 34% of the outstanding shares of Pacific Rubiales Energy Trading S.A. ("PRET") that it did not own, increasing its ownership from 66% to 100%. An amount of $2.6 million was paid on closing and the balance of $9.4 million, recorded in accounts payable, is due in three quarterly payments of $2.5 million and the balance of $1.9 million is due February 5, 2010.

PRET owns an exclusive marketing contract with the Company to manage the operational coordination and trading activity on the Company's behalf. The contract includes a fee compensation based on the Company's oil export revenues. The contract expires on October 1, 2019. Due to a rapid increase of reserves, production and export sales volumes, the Company decided to bring in-house the supply and trading activities and acquire the remaining minority equity of PRET.

The Company has recognized in other expense the $12 million paid on the settlement of the purchase of the remaining 34% of PRET and the associated contract with the Company.

2008 acquisitions

Kappa

On September 3, 2008, the Company acquired 100% of Kappa Energy Holdings Ltd. ("Kappa"), an oil and gas exploration and production company, for $170.4 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 September 3, 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. The fair values of proved and unproven reserves have been adjusted from the preliminary allocation based on an updated estimate of the discount rate used to determine the proved, probable and possible reserves. Amounts reported in this preliminary purchase price allocation will change to the extent the independent valuation differs from the preliminary estimate of fair value to be completed by June 30, 2009.

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

Pacific Stratus

On January 23, 2008, the Company completed the acquisition of Pacific Stratus Energy Ltd. (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 see note 12) shares of the Company to Pacific Stratus Energy Ltd. ("Pacific Stratus") shareholders at a fair value of C$8.34 (C$1.39 pre-consolidation) per each share issued 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. In addition 5.1 million (30.4 million pre-consolidation) Company warrants with a fair value of $28.0 million and 6.0 million (35.8 million pre-consolidation) Company incentive stock options with a fair value of $29.6 million were issued to existing Pacific Stratus warrant and option-holders upon closing based upon the same exchange ratio. Acquisition costs amounted to $8.8 million.

The above acquisition has been accounted for using the purchase method with the Company being identified as the acquirer and Pacific Stratus as the acquiree. Therefore the results of operations for Pacific Stratus commencing January 23, 2008 are included in the Company's results. The purchase price allocation was finalized at December 31, 2008 and the fair value of the assets acquired and liabilities assumed are based on management's best estimate and an independent valuation. The adjustment to the preliminary purchase price is attributed to the final

independent valuation of the proved, probable and exploration properties in the acquisition. The final valuation for oil and gas properties was $836,568 compared to $913,194 previously estimated. Also included in this final valuation is goodwill of $64,006 compared to previously estimated balance of nil. The difference from the preliminary estimate was due to the finalization of the independent valuation of the fair market valuation of properties acquired.

Pursuant to the acquisition of La Creciente by Pacific Stratus in 2004 the Company was required to issue 538,334 common shares to the sellers of the La Creciente properties upon achieving certain cash flow targets. As at the end of March 31, 2009 the cash flows targets were met and a liability of $3.3 million to recognize the issuance of the common shares was recorded in accounts payable. The liability is included in the purchase price of Pacific Stratus and accordingly goodwill has been recorded. (see note 16 and note 17).

A summary of the purchase price allocations for the acquisitions is found in the following table:

	2008 acquisitions		
	Kappa	Pacific Stratus	Total
Purchase price:			
Cash	$ 170,399	$ -	$ 170,399
Accounts payable	-	-	-
Common shares, warrants and stock options	-	707,041	707,041
Acquisition costs	2,697	8,780	11,477
	$ 173,096	$ 715,821	$ 888,917
Net assets acquired:			
Cash	$ 5,349	$ 28,270	$ 33,619
Non-cash working capital deficiency	(27,676)	(24,838)	(52,514)
Oil and gas properties	292,964	836,568	1,129,532
Goodwill	-	64,006	64,006
Restricted cash	-	13,930	13,930
Investments	471	3,919	4,390
Asset retirement obligation	(1,046)	(3,497)	(4,543)
Long-term debt	(10,000)	-	(10,000)
Future income tax liability	(86,966)	(202,537)	(289,503)
	$ 173,096	$ 715,821	$ 888,917

4. OIL AND GAS PROPERTIES AND EQUIPMENT

Details are as follows:

	March 31, 2009		
	Cost	Accumulated DD & A	Net Book Value
Oil and gas properties and equipment	2,083,797	164,120	1,919,677
Corporate and other	22,615	2,471	20,144
	2,106,412	166,591	1,939,821

	December 31, 2008		
	Cost	Accumulated DD & A	Net Book Value
Oil and gas properties and equipment	2,011,069	121,790	1,889,279
Corporate and other	19,723	1,498	18,225
	2,030,792	123,288	1,907,504

As at March 31, 2009 oil and gas properties includes $483 million (December 31, 2008 - $404.8 million) that have been excluded from the depletion, depreciation and amortization calculation. As at March 31, 2009 $1.3 billion (December 31,2008 - $1.4 billion) in future capital expenditures has been included in the calculation of depletion, depreciation and amortization.

5. INVESTMENTS AND OTHER ASSETS

The investments and other assets consist of the following:

	March 31, 2009	December 31, 2008
1. Investment in ODL Finance S.A.	$ 91,007	$ 105,323
2. Investment in Ronter Inc.	8,357	8,427
3. Other assets	5,655	7,021
	$ 105,019	$ 120,771

1. The investment represents a 35% interest in ODL Finance S.A. (“ODL”), a special purpose Panamanian company with a Colombian branch that is constructing a 235 km oil pipeline that will allow for the transportation of heavy crude oil produced out of the Rubiales field. The remaining 65% interest is owned by Ecopetrol S.A., the national oil company of Colombia. The investment is accounted for using the equity method and the Company’s share of net income or loss is included in the Company’s net income under other income. The total project cost is estimated to be $530 million. Phase I, at a cost of $370 million, connects the Rubiales field to the Monterrey station and Phase II, at a cost of $160 million, will complete the pipeline such that full capacity can be reached.

   On March 12, 2009, ODL completed a debt facility for approximately $200 million, equivalent to COP$520,000,000. The loan is provided by Grupo Aval, a Colombian banking group led by Banco de Bogota. This facility ensures funding for the completion of Phase I of the ODL pipeline project. The facility has an interest rate of DTF (Colombia base for fixed rate deposits over three months) + 5%, a maturity of five years with a one year grace period and blended quarterly payments. The loan is non-recourse to the sponsors.

   On February 25, 2009, the ODL board of directors approved the reduction of the original investment by its shareholders of $301.5 million of which the Company’s share was $105.3 million to $260 million of which the Company’s share is $91 million.

2. The investment in Ronter Inc. represents a 21.7% indirect interest in Promotora de Energia Electrica de Cartagena & Cia, S.C.A. ESP ("Proelectrica"). Proelectrica is a private, Cartagena, Colombia-based 90 megawatt electrical utility peak demand supplier to the local Cartagena utility. This investment is accounted for using the equity method and the Company's share of Proelectrica's net income or loss is included in the Company's net income under other income.

6. ASSET RETIREMENT OBLIGATION

The estimated total undiscounted amount required to settle the asset retirement obligation was $39.8 million (December 31, 2008 - $39.8 million) assuming an annual inflation rate of 4.4% until the time the liability is settled. The obligation is expected to be settled over the useful lives of the underlying assets determined by the expiration date on concession agreements. This amount has been discounted using a credit adjusted risk free interest rate of 15% (December 31, 2008 – 15%).

Changes to the asset retirement obligation were as follows:

	March 31, 2009	December 31, 2008
Balance, beginning of the period	$ 14,671	$ 1,498
Assumed on the Pacific Stratus Acquisition	-	3,497
Assumed on the Kappa Acquisition	-	1,046
Obligations incurred during the period	-	7,932
Accretion expense	482	698
	$ 15,153	$ 14,671

7. LONG-TERM DEBT

Type	Name of Bank	Maturity	Currency	Annual Interest Rate	March 31, 2009	December 31, 2008
Bilateral Term Credit (1)	Bancolombia	April 23, 2010	COP	DTF + 3.5	$ 4,686	$ 6,583
Promissory note (2)	IFC	October 15, 2012	USD	LIBOR plus 3%	10,000	10,000
Promissory note (3)	Banco de Credito	March 10, 2009	COP	DTF + 3.5%	-	319
Promissory note (4)	Banco de Occidente	April 3, 2009	COP	17.32%	1,950	2,227
Promissory note (5)	Banco de Credito	June 4, 2009	COP	16.50%	4,686	10,697
Promissory note (6)	Bancolombia	June 20, 2009	COP	12.31%	8,940	-
Promissory note (7)	Bancolombia	June 26, 2009	COP	12.31%	1,992	-
Promissory note (8)	Banco de Credito	June 4, 2009	COP	12.46%	4,685	-
Promissory note (9)	Banco de Credito	June 25, 2009	COP	12.13%	3,436	-
Promissory note (10)	Banco Occidente	June 18, 2009	COP	DTF + 4.25%	1,689	-
Promissory note (11)	Banco Occidente	June 24, 2009	COP	DTF + 4.10%	2,498	-
Bank overdrafts					2,264	212
					$ 46,826	$ 30,038
Current portion					$ 36,466	$ 18,392
Long-term debt					10,360	11,646
					$ 46,826	$ 30,038

(1) Unsecured $18.7 million loan, repayable in monthly instalments. Applicable interest rate is DTF + 3.5%. (DTF = fixed- term-deposit rate in Colombia)
(2) Secured $10 million loan by a pledge of up to 51% of the common shares of the Company's subsidiary Kappa Resources Colombia Limited. Interest is paid semi-annually on April 15 and October 15
(3) Unsecured $3.6 million loan, interest and principal due on maturity
(4) Unsecured $8 million loan, interest and principal due on maturity
(5) Unsecured $11 million loan, interest and principal due on maturity
(6) Unsecured $8.9 million loan, interest and principal due on maturity
(7) Unsecured $1.9 million loan, interest and principal due on maturity
(8) Unsecured $0.8 million loan, interest and principal due on maturity
(9) Unsecured $3.4 million loan, interest and principal due on maturity
(10) Unsecured $2.5 million loan, interest and principal due on maturity
(11) Unsecured $1.7 million loan, interest and principal due on maturity

The contractual aggregate repayment of the long-term debt is as follows:

	Amount
2011	$ 360
2012	3,000
2013	7,000
	$ 10,360

8. CONVERTIBLE DEBENTURES

On August 28, 2008, the Company issued $228.2 million (C$240 million) of convertible unsecured subordinated debentures due August 29, 2013 and convertible into common shares of the Company at C$13 per share. The debentures bear interest at 8% annually, payable semi-annually in arrears on June 30 and December 31.

The debentures have been classified into their debt and equity components. The fair value of the equity component was valued using the Black-Scholes option pricing model using the a risk free rate of 3.65%, no dividends paid, expected life of 5 years and an expected volatility of 50% with the residual allocation to the debt component. As a result, on the issuance of the debentures, $149.7 million (net of $8.5 million issuance costs) was classified as the debt component and $66.1 million (net of $3.8 million 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 annual rate of 18%.

	Amount
Gross proceeds due on maturity (C$240 million)	$ 228,159
Costs	12,316
	$ 215,843
Fair value of equity component (net of $3,773 issuance costs)	66,130
Value attributed to liability component on issuance (net of $8,543 issuance costs)	149,713
Non-cash interest	3,954
Foreign exchange gain upon conversion to US$	(21,666)
Balance as at December 31, 2008	$ 132,001
Non-cash interest	2,105
Foreign exchange gain upon conversion to US$	(4,853)
Balance as at March 31, 2009	$ 129,253

9. SHARE CAPITAL

(a) Authorized, issued and fully paid common shares

Unlimited number of common shares with no par value.

Continuity schedule of share capital and contributed surplus:

	Number of Shares	Share Capital	Contributed surplus	Accumulated Comprehensive Income
Balance, January 1, 2008	118,993,149	$ 453,321	$ 106,710	$ 229
Issued on the Pacific Stratus Acquisition				
- Common shares issued	79,251,491	648,901	-	-
- Warrants and options issued	-	-	58,139	-
Issued on the exercise of warrants	8,833,254	45,198	(24,540)	-
Issued on the exercise of options	3,488,446	40,505	(20,222)	-
Stock-based compensation	-	-	38,573	-
Balance, December 31, 2008	210,566,340	$ 1,187,925	$ 158,660	$ 229
Issued on the exercise of warrants	446,502	213	-	-
Issued on the exercise of options	29,123	198	(146)	-
Stock-based compensation	-	-	64	-
Balance, March 31, 2009	211,041,965	$ 1,188,336	$ 158,578	$ 229

On January 23, 2008, pursuant to the Pacific Stratus Acquisition (note 3), the Company issued 79,251,491 shares at a fair value of C$8.34 per share for all Pacific Stratus' shares held at closing of the transaction on January 23, 2008, pursuant to an exchange ratio of 9.5 pre-consolidation shares of the Company for every Pacific Stratus share.

On May 9, 2008 the Company consolidated its issued and outstanding common shares on a 1:6 basis by issuing one common share for every six common shares outstanding. All references in these consolidated financial statements 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 consolidation.

On March 9, 2009 the Board of Directors of the Company approved the adoption of a shareholder rights plan. The purpose of the rights plan is to encourage a potential bidder to make a "Permitted Bid", having terms and conditions designed to meet the objectives of the rights plan, or to negotiate the terms of an offer with the Board of Directors of the Company. A Permitted Bid is a take-over bid that is made to all holders of voting shares of the Company (other than the bidder), by way of a take-over bid circular prepared in compliance with applicable securities laws, that remains open for acceptance by shareholders of the company for 60 days, and that satisfies certain other conditions.

(b) Stock options

The Company has established a "rolling" Stock Option Plan (the "Plan") in compliance with the TSX policy for granting stock options. Under the Plan, the maximum number of shares reserved for issuance may not exceed 10% of the total number of issued and outstanding common shares. The exercise price of each option shall not be less than the market price (as defined under TSX Policy) of the Company's stock at the date of grant.

9. SHARE CAPITAL (Continued)

A summary of the changes in stock options is presented below:

	Outstanding	Weighted average exercise price
Balance, January 1, 2008	2,357,500	C$ 6.06
Granted during the year	14,907,944	C$ 6.54
Granted on the Pacific Stratus Acquisition	5,970,750	C$ 4.26
Exercised during the year	(3,488,446)	C$ 5.74
Balance, December 31, 2008	19,747,748	C$ 5.94
Granted during the period	50,000	C$ 2.79
Cancelled during the period	(148,892)	C$5.54
Exercised during the period	(29,117)	C$ 2.22
Balance, March 31, 2009	19,619,739	C$5.94

The following table summarizes information about the stock options outstanding and exercisable:

Outstanding & Exercisable	Exercise price	Expiry date	Remaining contractual life
237,501	C$ 1.92	May 2, 2010	1.1
10,075	C$ 1.92	October 16, 2011	2.5
1,778,338	C$ 2.22	August 21, 2011	2.4
281,044	C$ 2.40	October 27, 2009	0.6
50,000	C$ 2.79	February 11, 2014	4.9
79,167	C$ 4.02	January 9, 2012	2.8
4,598,363	C$ 4.70	October 23, 2013	4.6
55,417	C$ 5.10	February 7, 2012	2.9
750,003	C$ 5.70	May 9, 2017	8.1
1,158,337	C$ 6.30	July 10, 2017	8.3
1,559,382	C$ 6.78	April 20, 2012	3.1
15,834	C$ 7.02	April 25, 2012	3.1
10,000	C$ 7.08	September 19, 2017	8.5
9,010,860	C$ 7.38	February 11, 2013	3.9
15,835	C$ 8.46	May 3, 2012	3.1
9,583	C$ 8.46	April 16, 2013	4.0
19,619,739	C$ 5.94		4.0

The following stock options with a 5 year life were granted to employees during the period. All of these options vested immediately.

Date of stock option grant	Granted	Exercise price	Fair value
February 11, 2009	50,000	C$2.79	C$1.59

9. SHARE CAPITAL (Continued)

The fair value of the stock options issued during the three months ended March 31, 2009 has been calculated using the Black-Scholes option pricing model, based on the following assumptions:

Risk-free interest rate:	1.39%
Expected life:	2.5 years
Weighted expected volatility:	80%
Expected dividend yield:	0

(c) Warrants

Each warrant outstanding is exercisable into one common share.

The following table summarizes information about the warrants outstanding and exercisable:

Outstanding & exercisable	Exercise price	Expiry date
45,830	C$ 0.60	April 18, 2009
44,311,220	C$ 7.80	July 12,2012
44,357,050	C$7.79	

A summary of the changes in warrants is presented below:

	Outstanding & exercisable	Weighted average exercise price
Balance, January 1, 2008	48,479,098	C$ 7.26
Issued on the Pacific Stratus Acquisition	5,157,708	C$ 2.52
Exercised during the year	(8,833,254)	C$ 2.39
Balance, December 31, 2008	44,803,552	C$ 7.72
Exercised during the year	(446,502)	C$ 0.60
Balance, March 31, 2009	44,357,050	C$ 7.79

On January 23, 2008, with the Pacific Stratus Acquisition, 5.2 million warrants with a fair value of C$5.64 were issued to Pacific Stratus warrant holders upon closing in exchange for Pacific Stratus warrants outstanding at the date of acquisition. The fair value of the options was capitalized as part of the purchase price.

10. CAPITAL DISCLOSURES

The Company's objectives when managing capital are: (i) to maintain a flexible capital structure, which optimizes the cost of capital at acceptable risk; and (ii) to maintain investor, creditor and market confidence to sustain the future development of the business.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of our underlying assets. The Company considers its capital structure to include shareholders' equity ($1,552 million), debt ($46.8 million), convertible debt ($129.3 million) and working capital deficit ($55.4 million). To maintain or adjust the capital structure, the Company may from time to time issue shares, raise debt and/or adjust its capital spending to manage its current and projected debt levels.

The Company monitors capital based on the current and projected ratios of debt to cash flow from operations and debt to capital employed. The Company's objective, which is currently met, is to maintain a debt to cash flow from operations ratio of less than three times. The ratio may increase at certain times as a result of acquisitions. To facilitate the management of this ratio, the Company prepares annual budgets, which are updated depending on varying factors such as general market conditions and successful capital deployment.

The Company's share capital is not subject to external restrictions; however the bilateral credit facilities include a debt to cash flow covenant requirement of less than 3.5. The Company was fully compliant with this covenant at March 31, 2009.

11. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

Changes in non-cash working capital items were:

	March 31, 2009	March 31, 2008
Increase in accounts receivable	$ (9,343)	$ (17,369)
Increase (decrease) in accounts payable and accrued liabilities	4,171	(27,370)
Decrease in inventory	3,876	5,286
Increase in income taxes payable	(10,841)	-
Increase in prepaid expenses and other	2,709	963
	$ (9,428)	$ (38,490)

Included in accounts payable at March 31, 2009 are $28,559 (December 31, 2008 - $53,762) payable on account of oil & gas properties and equipment.

The significant non-cash investing and financing transactions for the period ended March 31, 2008 consisted of the Company issuing 79,251,490 common shares at a fair value of C$8.34 per share, 6.0 million stock options with a fair value of C$5.04 and 5.0 million warrants with a fair value of C$5.64 for a total of $707 million, pursuant to the Pacific Stratus Acquisition.

Other cash flow information:

	2009	2008
Cash income tax paid	$ 801	$ 877
Cash interest paid	615	873
Cash interest received	515	1,270

12. CONTINGENCIES AND COMMITMENTS

The Company has various guarantees in place in the ordinary course of business.

The Company has issued letters of credit and guarantees for exploration and operational commitments for a total of $66.0 million (December 31, 2008 - $38.6 million) of which $14.2 million (December 31, 2008 - $18.7 million) are secured by restricted cash.

Association contracts

Certain association contracts signed before 2003 with Ecoptrol include a clause in which Ecopterol may commence participating in the operation of new discovery made by the Company at any time, without prejudice to the Company's right to be reimbursed for the investments made on their sole account and risk (back-in right). The contract provides that if Ecopterol decides to declare the commerciality of the field and participate in the commercial phase of the association contract, the Company shall have the right to be reimbursed for 200% of the total costs incurred during the exploration phase of the contract. Once the reimbursement has been made, Ecopetrol is entitled to acquire a 50% share of the oil production of the fields.

Contingencies

The Company is involved in various claims and litigation arising in the normal course of business. While the outcome of these matters is uncertain, 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.

Natural gas supply agreements

Since the discovery of the La Creciente field in early 2007, the Company has focused on developing a commercial strategy to service the domestic market while concurrently exploring export opportunities. The Company has entered into the following take or pay contracts, and interruptible contracts, totaling 60 MMBTU per day for the period 2009-2010:

		2009		2010	
Client	*Contract*	Quantity (MMBTUD)	Price ($/MMBTU)	Quantity (MMBTUD)	Price ($/MMBTU)
GECELCA	take or pay	34,807	RMP + 28%	45,000	RMP + 28%
PROELECTRICA	take or pay	14,000	RMP + 12%	14,000	RMP + $ 0.50
Interruptible supply		11,193	RMP	1,000	4.98
Total		60,000	RMP + 19%	60,000	RMP + 24%

RMP represents the Colombian Regulated Market Price.

The Company anticipates having sufficient production to meet all future delivery commitments.

13. FINANCIAL RISK MANAGEMENT

The nature of the oil and natural gas operations and the issuance of debt expose the Company to fluctuations in commodity prices, foreign currency exchange rates and interest rates. The Company manages these risks through periodic use of derivative instruments. The Board of Directors periodically reviews the results of all risk management activities and all outstanding positions.

Credit Risk

The Company actively limits the total exposure to individual client counterparties and holds a trade credit insurance policy for indemnification for losses from non-collection of trade receivables. Only one of the Company's customers had accounts receivable that was greater than 10%. At March 31, 2009, the Company's largest credit exposure in accounts receivable to a single party was for $25.6 million or 72% (December 31, 2008 - $12.7 million or 75%) of trade accounts receivable. Revenues from this customer were $25.6 million or 23.3% (December 31, 2008 - $45.7 million or 7.9%) of net revenues.

The Company's trade accounts receivables are aged as follows:

	March 31 2009	December 31 2008
Not past due (less than 45 days)	$ 35,818	$ 17,190
Past due (0-30 days)	-	5
Past due (31-120 days)	-	-
Allowance for doubtful accounts	(180)	(205)
Total trade accounts receivable	35,638	16,990
VAT and withholding taxes recoverable	25,054	37,866
Other	19,142	15,635
	$ 79,834	$ 70,491

Interest Rate Risk

The Company is exposed to interest rate risk on its outstanding borrowings and short-term investments. The Company monitors its exposure to interest rates. Its exposure is low given the relatively low short-term US dollar rates. The Company is exposed to interest rate cash flow risk on floating interest rate bank debt due to fluctuations in market interest rates. The variable rates are re-priced monthly. A 1% hypothetical change in the variable interest rate exposes the Company to $0.2 million interest expense or income. The Company is exposed to interest rate price risk on fixed interest rate bank debt and debentures. As at March 31, 2009, a 1% hypothetical change in the market interest rate exposes the Company to $0.1 million fair value gain or loss on its fixed-interest-rate bank debt and debentures. The remainder of the Company's financial assets and liabilities are not exposed to interest rate risk.

Foreign Currency Exchange Risk

The Company is exposed to foreign currency fluctuations as certain expenditures are incurred in Colombian pesos and Canadian dollars. There are no foreign currency forward exchange contracts outstanding at March 31, 2009.

In addition, following the Rubiales Acquisition, Pacific Stratus Acquisition and the Kappa Acquisition in 2007 and 2008, respectively, the Company recorded $478 million of future income tax liabilities on proved and unproved properties which are denominated in Colombian Pesos as the assets to which the future income tax liabilities relate to are in Colombia. The future income tax liabilities are monetary items, which are revalued each period end at the current exchange rates, with the gain or loss recorded in net earnings in the period. Based on the net exposure at March 31, 2009, a 10% depreciation or appreciation of the Colombian Peso against the US dollar would result in a $32.6 million increase or decrease in the Company's after-tax net earnings.

13. FINANCIAL RISK MANAGEMENT (Continued)

Fair Value Risk

The Company's financial instruments are classified as cash and cash equivalents, restricted cash, accounts receivable and accounts payable and accrued liabilities, commodity risk management liabilities, bank debt and convertible debentures on the balance sheet. The carrying value and fair value of these financial instruments at March 31, 2009 is disclosed below by financial instrument category, as well as any related gain and interest expense for the three months ended March 31, 2009:

Financial Instrument	Carrying value	Fair value	Gain	Interest expense
Assets held for trading				
Cash and cash equivalents	36,195	36,195	-	-
Restricted cash	14,252	14,252	-	-
Loans and receivables				
Accounts receivable and other current assets	9,997	9,997	-	-
Liabilities held for trading				
Oil collars contracts (1)	1,028	1,028	5,546	-
Other liabilities				
Accounts payable and accrued liabilities	138,819	138,819	-	-
Income taxes payable	8,641	8,641	-	-
Long-term debt (2)	46,826	46,826	-	775
Convertible debtentures (3), (4)	129,253	87,892	-	5,963

(1) Included in gain on risk management contracts on the statement of operations, comprehensive income, and retained earnings. The unrealized gain of $5.5 million represents the change in fair value of the contracts and is included on the statement of cash flow as a non-cash item.
(2) Included in interest expense on the statement of operations, comprehensive income and retained earnings. The amortization of deferred financing costs of $ 0.1 million in relation to the Company's long-term debt is included on the statement of cash flow.
(3) The fair value of the convertible debt and equity components are difficult to measure reliably due to the lack of active trading volume. The closing price of the convertible debenture (PRE.DB – TSX) at March 31, 2009 represented 68% of the face value of the convertible debenture.
(4) Included in interest expense on the statement of operations, comprehensive income and retained earnings. The non-cash interest expense relating to the accretion of the initial discount and transaction costs that are netted against this liability are included in accretion on convertible debentures on the statement of cash flow. The effective yield of the convertible debentures is 18%.

The oil collars are recorded at their fair values based on quoted market prices in the futures market on the balance sheet date; accordingly, there is no difference between fair value and carrying value. When drawn, bank debt bears interest at a floating rate and accordingly the fair value approximates the carrying value. Due to the short term nature of cash and cash equivalents, accounts receivable and other current assets, accounts payable and accrued liabilities, their carrying values approximate their fair values.

13. FINANCIAL RISK MANAGEMENT (Continued)

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's processes for managing liquidity risk include ensuring, to the extent possible, that it will have sufficient liquidity to meet its liabilities when they become due. The Company prepares annual capital expenditure budgets which are monitored and updated as required. In addition, the Company requires authorizations for expenditures on projects to assist with the management of capital.

The following are the contractual maturities of financial liabilities as at March 31, 2009:

Financial liability	< 1 Year	1-2 Years	Thereafter	Total
Accounts payable and accrued liabilites	$ 138,819			$ 138,819
Long-term debt	$ 36,466	$ 3,360	$ 7,000	$ 46,826
Convertible debentures - principal (1)	-	-	190,280	190,280
Total	$ 175,285	$ 3,360	$ 197,280	$ 375,925

(1) The convertible debentures are due August 29, 2013 in the principal amount of Cdn$240 million. The balance due is converted to US$ using the March 31, 2009 exchange rate of 1.2613.

Commodity Price Risk Management

Commodity price risk is the risk that the cash flows and operations of the Company will fluctuate as a result of changes in commodity prices. Significant changes in commodity prices can also impact the Company's ability to raise capital or obtain additional debt financing. Commodity prices for crude oil are impacted by world economic events that dictate the levels of supply and demand. From time to time the Company may attempt to mitigate commodity price risk through the use of financial derivatives.

The Company had the following oil collars outstanding at March 31, 2009:

Country	Term	Volume	Price (US$/bbl)	Benchmark	Fair value
Colombia	Dec. 4, 2008 - Jun 30, 2009	2,100,000	$40 floor/$59 ceiling	WTI	$ (1,036)
Colombia	May 1, 2009 - Jun 30, 2009	600,000	$40 floor/$65 ceiling	WTI	$ (228)
Colombia	Jan 1, 2009 - April 30, 2009	1,200,000	$40 floor/$58.25 ceiling	WTI	$ (68)
Colombia	July 1, 2009 - Sept 30, 2009	900,000	$40 floor/$78.25 ceiling	WTI	$ 303
					$ (1,029)

For the three month period ended March 31, 2009 there were $0.5 million realized gains on these contracts for actual monthly settlements and are included in revenues. The unrealized gain on risk management contracts represents the change in the fair value of the contracts related to the expected future settlements which totaled $5.5 million.

The fair value of these commodity risk management liabilities was $1.0 million as at March 31, 2009.

14. WEIGHTED AVERAGE SHARES AND FULLY DILUTED SHARES OUTSTANDING

	2009	2008
Weighted average number of shares - basic	210,600,249	178,582,471
Dilution effect of stock options, warrants and convertible debt	943,489	-
Weighted average number of shares - diluted	211,543,738	178,582,471

All options, warrants and convertible debt that are anti-dilutive are excluded from the calculation of diluted weighted average number of shares.

15. SEGMENTED INFORMATION

The Company currently operates in one reporting segment, being the exploration, development and production of heavy crude oil and gas in Colombia. As at March 31, 2009 all of the Company's assets are located in Colombia except for $1.8 million in cash and cash equivalents which are held in Canada and the United States and $4.3 million of oil property, plant and equipment in Peru.

16. RELATED-PARTY TRANSACTIONS

a) Accounts payable and accrued liabilities include $3.3 million payable to a director of the Company for a contingent consideration on the acquisition of La Creciente by Pacific Stratus in 2004. (see note 3 and note 17)

b) For the three months ended March 31, 2009 the Company paid Endeavour Financial Corp. ("Endeavour"), a company related by way of a director in common, $45,000 (2008 - $105,000) in retainer fees, financing fees of $1.8 million (2008 - $250,000) for the ODL pipeline and a success fee in connection with the Pacific Stratus Acquisition of nil (2008 - $7.0 million) pursuant to an advisory agreement dated November 8, 2007.

c) In June 2007, the Company entered into a 5-year lease agreement with Blue Pacific Assets Corp. ("Blue Pacific"), a British Virgin Islands corporation, for administrative office space in one of its Bogota, Colombia locations. Monthly rent expense of $36,995 is payable to Blue Pacific under this agreement. Three directors and officers of the Company control, or provide investment advice to the holders of 75% of the shares of Blue Pacific.

All these transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

17. SUBSEQUENT EVENTS

a) On April 3, 2009 Meta Petroleum Corp., a 100% wholly-owned operating subsidiary of the Company obtained a $50 million one-year term loan provided by Citibank N.A. Nassau Bahamas Branch. The loan bears interest at a rate of 5.5% above the Citibank quoted rate for dollars in the London market. The Company paid $0.6 million to Endeavour Financial International Corporation, a company related by way of a director in common, in advisory fees in this transaction.

b) On May 5, 2009 the Company closed on initial commitments totaling $180 million of a senior secured revolving credit facility of up to $250 million. The facility consists of $50 million commitments from each of BNP Paribas, Calyon and Banco Davivienda S.A and $30 million from West LB A.G. The Company paid a $2.1 million success fee to Endeavour (see note 16 – related party) pursuant to an advisory agreement dated October 15, 2008.

The facility is a senior secured revolving credit facility maturing on June 30, 2013, and bears interest at LIBOR plus 5.5%. The Company will pay commitment fees of 1.5% on the unutilized portion of any outstanding commitments under the facility. Repayment of outstanding principal on the facility will be made in equal quarterly installments following the second anniversary of the closing date.

The facility is subject to borrowing base and secured by certain assets of the Company's subsidiaries operating in Colombia. The initial borrowing base was determined by the lenders at $250 million and is subject to re-determination semi-annually on April 1 and October 1 of each year.

c) On April 16, 2009, 538,334 common shares of the Company were issued to a director of the Company as settlement of a contingent consideration on acquisition of La Creciente by Pacific Stratus in 2004. (see note 3 – business acquisitions).

d) 45,830 warrants representing the balance of the warrants with an exercise price of C$0.60 were exercised before their expiry date of April 18, 2009.

e) Subsequent to March 31, 2009, 215,277 options were exercised, 100,000 options were granted and 8,334 options were cancelled.

f) Subsequent to March 31, 2009, the Company entered into two additional oil collar contracts as follows:

	Country	Period	Volume (bbls)	Price ($bbl)	Benchmark
1	Colombia	July 2009 - September 2009	612,000	$40 floor/$71.75 ceiling	WTI
2	Colombia	October 2009 - December 2009	1,500,000	$40 floor/$78.25 ceiling	WTI

g) On May 7, 2009, the Company entered into the following deferred premium put options:

	Period	Volume (bbls)	Put Price	Deferred premium
1	January 2010 - June 2010	900,000	$ 40.00	$ 1.95
2	July 2010 - July 2011	1,300,000	$ 40.00	$ 2.45

18. COMPARATIVE FINANCIAL STATEMENTS

The comparative interim consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the current interim consolidated financial statements.