PACIFIC RUBIALES ENERGY CORP.

MANAGEMENT DISCUSSION AND ANALYSIS
May 14, 2008

Form 51-102F1
For the three month period ended March 31, 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 period ended March 31, 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.

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

(in thousands of US$ except per share amounts or as noted)	Three months ended March 31, 2008	2007
Financials:		
Net sales	94,927	-
Net loss for the period	(53,219)	225
Net loss per share - basic and diluted(1)	(0.30)	0.02
Capital expenditures (net of $15,276 included in accounts payables)	25,998	-
Total assets	1,798,697	2,236
Fund flow from operations (2)	37,996	(34)

	Three months ended March 31			
	2008 Oil	2008 Gas	2008 Combined	2007 Combined
Operations:				
Operating netback ($/boe) (3)				
Crude oil and natural gas sales price	81.13	27.11	62.06	-
Operating costs	6.44	2.60	5.08	
Transportation and other costs	28.27	-	18.30	-
Operating netback	46.42	24.51	38.68	-
Average daily net production (Boe/day) (4)	12,016	6,555	18,571	-

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

First Quarter Results Summary

- On January 23, 2008 the Company completed the acquisition of Pacific Stratus Energy Ltd. As a result, the operations of Pacific Stratus are included in the financial information from the date of acquisition.

- 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.

- Net loss in the quarter of $53.2 million included a $31.3 million non-cash charge for stock-based compensation and approximately $41.0 million non-cash unrealized foreign exchange loss associated with future income tax liabilities. The $31.3 million non-cash charge was the result of the granting of 10,202,500 options in the quarter. The non-cash unrealized foreign exchange loss of approximately $41.0 million resulted from the Colombian Peso/US dollar exchange rate effect on the future income tax liabilities in the quarter. Following the Rubiales and Pacific Stratus acquisitions, the Company recorded $419.6 million of future income tax liabilities on proved and unproved properties, which are denominated in Colombian Pesos. The future income tax liabilities are classified as monetary items, which are revalued each period at the current exchange rates, with the gain or loss recorded in net earnings in the period.

- Total production was 18,571 boe/day of oil and gas, compared to nil production in the prior year due to inactivity. Production data for the first quarter of 2008 includes Pacific Stratus oil and gas production from the date of the acquisition on January 23, 2008.

- During the first quarter of 2008, the Company sold in the international market up to 4,063.7 Bbl/d as 18.5º API blended crude via blending at the Guaduas Station and pipeline to the Coveñas Terminal. The Company had no revenue in the same quarter of the prior year.

- Capital expenditures during the first quarter of 2008 were $41.3 million, which includes $4.8 million on the 3D&2D seismic program, $10.9 million on the appraisal well campaign to enhance the static model of the Rubiales field, $6.5 million on the construction of an additional central processing facility at the Rubiales field and $14.4 million on exploration and production costs for the La Creciente block.

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

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-Cusiana 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”). An additional branch pipeline will also be built by the Company to the Cusiana Station.

On January 9, 2008 and effective as at November 30, 2007, the Company announced a significant increase in proved oil reserves (“1P”) and proved plus probable oil reserves (“2P”) over the quantities reported in the Company’s May 31, 2007 Reserves Report. Total proved 1P reserves increased by 266% to 89.5 million barrels (“MMbbl”) (net 1P reserves increased by 445% to 32.2 MMbbl). Total 2P reserves increased by 26% to 230.8 MMbbl (net 2P reserves increased by 84% to 87.1 million barrels). Total proved plus probable plus possible reserves (“3P”) equalled 320.3 MMbbl (net 3P reserves increased by 40% to 119.2 MMbbl).

On January 23, 2008, the Company completed the acquisition of Pacific Stratus (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 to Pacific Stratus shareholders at a fair value of C$8.34 (C$1.39 pre-consolidation) per share for a total amount of $648.9 million in exchange for all the outstanding shares of Pacific Stratus at closing, based on 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. Total acquisition costs amounted to $8.8 million. Concurrent with the acquisition, the Company changed its name to “Pacific Rubiales Energy Corp.”

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 in 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 March 24, 2008 the Company announced that it had reached a new production record of 30,253 gross Bbl/d (10,891 net) at the Rubiales field and that it had completed its 200 km 2D seismic acquisition program on the Quifa block. Additionally, the Company announced that the La Creciente A-4 (LCA-4) well had been completed and was expected to add approximately 30 million standard cubic feet of gas per day when connected to the existing production facilities at La Creciente field.

On April 8, 2008, the Company provided an update on its drilling program at the La Creciente and Rubiales fields. At La Creciente, the Company spudded the La Creciente E-1 well (LCE-1) on April 6, 2008. The final depth of LCE-1, to be reached in 50 days, will be 12,027 feet and drilled vertically. The well LCA-2st has been momentarily suspended at 6,154 feet, after cementing the intermediate casing, while the Company awaits approval from the Ministry of Environment to use the oil-based mud. At the Rubiales field, the Company completed the RB-53 exploratory well located outside the limits of the commercial area of the field. RB-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. Since the Company acquired the Rubiales field in July 2007, it has drilled 18 wells, of which 7 are vertical, 9 are horizontal and 2 are water injectors.

On May 9, 2008, the Company consolidated its common shares on a 1:6 basis by issuing one common share outstanding for each six common shares outstanding.

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)

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)

Business Acquisition

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	8,782
	$ 715,823
Net assets acquired:	
Cash	$ 28,270
Non-cash working capital deficiency	(21,574)
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)
	$ 715,823

***Business Acquisition** (Continued)*

Pacific Stratus holds a 100% interest in the La Creciente producing block, 90.6% interest in Guaduas producing block, 27.3% interest in Rio Ceibas producing block, 80% interest in Moriche exploration block, 100% interest in Guama exploration block, 100% interest in Tacacho technical evaluation agreement (“TEA”) and 50% interest in Puli-B exploration block and 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 the National Hydrocarbons Agency (“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.

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.

The Business Acquisition *(Continued)*

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”.

Company is currently cementing 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. The final depth of LCE-1, to be reached in 50 days, will be 12,027 feet, drilled vertically. The well LCA-2st has been momentarily suspended at 6,154 feet, after cementing the intermediate casing, while the Company awaits approval from the Ministry of Environment to use the oil-based mud that will be tested at LCE-1.

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.

<u>Tacacho Block</u>

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 US$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.

<u>Moriche Block</u>

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 US$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.

The Business Acquisition *(Continued)*

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.

<u>Puli-B Block – Puli-7</u>

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.

<u>Guaduas</u>

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.

Business Acquisition *(Continued)*

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.

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 US$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. US$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 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.

Business Acquisition *(Continued)*

On December 4, 2007, the Company increased its ownership of Rubiales from 75% to 100% by acquiring the remaining 25% of Rubiales' 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 Rubiales 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.

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

Rubiales 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").

Rubiales 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.

There is no production in the Quifa block and there is no reserve assigned. However, there were four wells drilled on this block by the Company which were all dry. The Company plans to incur $8.5 million in exploration activities at the Quifa block during 2008, of which $4.6 million is to acquire and interpret 207 km of 2D seismic data and approximately $3.9 million to drill and complete two exploratory wells. This data will help to define the geology and reservoir distribution in the block. The 2-D seismic data has been acquired during Q1 2008 and the next steps are to process and interprete data to determine future exploratory well locations. Also, the Company is presently shooting 249 square kilometers of 3D seismic covering the Rubiales and Piriri producing fields.

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 US$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 US$5.0 million for each well. No costs were incurred as at March 31, 2008.

Business Acquisition *(Continued)*

Rubiales-Cusiana Oil Pipeline

The Company has signed a memorandum of understanding with Ecopetrol dated December 21, 2007, to jointly build a 230-km and 24”-diameter crude oil pipeline from the Rubiales field to connect with the Monterrey station in Casanare, which is an integral part of Colombia’s oil transport systems and is connected with Colombia’s main pipeline, OCENSA. The Company will have a 35% and Ecopetrol a 65% ownership share in the pipeline. The Company will build on its own account an additional 30-km branch to connect the above pipeline to the Cusiana 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.

The most recent estimate for the Rubiales-Cusiana pipeline project calls for a gross investment of $437 million of which approximately up to 75%, or $328 million, will be funded with debt from a recognized international bank and the remaining 25% or $109 million will be funded with cash coming from Ecopetrol’s and the Company’s working capital, based on their percentages of ownership on the project. It is expected that the pipeline will come into operation in Q3 2009.

Major International Oil S.A

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 March 31, 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 Caño Limón-Coveñas.

Financial position

Total assets were $1.8 billion as at March 31, 2008 (December 31, 2007 - $789.5 million). Total assets primarily consisted of $1.5 billion in oil and gas properties and equipment (December 31, 2007 - $611.2 million), $137.4 million in cash and cash equivalents (December 31, 2007 - $140.5 million) and $57.5 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 of the Pacific Stratus Acquisition completed in the quarter. A majority of the cash and cash equivalent balance is held in short term investments and is part of the $421 million cash raised on the private placement completed on July 12, 2007. Cash generated from operations before non-cash working capital or fund flows from operations were $38.0 million.

Long term debt of $6.6 million (December 31, 2007 - $7.7 million) represents the non-current portion of a balance of $23.0 million (December 31, 2007 - $22.7 million) in debt existing as at March 31, 2008. The debt is held in Colombia and repayable as indicated under the “*Liquidity and Capital Resources”* section of this MD&A.

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

Net sales for the first quarter of 2008 were $94.9 million (first quarter of 2007 – $ Nil) and cost of operations were $67.7 million (first quarter of 2007 - $ Nil). During the first quarter of 2008, $19.0 million was charged to depletion, depreciation and amortization (“DD&A”) (first quarter of 2007- $ Nil). Depletion charge is based on $1.7 billion of oil and gas property costs subject to depletion of which $690 million are attributed to the proved portion of oil and gas properties acquired with the Pacific Stratus Acquisition. Included in the costs subject to depletion are $389 million of future development costs that are estimated to bring proved undeveloped reserves to development. No depreciable assets existed during the same quarter in the previous year. The total production for the first quarter of 2008 was 18,571 boe/day (first quarter of 2007 – Nil). The

Results of Operations *(Continued)*

Company did not have an active business prior to July 16, 2007. The production data for the first quarter of 2008 includes Pacific Stratus' production from the date of acquisition of January 23, 2008.

The operating loss in the quarter of $10.9 million included a $31.3 million non-cash charge for stock-based compensation. The $31.3 million non-cash one-time charge represents the estimated fair value of the 10,202,500 options granted in the quarter to employees and consultants under the Company's stock option plan. The options granted are all fully vested and exercisable upon the grant. For the first quarter of 2007 no stock-based compensation expense had been recorded as there were no stock options granted. General and administrative expenses increased to $6.9 million due to the Rubiales and Pacific Stratus Acquisitions.

Other income and expenses in the quarter amounted to a loss of $41.6 million. The loss was primarily due to $42.1 million foreign exchange loss offset by $1.2 million interest income less interest expense of $0.8 million. The foreign exchange loss primarily consisted of approximately $41.0 million non-cash unrealized foreign exchange loss associated with future income tax liabilities. The non-cash unrealized foreign exchange loss of approximately $41.0 million resulted from the Colombian Peso/$US exchange rate effect in the quarter on the future income tax liabilities. Following the Rubiales and Pacific Stratus acquisitions the Company recorded $419.6 million of future income tax liabilities on proved and unproved properties which are denominated if Colombian Pesos. The future income tax liabilities are classified as monetary items, which are required to be revalued each period at the current exchange rates, with the gain or loss recorded in net earnings in the period. The Company earned $1.2 million of interest income during Q1 2008 on its short term investments held in Canadian and United States banking institutions (first quarter of 2007 - $ Nil) and incurred $0.8 million interest expense primarily on the long-term debt.

Income tax expense amounted to $0.7 million during the first quarter of 2008 (first quarter of 2007- $ Nil). The future income tax liabilities of $424.9 million consisted of primarily $448.5 million related to the temporary difference originated on the value assigned to oil and gas properties in Colombia versus their tax basis, when Rubiales 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. dollar at the quarter end exchange.

Average benchmark crude oil and natural gas prices for the first quarter of 2008 were as follows:

Average Crude Oil References Prices	$/Bbls	API
Domestic Market	$ 46.15	12.50
WTI	$ 97.94	38.00
Vasconia	$ 89.38	25.00
Rubiales (index to Vasconia)	$ 83.48	18.50
Average Natural Gas Reference Price ($/mcf)	$ 4.48	
Henry Hub Natural Gas ($/mcf)	$ 8.75	

Realized oil sales prices in Colombia averaged $81.13 per barrel for the first quarter of 2008, representing a $16.81 per barrel discount to WTI of $97.94 per barrel representing a 17.1% discount to WTI. The discount is a primarily due to the difference in API degrees.

Realized natural gas sales prices in Colombia averaged $4.48 per mcf from January 23, 2008 to March 31, 2008, representing a $4.27 per mcf representing a 49% discount to the Henry Hub Natural Gas rate.

Selected Quarterly Information

(In thousands of US$ except per share amounts or as noted)	Q1 2008	Q4 2007	Q3 2007	Q2 2007	Q1 2007	Q4 2006	Q3 2006	Q2 2006
Financials:								
Net sales	94,927	53,897	26,519	-	-	-	-	-
Net income (loss) for the period	(53,219)	17,475	1,293	(918)	(36)	(43)	(37)	(38)
Capital expenditures (net of amounts in accounts payable)	25,998	24,790	10,710	-	-	-	-	-
Fund flow from operations (1)	37,996				(42)			
Basic and diluted earnings (loss) per share (2)	$ (0.30)	$ 0.02	$ (0.00)	$ (0.00)	$ (0.00)	$ (0.00)	$ (0.00)	$ (0.00)
Operations:								
Operating netback ($/boe) (3)								
Crude oil and natural gas sales price	62.06	55.93	45.93	-	-	-	-	-
Operating costs	5.08	4.63	4.11	-	-	-	-	-
Transportation and other cost s	18.30	14.70	13.90	-	-	-	-	-
Operating netback	38.68	36.60	27.92					
Average daily crude oil production (Bbls/day)	12,016	8,409	6,921	-	-	-	-	-
Average daily natural gas production (Boe/day) (4)	6,555	-	-	-	-	-	-	-
Average daily oil and gas production (Boe/day)	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.

Selected Quarterly Information

The following discussion highlights some of the significant factors that had impact on the results in the eight most recently completed quarters ended March 31, 2008.

During the first quarter of 2008, net sales increased by $41.0 million over the previous quarter due to higher production, increasing oil and gas prices, higher crude oil volume sold in the international market according 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 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 previous quarter and 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 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.

The Company did not have an active business before the third quarter of 2007. The majority of the net loss of $0.9 million in the second quarter of 2007 relates to non-cash interest expense incurred on a bridge loan granted to the Company in connection with the Rubiales Acquisition and repaid in full in that same quarter.

Liquidity and Capital Resources

Liquidity

Net cash used in operating activities during Q1 2008 was $0.5 million (Q1 2007 - $0.03 million) and funds flow from operations during Q1 2008 was $38.0 million (Q1 2007 - $0.04 million). Since the acquisition of Rubiales and Pacific Stratus, the Company has been generating cash flows from operations from the sale of crude oil and natural gas and is expecting an increase with increased production and higher oil and gas prices.

As at March 31, 2008, the Company held debt denominated in U.S dollars with two Colombian banks for a total amount of $23.0 million (December 31, 2007 - $22.7 million). Maturities are between April 2008 and 2010.

As March 31, 2008 the Company had working capital of $136.3 million (December 31, 2007 - $133 million) of which $137.4 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.

Capital Expenditure Outlook

The Company has a substantial plan of development to bring the current gross capacity of the Rubiales field of ~ 30,000 gross Bbl/d (net – 10,800 Bbl/d) to 126,000 gross Bbl/d (net – 45,360 Bbl/d) by Q3 2009 when the construction of the Rubiales-Cusiana oil pipeline will be finalized.

At Rubiales 20 horizontal producer wells with an estimated cost of $2.1 million each and 6 vertical producer wells with an estimated cost of $1.6 million each will have to be drilled during 2008 at an estimated cost of $51.6 million.

At Rubiales $211 million will be incurred during 2008 to upgrade the oil and water handling facilities, which include an additional central power generation facility and drilling 2 water disposal wells estimated at $1.6 million each.

The Company plans to incur $8.5 million in exploration activities at the Quifa block during 2008, of which $4.6 million is to acquire and interpret 207 km of 2D seismic data and approximately $3.9 million to drill and complete two exploratory wells. This data will help to define the geology and reservoir distribution in the block. On March 24, 2008, the Company announced that it had completed its 200 km 2D seismic acquisition program on the Quifa block.

The Company is committed to incur $3 million in exploration activities at the Jagueyes block during 2008. Jagueyes is a new exploratory block awarded to the Company on February 8, 2008, with an area of 21,500 hectares and located in the Casanare Department, in the north region of Los Llanos Orientales in Colombia.

Additionally, with the Pacific Stratus Acquisition on January 23, 2008, the Company plans to spend during 2008 $108 million on exploration and development of the Pacific Stratus properties. These capital expenditures will be financed with current cash and cash flow from operations. Exploration drilling will be focused as follows:

- five wells at La Creciente, with E-1 and A-2 started in the first quarter, B-1 and G-1 in the second quarter, and C-1 in the third quarter;

- two wells at Guama (in the second and third quarters, respectively), where the Company believes there is both oil and gas potential;

- in the second quarter two wells at Mauritia, where the Company believes there is light oil potential; and

- two wells at Arauca, where there is potential for both light and heavy oil, in the fourth quarter.

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 May 15, 2008, 202,340,473 common shares were issued and outstanding (March 31, 2008 – 201,346,015 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 May 14, 2008, 50,663,223 warrants to acquire an equal number of common shares were outstanding and exercisable (48,479,098 – December 31, 2007 and 3,500,000 – December 31, 2006) and 17,408,500 stock options were outstanding (2,357,500 – December 31, 2007 and Nil – December 31, 2006) of which 16,911,278 were exercisable (1,860,278 – December 31, 2007 and Nil - December 31, 2006).

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 8 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-Cusiana 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 requird 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 first 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.

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-Cusiana oil pipeline continue to be a focus as it is key to the Company's future growth and development.

Beginning in April 2008 through to September 2008, the Company plans to sell on the international markets up to 14,400 Bbl/d as 18.5 API blended crude via the blending process at the Guaduas station and pipeline to the Covenus 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-Cusiana 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 Cusiana, where it will be connected to the Ocensa pipeline to Covenas.

The Company also remains focused on the execution of its capital expenditure plans as outlined above, including the continued exploration drilling of the La Creciente block which has begun producing 35mcf/day and is planned to increase to 60 mcf per day by July 2008.

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