PACIFIC RUBIALES ENERGY CORP.

MANAGEMENT DISCUSSION AND ANALYSIS
May 15, 2009

Form 51-102F1
For the three month period ended March 31, 2009

The following discussion (the "MD&A") 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 consolidated financial statements for the three month period ended March 31, 2009 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. 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, 2008, 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, 2009	2008
Financials:		
Net sales	110,000	94,927
Net income (loss) for the period	52,636	(56,309)
Net income per share - basic and diluted[1]		
- basic	0.25	(0.32)
- diluted	0.25	(0.32)
Capital expenditures [2]	100,823	25,998
Total assets	2,260,154	1,786,210
Fund flow from operations [3]	31,548	37,996

	Three months ended March 31			
	2009 Oil	2009 Gas	2009 Combined	2008 Combined
Operations:				
Operating netback ($/boe) [5]				
Crude oil and natural gas sales price	38.72	26.37	35.65	69.90
Lifting costs	2.76	0.64	2.23	3.55
Transportation and other costs	9.01	0.53	6.90	15.17
Upgrading cost (diluent including transportation)	7.87	-	5.91	12.64
Other production costs [6]	(0.69)	3.04	0.24	4.46
Operating netback	19.77	22.16	20.37	34.08
Average daily production sold (boe/day) [4]	25,755	8,528	34,283	15,089

(1) On May 9, 2008, the Company consolidated its common shares on a 1:6 basis by issuing one common share for every six common shares outstanding. On March 9, 2007, the Company split its issued and outstanding common shares on a 7:1 basis by exchanging seven common shares for every one common share outstanding. All references to earnings per share, weighted average number of common shares outstanding, common shares issued and outstanding, and authorized common shares have been adjusted to reflect the share split and subsequent share consolidation.
(2) Calculated excluding the effects of the amounts included in accounts payable (2009 - $23,200 and 2008 - $15,276).
(3) Calculated based on cash flow from operations before changes in non-cash operating working capital.
(4) Combined operating netback data based on weighted average daily production sold which includes an overlift position and diluents necessary for the upgrading of the Rubiales blend.
(5) Natural gas conversion rate used was 6 mcf = 1 barrel of oil equivalent ("boe"). Boe may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf:1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.
(6) Includes the net effect of overlift position and inventory cost fluctuation of the first quarter 2009.

First Quarter 2009 Results Summary

- On March 3 2009, the Company announced the independently certified Statement of Reserves Data and Other Oil and Gas Information for all of the Company's assets, which estimated gross working interest proved plus probable (2P) reserves to be 247 mmboe. Proven reserves increased 50%, from 136 mmboe at the end of 2007, to 204 mmboe at the end of 2008. These reserves represent almost one barrel of net proven reserves (P1) per outstanding share.

- During the first quarter of 2009, the Company continued to be the most dynamic E&P company operating in Colombia, totalling an increase of 11,397 boe/d over the prior period of 2008 or 61% from all the fields it operates, both oil and gas. This growth in operated production came through increase in the Rubiales field (8,316 bbl/d) and development of assets (3,081boe/d).

- In the period ended March 31, 2009 the Company drilled the exploratory well Mirla Negra 1, which reached a measured depth of 6,237 feet and was completed and tested successfully during April 2009. As well, the Company acquired 180 km^2 of 3D seismic in the Alicante Block and is completing the acquisition of 50 km of 2D seismic for the Alhucema Block, for a total expenditure of $8.7 million.

- The Company concluded negotiations with Ecopetrol which resulted in the signature of a binding Memorandum of Understanding ("MOU") on April 7, 2009, to pursue the evaluation of Synchronized Thermal Additional Recovery ("STAR") technology at the Rubiales Field. The MOU not only outlines the mechanism by which both companies will ascertain the success of the tests and pilot project, but also establishes a path forward to the structuring of an eventual contract between the two parties for the commercial application of the technology for the economic life of the Rubiales field.

- During the first quarter 2009 the Company handled an average of 30,000 bbl/d (a 23% increase from 2008 average) through the new facility in Guadas (PF2), generating revenues of $4.7 million.

- In January 2009 the Company reached a record daily delivery of 65 mmscfd from La Creciente natural gas field, which is the current maximum capacity of the transport system. The Company consolidated its position as an important player in the commercialization of natural gas in the Colombian domestic market, achieving average sales of approximately 48.5 mmbtu/day during the first quarter of 2009 at a price of $4.40/mmbtu, which represents an estimated premium of $0.66 above the average market price, or 13%.

- On March 12, 2009 the Colombian Branch of Oleoductos de los Llanos Orientales, S.A. ("ODL") signed a debt facility denominated in Colombian Pesos in the amount of approximately $200 million with AVAL, a syndicate of local banks led by Banco de Bogota.

- In the first quarter of 2009, revenues increased to $110 million from $95 million in the first quarter of 2008, primarily due to increased production despite lower realized crude oil prices in the first quarter of 2009.

- EBITDA amounted to $56.7 million, which represented a 43% increase to the first quarter 2008 figure of $39.7 million. EBITDA from international sales represented 71% of this amount, while EBITDA from gas and domestic (Colombian) sales contributed 19% and 10%, respectively.

- On May 5, 2009 the Company announced that it has closed on initial commitments totaling $180 million under a previously announced 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., each

a lead arranger for the facility. The Company expects to use the proceeds from the facility for the development of its oil infrastructure (including costs of drilling, oil dehydration and water treatment) to increase the production capacity of the Rubiales field up to 100,000 gross bbl/d by the end of 2009, as well as for general working capital purposes and the repayment of short-term debt.

- The total cash capital expenditures, excluding the effects in accounts payable, were $100.8 million compared to $26.0 million in the previous year. The capital expenditures, including the effects in accounts payable, during the first quarter of 2009 were $77.6 million which is net of the 40% taxable benefit of $11.4 million that the Company is eligible to receive on qualified capital expenditures in Colombia. $13.7 million went into exploration activities, including social and environmental studies, seismic acquisition and processing airborne geophysics, and drilling ($13 million to seismic and $0.7 million to drilling of wells); $46.4 million was invested in the expansion and construction of infrastructure and $17.5 million in production drilling activities. The remaining balance of $23.2 million corresponds to the net capital expenditures capitalized in the first quarter of 2009 and pending payment as of March 31, 2009.

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 three financial terms, operating netback, EBITDA (EBITDA represents net income excluding income tax expense, depletion, depletion and amortization, gain or loss on foreign exchange, interest expense, interest income, stock-based compensation and other one-time expenses) and funds flow from operations that are not considered measures under Canadian GAAP.

Corporate Development Highlights

ODL Pipeline

The Company’s interest in ODL is 35% with the balance of 65% owned by Ecopetrol S.A. ODL entered into an EPC contract to build the 235 km, 24 inch pipeline by September 30, 2009. The budgeted cost of the project is estimated at $530 million.

As of March 31, 2009, the pipeline construction is 60% completed and total expenditures amounted to $266 million. Construction disbursements during the first quarter of 2009 were $67 million. Current progress is estimated at 70%.

On March 12, 2009 the Colombian Branch of ODL signed a debt facility denominated in Colombian Pesos in the amount of approximately $200 million with AVAL, a syndicate of local banks led by Banco de Bogota.

The initial capacity of the pipeline will be 170,000 bbl/d (pipeline grade) blended Rubiales heavy oil and can be upgraded to 260,000 bbl/d of blended oil by adding booster pump stations. The Rubiales field’s heavy oil is to be diluted to an API gravity of 18.5°. This would allow for the development and expansion of the Rubiales field to its full potential as well as allowing for the development of the Quifa Block, while reducing transportation costs by almost 50%.

STAR Project

The Company concluded negotiations with Ecopetrol which resulted in the signing of a binding MOU, on April 7, 2009, to pursue the evaluation of the STAR technology at the Rubiales field. The MOU not only outlines the mechanism by which both companies will

ascertain the success of the tests and pilot project, but also establishes a path forward to the structuring of an eventual contract between the two parties for the commercial application of the technology for the economic life of the Rubiales field.

Pursuant to this agreement the Company's staff executed initial lab tests in conjunction with the University of Calgary and the Alberta Research Centre which confirmed the recovery factor, the improvement in the oil quality and other parameters predicted in the mathematical model. Based on these results the Company will continue with further evaluation stages.

Exploration Results

The Company started drilling the exploratory Mirla Negra well in the Arrendajo Block in the Llanos Basin, which resulted in a discovery, together with the Delta-1 well in the Buganviles Block, located within the Upper Magdalena Basin. These exploration results were announced by the Company in April 2009.

Reserve Reports

On February 11, 2009, the Company announced that its gross total proved reserve in the Rubiales-Piriri blocks is 124.1 million bbl of heavy oil, as of December 31, 2008. This represents an increase of 98% of the proved reserve of 62.7 million bbl of heavy oil for December 2007. The proved reserve is based on a production level of 100,000 bbl of heavy oil per day in the Rubiales field, which is the level approved by Ecopetrol for 2009.

Summary of Properties

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

Basin	License		Net Acres ('000)	Interest	Contract	Origin	Status	Royalty
Llanos	Rubiales		103	40%	Ecopetrol	Rubiales	Production	20%
	Piriri		259	50%	Ecopetrol	Rubiales	Production	20%
	Quifa		226	60%	Ecopetrol	Rubiales	Exploration	6%
	CP01		153	100%	ANH	PRE award	Exploration	8%-OIL 6.4%-GAS (1)
	CP012		283	40%	ANH	PRE award	Exploration	8%-OIL 6.4%-GAS (1)
	CP014		324	63%	ANH	PRE award	Exploration	8%-OIL 6.4%-GAS (1)
	CPE1		2,446	100%	ANH	PRE award	Exploration	8%-OIL 6.4%-GAS (1)
	CPE6		751	50%	ANH	PRE award	Exploration	8%-OIL 6.4%-GAS (1)
	Moriche		25	85%	ANH	Stratus	Exp/PRO	8%
	Jagueyes		53	100%	ANH	PRE award	Exploration	8%-OIL 6.4%-GAS (1)
	Alicante		53	55%	ANH	Farm-in	Exploration	8%-OIL 6.4%-GAS (1)
	Arrendajo		25	33%	ANH	Kappa	Exploration	8%-OIL 6.4%-GAS (1)
	Arauca TEA		726	100%	ANH	Stratus	TEA	N/A
Putumayo	Tacacho		1,480	100%	ANH	Stratus	TEA	N/A
	Topoyaco		30,016	50%	ANH	Farm-in	Exploration	8%-OIL 6.4%-GAS (1)
Lower Mag	Guama		216	100%	ANH	Stratus	Exploration	8%-OIL 6.4%-GAS (1)
	La Creciente		68	100%	ANH	Stratus	Exp/PRO	6,4%
	Cicuco		93	94%	Ecopetrol	Kappa	Production	8%
	SSJN3		634	100%	ANH	PRE award	Exploration	8%-OIL 6.4%-GAS (1)
	SSJN7		334	50%	ANH	PRE award	Exploration	8%-OIL 6.4%-GAS (1)
Middle Mag	Dindal		14	91%	Ecopetrol	Stratus	Production	20%
	Rio Seco		14	91%	Ecopetrol	Stratus	Production	20%
	Alhucema		81	50%	ANH	Kappa	Exploration	8%-OIL 6.4%-GAS (1)
	Las Quinchas		62	50%	Ecopetrol	Kappa	Production	6%
Upper Mag	Puli-B		7	50%	Ecopetrol	Stratus	Production	20%
	Caguan		2	27%	Ecopetrol	Stratus	Production	20%
	Abanico		16	25%	Ecopetrol	Kappa	Production	5%-OIL 6.4%-GAS (1)
	Chipalo		64	100%	Ecopetrol	Kappa	Production	20%
	Guasimo		27	100%	ANH	Kappa	Exploration	8%
	Buganviles		152	49%	Ecopetrol	Kappa	Exploration	8%
Rancheria	CR1		187	60%	ANH	PRE award	Exploration	8%-OIL 6.4%-GAS (1)
Catatumbo	Cerrito		10	81%	Ecopetrol	Kappa	Production	
Maranon		135	2,521	100%	Perupetro	Stratus	Exploration	12%
		137	1,109	100%	Perupetro	Stratus	Exploration	15.01%
Ucayali		138	1,024	100%	Perupetro	Stratus	Exploration	12%

(1) Sliding Scale minimum

Exploration

Overview

The exploration campaign for 2009 includes seven exploratory and two appraisal wells. The campaign also includes the acquisition of 798 km of 2D, 342 km^2 of 3D seismic, the reprocessing of 11,861 km of 2D seismic and the airborne acquisition in 18,971 km^2 of gravimetric, hyperspectral and SFD data. The total investment for the Company in exploration for 2009 will reach $65.3 million. The exploration emphasis is on the Quifa block where the Company has three exploratory and two appraisal wells. The rest of the four wells are located in the Guama, Topoyaco, Arrendajo and Cicuco blocks.

Exploratory Wells

The exploration campaign for the first quarter of 2009 is on schedule. So far, the Company has drilled the Mirla Negra exploratory well in the Arrendajo block and is preparing the locations for exploratory wells at the Topoyaco, Guama and Quifa blocks (2 wells). The Mirla Negra 1 well was drilled to a total depth of 6,237 feet measured depth (MD) in the Arrendajo Block, located in the Llanos Basin of Colombia. The well reached the top of the reservoir, the Carbonera C-5 Formation at 5,493 feet MD or 4,937 feet true vertical depth sub-sea level. The reservoir consists of 66 feet MD of net sandstones and the petrophysical analysis shows 6 feet of net pay with an average porosity of 21%. Well tests were carried on Carbonera C-5 along the perforated interval 5,506 - 5,510 feet MD. Early production tests have shown a daily rate of 130 barrels of oil at 34.5° API gravity with a 69% water cut. The Arrendajo Block is an exploratory contract where Pacific Rubiales holds a 32.5 % working interest through its subsidiary company Kappa Resources. To date, the Company has not received the certified reserves added from this discovery.

Exploration Indices

For the first quarter of 2009, the Company has incurred $13.7 million in exploration expenditures which comprises the final acquisition of the 3D seismic in the Jagueyes, Alicante, Abanico and Alhucema blocks, as well as the successful drilling of the Mirla Negra-1 well in the Arrendajo block. Since the Mirla Negra-1 well is the only exploratory well drilled to date, the exploration success ratio achieved by the Company for the first quarter of 2009 is 100%.

Exploration Focus on Quifa-Rubiales Blocks

The total exploration activity in the Quifa block for 2009 consists of five wells: three exploratory and two appraisal wells. The exploratory wells will be drilled on prospects A, H and I and the appraisal wells will be step-outs of prospects D and E. The Company has made all the necessary arrangements to drill the exploratory well on prospect I and the appraisal well on prospect D in the second quarter of 2009. The total yet to find resources (MSV) the Company will evaluate with these five wells reached 156 MMbbl gross or 93 MMbbl net before royalties.

Financial position

Total assets were $2.3 billion as at March 31, 2009 compared to $2.3 billion as at December 31, 2008. The $2.3 billion in assets primarily consisted of $1.9 billion in oil and gas properties and equipment (March 31, 2008 - $1.5 billion), $36.2 million in cash and cash equivalent (March 31, 2008 - $137.4 million), $79.8 million in accounts receivable (March 31, 2008 - $57.5 million), $105.0 million in investments, consisting primarily of $91.0 million in ODL, and $97.8 million in other assets.

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 and are payable semi-annually in arrears on June 30 and December 31.

The debentures have been classified into their debt and equity components based on relative fair values. 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%. 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 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		2,106
Foreign exchange gain upon conversion to US$		(4,854)
Balance as at March 31, 2009	$	129,253

Results of Operations for the first quarter 2009 compared to the first quarter 2008

Average Daily Oil and Gas Production

Producing Fields	Q1 09 BOE/D	Q1 08 BOE/D
Rubiales / Piriri	19,701	11,476
Quifa	91*	-
La Creciente	8,088	5,606
Puli	28	41
Dindal / Rio Seco	658	728
Moriche	134	149
Quinchas	28	-
Abanico	729	-
Buganviles	10	-
Rio Ceibas	444	571
Chipalo	6	-
Cerrito	51	-
Total	29,968	18,571

* Quifa is a new discovery currently under long term test.

Average production for the first quarter of 2009 was 29,968 boe/d (first quarter 2008 – 18,571 boe/d including Pacific Stratus' production from the date of acquisition of January 23, 2008), for an increase over the previous period of 11,397 boe/d (61%). This growth in production was a result of the development of assets (net 3,081 boe/d), while the increase in the Rubiales field of 8,316 boe/d (72%) is attributable to the following:

- The successful execution of the development of the drilling program of a total of 69 wells and 13 workovers as of December 2008 and another 23 producing wells drilled during the first quarter of 2009 (16 horizontal and 7 vertical wells).
- The construction of new storage (reaching a total of 312,000 bbl), and additional water treatment facilities reaching a total capacity of 500,000 bbl/d.
- Offloading facilities to increase the capacity for truck loading up to 65,000 bbl/d at the Rubiales field as well as blending facilities at the Guaduas Station which significantly contributed to the increase in production. Currently, all the production is trucked from the Rubiales field to either Guaduas Station and then transported via pipeline to Coveñas, the export terminal for the Colombian pipeline system, or to local terminals on the coast for industry consumption or bunker /IFO sales.

La Creciente Field increased its gas production from 33.6 mmscfd during the first quarter 2008 to 48.5 mmscfd in the first quarter of 2009, which represents a 44% increase.

Company´s production continued to increase subsequent to March 31, 2009, averaging a net production of 33,900 boe/d through April.

Health, Security, Environmental and Quality - HSEQ

During the first quarter of 2009 the Company's subsidiaries operating in Colombia continued improving their HSEQ standards. The Company's lost time injuries frequency (LTIF) decreased from 2.42 for 1,240,224 person hours worked in the first quarter of 2008 to 1.10 for 2,270,194 person hours worked for to the first quarter of 2009, equal to a 55% decrease in the LTIF relative to the first quarter of 2008 and 20% below the target for 2009. Satisfactory progress was made on all key Health, Safety, Environment and Quality priority programs. The Company has defined an Annual Training Program for all its employees on operational control and best HSE operational practices. The program also includes other subjects related to environment, health and safety management.

The operator of the Rubiales oilfield, Meta Petroleum, implemented an HSE-MS (environmental, health and safety management system) that follows ISO 14001 and OHSAS 18001 standards and the Company is expecting to certify this management system after achieving the mentioned standards by the second quarter of 2009. These management systems are well developed and the Company devotes significant time and resources to achieve a good environmental safety performance. Pacific Rubiales started the implementation of an integrated environmental, health, safety management system in La Creciente, Guaduas, El Moriche and Abanico fields in October 2008. The objective is to certify these four fields before end of 2009.

Crude and Gas Prices

Average benchmark crude oil and natural gas prices for the first quarter of 2009 were as follows:

	Q1 2009 ($/bbl)	Q1 2008 ($/bbl)	API
Domestic Market	38.12	58.91	12.5
WTI Nymex (Weighted Average Cargoes PRE)	44.53	98.70	38
Vasconia (Weighted Average PRE)	38.72	84.62	24
Rubiales Blend	36.08	89.09	18.5
PRE Natural Gas Sales ($/mcf)	4.40	5.75	
Average Natural Gas Reference Price ($/mcf)	3.88	3.43	
Henry Hub Natural Gas ($/mcf)	4.32	8.61	

The volatile commodity markets have resulted in a sharp increase in crude oil prices during the middle of 2008 and a decline by the end of 2008 and first quarter of 2009, compared to the same periods in the previous year. The realized oil and gas sales price for the Company for the first quarter of 2009 was $35.65 per boe (first quarter 2008 – $69.90 per boe) representing a reduction of 49% in comparison to the prior period. The following is a summary of the Company's crude oil and gas commercial activity during the first quarter of 2009:

- The Company exported four Vasconia crude oil cargoes totalling 2 million barrels to the United States Gulf Coast ("USGC") refineries at about $6/bbl off WTI, in comparison with only 400,000 barrels in the first quarter of 2008 at a discount of $7.2/bbl to WTI.

- The Company reinitiated sales to the Colombian domestic market to improve its netback of Rubiales crude due to the drastic reduction in international crude oil prices. A total of 3,200 bbl/d of Rubiales 12.5° crude oil was sold into the domestic market at an average netback of $17.5/bbl vs. $12/bbl on average for the export market.

- The blending cost was reduced from a 29% WTI ($29/bbl) per barrel of blend in the first quarter of 2008, to only 19% WTI ($8.5/bbl) in the same period of 2009. The Company was able to achieve the reduction by selecting more economic diluents (Light/Medium local crude oils vs. Naphtha), and by providing transportation service at our Guaduas facilities to other L/M crude oil producers.

- During the first quarter of 2009, an average of 51.2 mmscf/d of natural gas from La Creciente and Cerrito fields was sold at an average price of $4.40/mscf, representing a premium of 13% over the domestic regulated price ($3.88/mscf) and 2% higher than Henry Hub´s natural gas prices in the USGC.

The Company has entered into the following risk management contracts that are outstanding at March 31, 2009:

Country	Term	Volume Price ($/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	Jul 1, 2009 - Sept 30, 2009	900,000	$40 floor/$78 ceiling	WTI	$303
	Total				($1,029)

During the first quarter of 2009 the Company contracted with BNP Paribas to cover the risk associated with oil prices for the extended period of July 1 – September 30, 2009 for an agreed volume of 900,000 barrels of oil. The facility is in the format of the so-called "Zero Cost Collar", establishing a price band for the West Texas Intermediate (WTI) Light Sweet Crude oil.

For the three month period ended March 31, 2009 there was a realized gain of $0.5 million on these risk management contracts for actual monthly settlements. However, the unrealized loss on risk management contracts represents the change in the fair value of the contracts related to the expected future settlements, which totalled $1.0 million as shown in the above table.

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

On May 7, 2009 the Company entered into the following deferred premium put options which provide the right to sell crude oil at a minimum floor price of $40/bbl. Payment of the premium is deferred and paid when the contracts are settled monthly:

	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

Revenues

	Q1	
	2009	2008
Net sales	$ 110,000	$ 94,927
$ per boe	35.65	69.90

Net sales in the first quarter of 2009 totalled $110 million, which were higher by $15.1 million compared to the prior period. The increase is primarily attributable to a 72% increase in the Rubiales production, the acquisitions of Pacific Stratus (January 2008) and of Kappa (September 2008), offset by lower realized oil and gas prices during the first quarter of 2009. Production for the first quarter of 2008 included only 68 days of gas production as Pacific Stratus was acquired on January 23, 2008. The combined realized oil and gas prices were 49% lower in comparison to the same period in 2008.

Operating Costs

	Q1	
	2009	2008
Operating costs	$ 47,160	$ 48,646
$ per boe	15.28	35.82

Operating costs for the period ended March 31, 2009 were $47.2 million (2008 - $48.6 million); the reduction over the previous period is primarily due to the net effect of an overlift position and inventory fluctuation cost which reduced by $5 million the operating costs of the first quarter 2009.

Despite the acquisitions of Kappa in September 2008 and the increase in the Company's production, operating costs in the first quarter of 2009 on a boe basis, were reduced by 57% to $15.28 (lifting cost $2.23, dilution cost $5.91 and transportation cost $6.90 other $-0.24) mainly due to the following:

a) In the first quarter of 2008, approximately 66% of the Rubiales oil was being sold in the Colombian market as fuel oil and intermediate fuel oil (IFO) and therefore an average amount of $21.47/bbl was incurred in transportation costs to deliver the product to local customers. In the same period for 2009, local sales were significantly reduced to 12%, which contributed to reducing the transportation cost by $9/bbl. This lower transport cost of $12/bbl generated savings of $1.15 million. Moreover, the Company completed an agreement with local truck transporters resulting in additional savings of approximately $2.35 million during this period.
b) Operations were optimized using existing third party facilities in Barranquilla and Cartagena, for exporting 231,205 bbl of crude oil to the bunkering market during the quarter, resulting in a reduction of operating costs and an improvement in the netbacks for the Company.
c) The percentage of diluents needed in the first quarter of 2008 to upgrade the Rubiales crude oil from 12.5° to 18.5° API was 28%, using high priced naphtha, while in the same period of 2009 this percentage was reduced to 17.25% due to the use of light crude oil from other oil producers to dilute and transport the Rubiales crude oil. In addition these light crude oil producers pay for the transport of their own product reducing the Company's transportation rates and increasing the Company's revenues.
d) In the first quarter of 2009 there was a 72% increase in production at the Rubiales field and a 27% increase in gas production at La Creciente, which contributed to the reduction in unit costs per bbl.

Depletion, Depreciation and Amortization

	Q1	
	2009	2008
Depletion, depreciation and amortization	$ 43,303	$ 18,897
$ per boe	14.03	13.92

For the three months ending March 31, 2009 the Company used the December 31, 2008 reserve reports in calculating depletion and amortization. The first quarter of 2009 depletion charge of $43.3 million is calculated on $3.2 billion of oil and gas property costs subject to depletion of which $977 million is attributed to the proved portion of oil and gas properties acquired with the Rubiales, Pacific Stratus and Kappa acquisitions. Included in the costs subject to depletion is $1.3 billion of future development costs that are estimated to bring proved undeveloped reserves to development. The increase in first quarter 2009 depletion, depreciation and amortization over the same period of 2008 primarily relates to the increase in the depletion base as a result of assigning fair values to the proved properties in the acquisitions of Pacific Stratus and Kappa.

General and Administrative

	Q1	
	2009	2008
General and administration costs	$ 13,043	$ 6,865
$ per boe	4.23	5.06

General and administrative costs for the three month period ended March 31, 2009 were $13.0 million (2008 - $6.9 million); the increase of $6.2 million is primarily due to additional personnel and administrative expenses as a result of expanding operations to further develop the Rubiales and La Creciente fields ($5.3 million), and the acquisition of Kappa in September 2008 ($0.9 million). Despite the increase in general and administrative expenses in 2009, the unit cost on a per boe basis reflected a reduction of 16% to $4.23 over the prior period, mainly due to the significant increase in production during the first quarter of 2009 at the Rubiales field and at La Creciente. This reduction is also due to an ongoing optimization of administrative costs at all the operating Colombian companies.

Stock-Based Compensation Costs

	Q1	
	2009	2008
Stock-based compensation costs	$ 64	$ 31,322
$ per boe	0.02	23.07

During the first period of 2009 stock compensation decreased to $64,000 from $0.1 million for the previous year. The Company granted 50,000 options in the first quarter of 2009 compared to 16,173,250 in the same period of 2008. Included in the 2008 option grants were 5,970,750 options relating to the Pacific Stratus Acquisition. The larger number of options granted in 2008 is a reflection of the greater number of employees eligible under the Company's stock option plan as a result of the acquisitions completed in 2008. The options granted in 2008 all vested immediately upon the grant.

Foreign Exchange

	Q1	
	2009	2008
Foreign exchange gain (loss)	61,932	(42,091)
$ per boe	20.07	(31.00)

The foreign exchange gain is primarily a result of the effect of devaluation of both the Canadian Dollar and Colombian Peso against the US$ in the first quarter of 2009. The gain resulting for the conversion of Colombian denominated future income tax liability and the Canadian Dollar denominated convertible debenture is reduced by the loss on the conversion of cash to pay the Canadian Dollar and Colombian Pesos denominated expenditures.

The Company is exposed to non-cash unrealized foreign exchange risk in future income tax liabilities, which are denominated in Colombian Pesos. As a result of the acquisitions of RHC, Pacific Stratus and Kappa, the Company recorded future income tax liabilities on oil and gas properties. The future income tax liabilities related to these acquisitions are denominated in Colombian Peos since the assets are held in the Colombian operations. The future income tax liabilities are monetary items, which are revalued each period end at the current exchange rates with the resulting gain or loss recorded in net earnings of the period. The devaluation of the Colombian Peso has generated a non-cash unrealized gain in the first quarter of 2009 of $51.1 million related to the future income tax liabilities.

The Company is also exposed to non-cash unrealized foreign exchange risk on the convertible debenture since it is repayable in Canadian Dollars. The devaluation of the Canadian Dollar compared to the US$ has resulted in a non-cash unrealized gain of $4.8 million.

As both the Canadian Dollar and Colombian Peso have devalued against the US Dollar, the balance of the foreign exchange loss is primarily due to the Company's exposure to foreign currency fluctuations as certain expenditures and cash balances are denominated in Colombian Pesos and Canadian Dollars.

Interest Expense

	Q1	
	2009	2008
Interest expense	$ 6,738	$ 849
$ per boe	2.18	0.63

Interest expense includes the amount of interest on bank loans, convertible debentures and fees on letters of credit. During the three month period ended March 31, 2009, interest expense totalled $6.7 million (2008 - $0.8 million), the increase is primarily attributable to the $224.9 million (C$240 million) convertible debenture completed in August 2008 bearing interest at 8% which is payable semi-annually in June and December, and the $46.8 million bank loans held as of March 31, 2009. The interest related to the convertible debenture includes the cash portion of $3.8 million and a non-cash portion of $2.1 million yielding an effective annual rate of 18%.

Other Expense

	Q1	
	2009	2008
Other expense	12,000	-

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 on the settlement of the purchase of the remaining 34% of PRET and the associated contracts with the Company.

Income Tax Expense

	Q1	
	2009	2008
Current income tax	4,168	713
Future income tax	(425)	3,233
Total	3,743	3,946

The income tax provision for 2008 was impacted by $31 million in non-taxable stock-based compensation and for 2009 it is impacted by $51.1 million in unrealized non-taxable foreign exchange expense due to the future income tax liabilities.

The Company restated its first quarter 2008 with respect to the application of CICA 3465 – Accounting Income tax. The Company's Colombian operations are eligible for a special 40% deduction in the year of acquisition of qualified expenditures. 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.

Net Income

	Q1	
	2009	2008
Net income	52,636	(56,309)
$ per boe	17.06	(41.47)

Net income for the three month period ended March 31, 2009 totalled $52.6 million (first quarter 2008 – loss of $56.3 million), which was significantly higher over the prior period. The increase is primarily due to the increase in the foreign exchange gain in the first quarter of 2009 of $61 million compared to a loss of $42 million in the same period in the previous year and $31.3 stock compensation cost in 2008. The increase in oil and gas production sold from 1.4 million boe in the first quarter of 2008 to 3.1 million boe in 2009 was offset by lower netbacks and the charge on the PRET Acquisition. In addition, the successful optimization of operating costs during the first quarter of 2009 (as explained above in the operating costs section) contributed to the increase in net income.

Funds Flows from Operations

	Q1	
	2009	2008
Funds flows from operations	$ 31,548	$ 37,996
$ per share, diluted	0.15	0.21

Funds flows from operations for the three month period ended March 31, 2009 decreased $6.0 million over the prior period of 2008. The decrease is primarily attributable to the lower operating netback due to lower realized price per boe from $69.90 to $35.65. The lower netback is offset by the 72% increase in oil production and 27% increase in gas production, as well as the acquisition of Kappa in September 2008.

The following table shows the reconciliation of funds flows from operations to cash flows from operating activities for the first quarter 2009 compared to the first quarter of 2008:

	Q1	
	2009	2008
Cash flow from operating activities	22,120	(494)
Changes in non-cash working capital	9,428	38,490
Funds flow from operations (non-GAAP)	31,548	37,996

Capital Expenditures

Cash capital expenditures, excluding the effects of amounts in accounts payable, were $100.8 million compared to $26.0 million in the previous year. Including the effects of accounts payable the capital expenditures of the period were $77.6 million which is the net of the special 40% deduction in Colombia of $11.4 million) of which $13.7 million went into exploration activities including social and environmental studies, seismic acquisition and processing airborne geophysics, and drilling ($13 million to seismic and $0.7 million to drilling of wells); $46.4 million was invested in the expansion and construction of infrastructure and $17.5 million in production drilling activities. The remaining balance of $23.2 million corresponds to the net capital expenditures capitalized in the first quarter of 2009 and pending payment as of March 31, 2009. For the year 2009 the projected capital expenditures are $376.7 million distributed as follows: exploration $74.3 million, development drilling $103.8 million, and production facilities $198.6 million.

In line with the capital drilling expenditures, the Company has reduced the drilling time of horizontal wells from 16 days to 13 days on average (including completion), generating considerable savings of $3.7 million during the first quarter of 2009.

The Company has a substantial plan of development to bring the current gross capacity of the Rubiales field of ~ 58,000 gross bbl/d (net – 21,170 bbl/d) to 100,000 gross bbl/d (net – 36,000 bbl/d) by the fourth quarter of 2009, when the ODL pipeline will be operational.

In the light/medium blocks we expect to increase the production to 9,000 bbl/d by the end of the year. At La Creciente field we expect to increase gas production to 80 mmscf/d pending the removal of the bottleneck in the transportation system.

On the exploration side, the Company has re-examined its commitments, and will concentrate its activities during 2009 in the Quifa block and on those blocks for which it has immediate contractual obligations to the Agencia Nacional de Hidrocarburos (“ANH”).

Liquidity and Capital Resources

Liquidity

Net cash provided by operating activities during the first quarter of 2009 was $22.1 million (2008 – use of $0.5 million). Since the acquisitions of Rubiales Holdings, Pacific Stratus, and Kappa Energy, the Company has been generating cash flows from operations from the sale of crude oil and natural gas and continues to plan for increased future production.

As of March 31, 2009, the Company held debt denominated in Colombian Pesos with three Colombian banks and the International Finance Corporation for a total amount of $46.8 million (December 31, 2008 - $30.0 million). Maturities are April 2009 of $2.0 million, June 2009 of $27.9 million, April 2010 of $4.7 million, and $10 million in 2012. $25.3 million of the total debt position was incurred during the first quarter of 2009 and $6.0 million was repaid.

As of March 31, 2009 the Company had a negative working capital of $55.4 million (March 31, 2008 – positive $136.3 million) primarily due to accounts payable and accrued liabilities on services rendered by contractors and suppliers as of the end of March 2009.

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 to increase with anticipated increases in production and expected recovery of oil and natural gas prices, the issuance of additional common shares (if necessary), and incurring new debt.

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

In February 2009, the Colombian Branch of ODL received credit approval for a $200 million debt facility, in Colombian Pesos equivalent, from a Colombian banking group (AVAL) to ensure funding for the completion of the phase one of the ODL pipeline project. As of March 31, 2009, these funds have been fully drawn down.

On April 3, 2009, the Company obtained a $50 million one-year term loan bearing interest at 5.5% above the Citibank N.A. Nassau quoted rate for dollars in the London market. Drawdown occurred on April 7, 2009.

On May 5, 2009 the Company closed on initial commitments totaling $180 million under a previously announced 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., each a lead arranger for the facility. 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 Company expects to use the proceeds from the facility for the development of its oil infrastructure (including costs of drilling, oil dehydration and water treatment) to increase the production capacity of the Rubiales and Piriri fields up to 100,000 gross barrels of oil per day by the end of 2009, as well as for general working capital purposes and the repayment of short-term debt. The availability of the facility allows the Company to maintain its originally budgeted capital expenditure plan for 2009, thus paving the way for further growth in production and in the previously announced exploration program.

The Company's investment program calls for an expenditure of $376.7 million (net) for 2009, which will be funded through the cash flow generated by operations as well as financing from credit facilities being negotiated or already in place. The Company's capital expenditure program results from two main initiatives: the development drilling program, the optimization of the production facilities at the Rubiales field, and the rescheduling of the Company's exploration plan.

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

In parallel with the reshaping of the capital expenditure profile, Phase I of the construction of the ODL Pipeline that will ultimately connect the Rubiales field to the Monterrey station will be operational by the third quarter of 2009. Phase I will see the Rubiales field connected to the main Colombian oil transportation system, significantly improving the Company's costs of transportation and allowing early pumping of Rubiales' production, even before the main pumping facilities are completed. The Company has been able to create this two-phased approach to utilizing the ODL Pipeline through the utilization of temporary pumping capacity that the Company has located and put in place. This early utilization of the pipeline, in conjunction with the rescaling of the trucking currently used by the Company to transport its crude, will set the foundation for ramping up the field to an average production of 90,000 bbl in the second half of 2009. Phase II of the ODL pipeline construction will see the pipeline reaching full capacity (170,000 bbl) by the second half of 2010. The Company has already funded its equity portion of the ODL pipeline, with no further equity contributions anticipated; the pipeline's development is proceeding well and on schedule. It is expected that the debt portion for the pipeline project will come from multilateral agencies and commercial banks and due diligence in that regard is well advanced.

At its light and medium oil assets in Colombia, and at the La Creciente natural gas field, the Company will continue to focus on developing the proven reserves with a goal of reaching its gross production targets for 2009 of 9,000 bbl/d and 80 mmscf/d, respectively. While serving the goal of maximizing cash flow, this will allow the Company to continue to increase the certainty of the resource base.

On the exploration side, the Company has re-examined its commitments, and will concentrate its activity during 2009 on those blocks for which it has immediate contractual obligations to the ANH to explore. The Company will reschedule the rest of its exploration activity accordingly. The Company anticipates meeting all of its exploration obligations and remains committed to its exploration program, recognizing its major exploration position in Colombia, which management regards as one of the Company's most enduring competitive advantages.

In this environment of relatively low oil prices, the Company closed on the initial commitments totaling $180 million of a senior secured revolving credit facility of up to $250 million, as described above. The Company expects to use the proceeds from the facility for the development of its oil infrastructure (including costs of drilling, oil dehydration and water treatment) to increase the production capacity of the Rubiales and Piriri fields up to 100,000 gross bbl/d by the end of 2009, as well as for general working capital purposes and the repayment of short-term debt. Additionally, if there are any delays in completing the financing of the ODL pipeline, the Company will have its corporate facility to draw down.

- The facility is a senior secured revolving credit facilty 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.

Selected Quarterly Information

(In thousands of US$ except per share amounts or as noted)	Q1 2009	Q4 2008	Q3 2008 (6) (restated)	Q2 2008 (6) (restated)	Q1 2008 (6) (restated)	Q4 2007 (6) (restated)	Q3 2007 (6) (restated)	Q2 2007
Financials:								
Net sales	110,000	123,216	202,354	158,567	94,927	53,897	26,519	-
Net income (loss) for the period	52,636	12,971	77,908	42,128	(56,309)	13,599	630	(918)
Capital expenditures (net of amounts in accounts payable)	100,823	123,652	66,311	64,877	25,998	21,088	6,204	-
Funds flow from operations (1)	31,548	40,810	117,032	62,145	37,995	30,529	12,433	
Earnings (loss) per share (2)								
- basic	$0.25	$0.06	$0.37	$0.21	($0.32)	$0.12	$0.01	($0.06)
- diluted	$0.25	$0.06	$0.35	$0.19	($0.32)	$0.11	$0.01	($0.06)
Operations:								
Operating netback ($/boe) (3)								
Crude oil and natural gas sales price	35.65	43.23	91.11	85.93	69.90	68.78	39.76	-
Lifting cost	2.23	3.92	4.21	4.09	3.55	4.63	4.11	-
Transportation	6.90	7.12	8.77	8.93	15.17	12.44	15.25	
Upgrading cost (diluent including transportation)	5.91	8.55	14.88	15.47	12.64	-	-	-
Other production cost	0.24	9.70	5.05	4.20	4.46	6.07	3.11	-
Operating netback (4)	20.37	13.94	58.20	53.24	34.08	45.64	17.29	
Average daily crude oil sold (bbl/day)	25,755	24,549	19,045	14,901	10,658	8,517	7,250	-
Average daily natural gas sold (boe/day) (5)	8,528	6,770	5,363	5,603	4,431	-	-	-
Average daily oil and gas sold (boe/day)	34,283	31,319	24,408	20,504	15,089	8,517	7,250	-

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 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) Combined operating netback data is based on weighted average daily production sold.
(4) Operating netback data based on weighted average daily production sold.
(5) Natural gas conversion rate used was 6 mcf = 1 boe. Boe may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf:1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.
(6) The Company restated its 2007 annual consolidated financial statements for the year ended December 31, 2007, and each of the 2008 interim financial statements with respect to the application of CICA 3465 – Accounting Income tax. The Company's Colombian operations are eligible for a special 40% deduction in the year of acquisition of qualified expenditures. 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 previous quarters have been restated as follows:

	2008					
	Q3		Q2		Q1	
	Prev	Rest	Prev	Rest	Prev	Rest
Oil and gas properties	1,947,006	1,908,901	1,604,156	1,584,110	1,546,677	1,534,190
Future income tax liability	495,744	478,796	401,015	393,663	424,895	420,037
Retained earnings	(94,756)	(73,599)	(8,386)	4,308	38,807	46,436
Depletion, depreciation and amortization	25,101	24,770	23,215	22,902	19,040	18,897
Future income tax expense	8,048	16,425	45	5,423	-	3,233
Foreign exchange (gain) loss	-		-		-	
Net income	86,370	77,908	47,193	42,128	(53,219)	(56,309)
Net income per share - basic	0.41	0.37	0.23	0.21	(0.30)	(0.32)
Net income per share - diluted	0.41	0.37	0.21	0.19	(0.30)	(0.32)

	2007			
	Q4		Q3	
	Prev	Rest	Prev	Rest
Oil and gas properties	611,249	600,875	284,217	279,913
Future income tax	166,593	160,757	16,270	17,095
Retained earnings	14,412	9,873	1,894	8,767
Depletion, depreciation and amortization	18,951	18,617	2,709	2,709
Future income tax expense	(3,905)	968	1,609	1,609
Foreign exchange (gain) loss	-		-	-
Net income	17,814	13,275	279	630
Net income per share - basic	0.16	0.12	0.00	0.01
Net income per share - diluted	0.14	0.10	0.00	0.01

The restatement had no effect on reported cash provided by operating activities

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 2009:

During the first quarter of 2009, net sales were reduced by $13.2 million to $110 million over the previous quarter due to a reduction in realized oil and prices. Even though the production sold during this quarter was higher by 9% to 3.1 million of barrels, the average realized price was 18% lower from $35.65 per barrel in the first quarter 2009 in comparison to $43.23 per barrel in the fourth quarter of 2008. Net income increased by $39.7 million to $52.6 million from the previous quarter due primarily to non-cash foreign exchange gain of $61 million.

Revenue in the fourth quarter of 2008 reduced $79.1 million to $123.2 million in comparison to the prior quarter of 2008, primarily due to significantly lower international oil and gas prices realized, compensated by higher crude oil production from the Rubiales field. Combined average oil and gas selling prices reduced by $47.88/boe over the fourth quarter to $43.23/boe (53%) when compared to the prior quarter, due to the strong reduction of oil prices. The average volume daily oil and gas sold of the fourth quarter increased to 31,319 boe/day from 24,408 boe/day the prior quarter, as a result of the drilling program initiated during 2008 and the optimization of field facilities to store, load and transport the crude oil from the Rubiales field. Operating netback was significantly reduced by $44.26 boe to $13.94, in comparison to the prior quarter primarily due to reduction of realized prices in the fourth quarter over the third quarter and higher production costs.

Revenue in the third quarter of 2008 increased $43.8 million over the second quarter of 2008 to $202.4 million primarily due to higher oil and gas prices realized and higher production. Operating netback improved primarily due to increased realized prices in the third quarter over the second quarter.

Revenue in the second quarter of 2008 increased $63.6 million over the first quarter of 2008 to $158.6 million primarily due to higher oil and gas prices realized and higher production. Net income increased by $97.9 million over the previous quarter primarily due to increased revenues, a decrease in the non-cash stock compensation of $31 million and a decrease in foreign exchange loss of $52.6 million.

During the first quarter of 2008, net sales increased by $41 million to $94.9 million over the previous quarter due to higher production, increasing oil and gas prices, higher crude oil volume, sold in the international market due to the Company's new commercial scheme, and revenue from Pacific Stratus properties since the acquisition. Net income decreased by $69.3 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 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 in the previous quarter and the foreign exchange gain more than offset the impact of the increase in operating expenses due to an increase in water dehydration and treatment costs, in general and administrative expenses, in DD&A due to the increase in the value of oil and gas properties subject to depletion and future development costs to bring proved reserves to development, and income tax expense.

Outstanding Share Data

Issued and Fully Paid Common Shares

As at March 31, 2009, 211,041,965 common shares were issued and outstanding

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

Stock Options and Warrants

As at March 31, 2009, 44,357,050 warrants to acquire an equal number of common shares were outstanding and exercisable (44,803,552 – December 31, 2008) and 19,619,739 stock options were outstanding (15,051,885 – December 31, 2008) of which all were exercisable.

On February 11, 2009, 50,000 stock options with a 5-year life were granted to employees.

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

New Accounting Pronouncements

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 statements.

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

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.

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. Section1582 is effective for the Company on January 1, 2011 with prospective application and early adoption permitted.

Under new 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.

Critical Accounting Policies and Estimates

The Company's financial statements are prepared in accordance with Canadian GAAP, which require management to make judgments, estimates and assumptions, which may have a significant impact on the financial statements. A summary of the Company's significant accounting policies can be found in Note 1 to the Company's 2008 consolidated financial statements. The following is a discussion of those accounting policies and estimates that are considered critical in the determination of the Company's financial results.

Capital Assets – Full Cost Accounting

The Company follows the full cost method of accounting. Under the full cost method of accounting, capitalized costs are subject to a country-by-country cost centre impairment test. Under the successful efforts method of accounting, the costs are aggregated on a property-by-property basis and the carrying value of each property is subject to an impairment test. These policies may result in a different carrying value for capital assets and a different net income. The full cost method is the method most commonly followed by the Company's peer group.

Under full cost accounting, in order to test impairment, a limit is placed on the carrying value of the net capitalized costs in each cost centre. Impairment exists when the carrying value of developed properties of a cost centre exceeds the estimated undiscounted future net cash flows associated with the cost centre's proved reserves. Costs relating to undeveloped properties are subject to individual impairment assessments and when impairment exists is included in the basis to calculate depletion. If impairment is determined to exist, the costs carried on the balance sheet in excess of the discounted future net cash flows associated with the cost centre's proved plus probably reserves are charged to income.

Reserve Estimates

Reserve estimates can have a significant impact on net income and the carrying value of capital assets. The process of estimating reserves requires significant judgment based on available geological, geophysical, engineering, and economic data, projected rates of production, estimated commodity price forecasts and the timing of future expenditures, all of which are subject to interpretation and uncertainty. Reserve estimates impact net income through depletion expense and the application of impairment tests. Revisions or changes in reserve estimates can have either a positive or a negative impact on net income and can impact the carrying amount of capital assets.

Future Income Taxes

The Company recognizes a future income tax liability based on estimates of temporary differences between the book and tax value of its assets. An estimate is also used for both the timing and tax rate upon reversal of the temporary differences. Actual differences and the timing of reversals may differ from estimates, impacting the future income tax balance and net income.

Changes in Accounting Policies

International Financial Reporting Standards

In February 2008, the AcSB confirmed the convergence of Canadian GAAP with International Financial Reporting Standards ("IFRS") will be required for interim and annual financial statements effective for fiscal years beginning on or after January 1, 2011, including comparatives for 2010.

The International Accounting Standards Board ("IASB") has also issued an exposure draft relating to certain amendments and exemptions to IFRS 1, *First-time Adoption of International Financial Reporting Standards.* It is anticipated that this exposure draft will not result in an amended IFRS 1 standard until late 2009. The amendment, if implemented, will permit the Company to apply IFRS prospectively by utilizing its current reserves at the transition date to allocate the Company's full cost pool, with the provision that a ceiling test, under IFRS standards, be conducted at the transition date.

Although the amended IFRS 1 standard would provide relief, the changeover to IFRS represents a significant change in accounting standards and the transition from current Canadian GAAP to IFRS will be a significant undertaking that may materially affect the Company's reported financial position and reported results of operations.

The Company has completed its high-level IFRS impact study and has established a preliminary timeline for the conversion project. The impact study included a preliminary assessment of the differences between Canadian GAAP and IFRS and the potential effects of IFRS to accounting and reporting processes, information systems, business processes and external disclosures. This assessment has provided insight into what are anticipated to be the most significant areas of difference applicable to the Company.

During the next phase of the project, scheduled to take place during 2009, the Company will perform an in-depth review of the significant areas of difference, identified during the preliminary assessment, in order to identify all specific Canadian GAAP and IFRS differences and select ongoing IFRS policies. Key areas addressed will also be reviewed to determine any information technology issues, the impact on internal controls over financial reporting and the impact on business activities including the effect, if any, on covenants. Where required, external advisors will be retained and assist management with the project on an as needed basis. Staff training programs will begin in 2009 and continue.

The Company will also continue to monitor standards development as issued by the IASB and the AcSB as well as regulatory developments as issued by the Canadian Securities Administrators (CSA), which may affect the timing, nature or disclosure of its adoption of IFRS.

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 ship or pay arrangements on gas transportation, asset retirement obligations, debt repayments, service contracts with suppliers in relation with the exploration and operation of oil properties and engineering and construction contracts, among others. Commitments as of March 31, 2009 are summarized in the following table:

	2009	2010	2011	2012	2013	subsequent to 2013	Total	
Operating leases	$ 1,103	$ 1,486	$ 40	$ -	$ -	$ -	$ 2,630	(a)
Transportation and processing commitment	$ 11,771	$ 34,855	$ 32,121	$ 29,375	$ 26,645	$ 10,265	$ 145,032	(b)
Minimum work commitments	$ 74,142	$ 122,920	$ 43,600	$ 30,435	$ 20,035	$ 54,210	$ 345,342	(c)
Abandonment obligations	$ 2,221	$ 1,158	$ 1,771	$ 1,211	$ 1,419	$ 18,156	$ 25,935	(d)
Other service contracts	$ 2,449	$ 1,680	$ 1,764	$ 1,852	$ 1,945	$ 6,126	$ 15,816	(e)
Repayment of debt	$ 32,200	$ 4,685	$ -	$ 10,000	$ -	$ -	$ 46,885	(f)
Total	$ 123,886	$ 166,784	$ 79,295	$ 72,873	$ 50,044	$ 88,757	$ 581,640	

The Company has various commitments in place in the ordinary course of business between 2009 and subsequent to 2013:

a) Operating leases of $2.6 million mainly related to office rental in Bogota for the remainder of 2009 and for 2010.
b) Corresponds to ship or pay contracts totaling $145 million as follows: $114 million signed with ODL for the transportation of crude oil from Rubiales field to connect the Colombia's oil transportation system, and $31 million signed with Promigas for gas transportation to from La Creciente field to connect the Cartagena gas pipeline to deliver the product to customer's facilities.
c) Minimum capital investments agreed in the contracts with Ecopetrol and ANH in Colombia that include acquisition and processing of seismic data and drilling exploration wells in Colombia ($294 million), as well as exploration and drilling activities in Peru ($51 million).
d) Amount of the asset retirement obligation considering the present as well as the future obligations on drilling of wells or construction of facilities.
e) Service contracts with suppliers for $15.8 million in relation with the exploration and operation of oil properties and engineering and construction contracts.
f) Debt repayment of $46.8 million on the short and long term debt, details of which are in the Liquidity and Capital Resources section.

Certain association contracts signed before 2003 with Ecopetrol include a clause in which at any time Ecopetrol may commence participating in the operation of the new discovery made by its Associates, without prejudice to the Associates' right to be reimbursed for the investments made on their sole account and risk (back-in right). The contract provides that if Ecopetrol decides to declare the commerciality of the field and participate in the commercial phase of the association contract, then the Associates 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.

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

a) Accounts payable and accrued liabilities include $3.3 million payable to a director of the Company for contingent consideration on the acquisition of La Creciente by Pacific Stratus in 2004. On April 16, 2009, 538,334 common shares of the Company were issued to the director as settlement of this contingent consideration.

b) For the three months ended 2008 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 ($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. The Company also paid a financing fee pursuant to an advisory agreement dated October 15, 2008 of $250,000 for the BNP facility commitment.

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.

d) 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.

e) 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 total of $2.1 million in success fees to Endeavour pursuant to an advisory dated October 15, 2008.

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 business and operations of the Company will be subject to a number of risks. The Company considers the risks set out below to be the most significant to potential investors in the Company, but not all of the risks associated with an investment in securities of the Company. If any of these risks materialize into actual events or circumstances or other possible additional risks and uncertainties of which the Company is currently unaware or which it considers not to be material in relation to the Company's business, actually occur, the Company's assets, liabilities, financial condition, results of operations (including future results of operations), business and business prospects, are likely to be materially and adversely affected. In such circumstances, the price of the Company's securities could decline and investors may lose all or part of their investment.

Fluctuating Prices

Oil and gas prices will have a direct impact on the Company's earnings and are subject to volatile price fluctuations. The Company's revenues are expected to be in large part derived from the extraction and sale of oil and natural gas. The price of oil will be affected by numerous factors beyond the Company's control, including international economic and political trends, expectations of inflation, war, currency exchange fluctuations, interest rates, global or regional consumption patterns, speculative activities and increased production due to new extraction developments and improved extraction and production methods. Any substantial decline in the prices of oil or natural gas could have a material adverse effect on the Company and the level of its oil and natural gas reserves.

Prices varied considerably throughout 2008 and since August 2008 the price of oil has decreased significantly, concurrent with the downturn in the global economy. Decreases in oil and natural gas prices typically result in a reduction of the Company's net production revenue and may change the economics of producing from some wells which could result in a reduction in the volume of the Company's reserves. Any further substantial declines in the prices of crude oil or natural gas could also result in delay or cancellation of existing or future drilling, development or construction programs or the curtailment of production. All of these factors could result in a material decrease in the Company's net production revenue, cash flows and profitability causing a reduction in its oil and gas acquisition and development activities. In addition, bank borrowings available to the Company will in part be determined by the Company's borrowing base. A sustained material decline in prices from historical average prices could further reduce such borrowing base, therefore reducing the bank credit available and could require that a portion of its bank debt, if any, be repaid.

From time to time the Company has and may in the future enter into agreements to receive fixed prices on its oil and natural gas production to offset the risk of revenue losses if commodity prices decline; however, if commodity prices increase beyond the levels set in such agreements, the Company will not benefit from such increases.

Global Financial Conditions

Current global financial conditions have been subject to increased volatility and numerous commercial and financial enterprises have either gone into bankruptcy or creditor protection or have had to be rescued by governmental authorities. Access to public financing has been negatively impacted by sub-prime mortgage defaults in the United States, the liquidity crisis affecting the asset-backed commercial paper and collateralized debt obligation markets, massive investment losses by banks with resultant recapitalization efforts and deterioration in the global economy.

Notwithstanding various actions by governments, concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions caused the broader credit markets to further deteriorate and stock markets to decline substantially.

Banks have been adversely affected by the worldwide economic crisis and have severely curtailed existing liquidity lines, increased pricing and introduced new and tighter borrowing restrictions to corporate borrowers, with extremely limited access to new facilities or for new borrowers. These factors could negatively impact the Company's ability to access liquidity needed for the Company's business in the longer term.

Petroleum and natural gas prices are expected to remain volatile for the near future as a result of market uncertainties over the supply and demand of these commodities due to the current state of the world economies, OPEC actions and the ongoing global credit and liquidity concerns.

These factors may impact the Company's ability to obtain equity, debt or bank financing on terms commercially reasonable to the Company, or at all. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. If these increased levels of volatility and market turmoil continue, the Company's operations could be adversely impacted and the trading price of the Company's securities could continue to be adversely affected.

In addition, certain of the Company’s customers could be unable to pay it, in the event they are unable to access the capital markets to fund their business operations.

Exploration and Development

The exploration and development of oil and natural gas deposits involve a number of uncertainties that even thorough evaluation, experience and knowledge of the industry cannot eliminate. It is impossible to guarantee that the exploration programs on the Company’s properties will generate economically recoverable reserves. The commercial viability of a new hydrocarbon pool is dependent upon a number of factors which are inherent to reserves, such as the content and the proximity of infrastructure, as well as oil and natural gas prices which are subject to considerable volatility, regulatory issues such as price regulation, taxes, royalties, land tax, import and export of oil and natural gas, and environmental protection issues. The individual impact generated by these factors cannot be predicted with any certainty but, once combined, may result in non-economical reserves. The Company will remain subject to normal risks inherent to the oil and natural gas industry such as unusual and unexpected geological changes in the parameters and variables of the petroleum system and operations.

Operating Hazards and Risks

Exploration for natural resources involves many risks, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. Operations in which the Company has a direct or indirect interest will be subject to all the hazards and risks normally incidental to exploration, development and production of natural resources, any of which could result in work stoppages, damage to persons or property and possible environmental damage. Although the Company may obtain liability insurance in an amount which is expected to be adequate, the nature of these risks is such that liabilities might exceed policy limits, the liabilities and hazards might not be insurable, or the Company might not elect to insure itself against such liabilities due to high premium costs or other reasons, in which event the Company could incur significant costs that could have a material adverse effect upon its financial condition.

Reserve Estimates

Despite the fact that the Company has reviewed the estimates related to the potential reserve evaluation and probabilities attached thereto and it is of the opinion that the methods used to appraise its estimates are adequate, these figures remain estimates, even though they have been calculated or validated by independent appraisers. The reserves disclosed by the Company should not be interpreted as assurances of property life or of the profitability of current or future operations given that there are numerous uncertainties inherent in the estimation of economically recoverable oil and natural gas reserves.

Transportation Costs

Disruption in or increased costs of transportation services could make oil and natural gas a less competitive source of energy or could make the Company's oil and natural gas less competitive than other sources. The industry depends on rail, trucking, ocean-going vessel, pipeline facilities, and barge transportation to deliver shipments, and transportation costs are a significant component of the total cost of supplying oil and natural gas; currently, the Company trucks much of its production from the Rubiales oil field, its primary source of revenue. Disruptions of these transportation services because of weather-related problems, strikes, lockouts, delays or other events could temporarily impair the ability to supply oil and natural gas to customers and may result in lost sales. In addition, increases in transportation costs, or changes in transportation costs for oil and natural gas produced by competitors, could adversely affect profitability. To the extent such increases are sustained, the Company could experience losses and may decide to discontinue certain operations forcing the Company to incur closure and/or care and maintenance costs, as the case may be. Additionally, lack of access to transportation may hinder the expansion of production at some of the Company's properties and the Company may be required to use more expensive transportation alternatives.

Disruptions in Production

Other factors affecting the production and sale of oil and natural gas that could result in decreases in profitability include: (i) expiration or termination of leases, permits or licenses, or sales price re-determinations or suspension of deliveries; (ii) future litigation; (iii) the timing and amount of insurance recoveries; (iv) work stoppages or other labor difficulties; (v) worker vacation schedules and related maintenance activities; and (vi) changes in the market and general economic conditions. Weather conditions, equipment replacement or repair, fires, amounts of rock and other natural materials and other geological conditions can have a significant impact on operating results.

Political Risk

The Company's projects are located in Colombia and Peru and consequently the Company will be subject to certain risks, including currency fluctuations and possible political or economic instability. Exploration and production activities may be affected in varying degrees by political stability and government regulations relating to the industry. Colombia is home to South America's largest and longest running insurgency, and over the past two decades has experienced significant social upheaval and criminal activity relating to drug trafficking. While the situation has improved dramatically in recent years, there can be no guarantee that the situation will not again deteriorate. Any increase in kidnapping and/or terrorist activity in Colombia generally may disrupt supply chains and discourage qualified individuals from being involved with the Company's operations. Additionally, the perception that matters have not improved in Colombia may hinder the Company's ability to access capital in a timely or cost effective manner. Any changes in regulations or shifts in political attitudes are beyond the control of the Company and may adversely affect its business. Exploration may be affected in varying degrees by government regulations with respect to restrictions on future exploitation and production, price controls, export controls, foreign exchange controls, income taxes, expropriation of property, environmental legislation and site safety.

The Company's operations may also be adversely affected by laws and policies of Canada affecting foreign trade, taxation and investment. In the event of a dispute arising in connection with the Company's foreign operations, the Company may be subject to the exclusive jurisdiction of foreign courts or may not be successful in subjecting foreign persons to the jurisdictions of the courts of Canada or enforcing Canadian judgments in such other jurisdictions. The Company may also be hindered or prevented from enforcing its rights with respect to a governmental instrumentality because of the doctrine of sovereign immunity. Accordingly, the Company's exploration, development and production activities in the foreign jurisdictions in which it operates could be substantially affected by factors beyond the Company's control, any of which could have a material adverse effect on the Company.

Environmental Factors

All phases of the Company's operations are subject to environmental regulation in Colombia.

Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. In addition, certain types of operations require the submission and approval of environmental impact assessments. Environmental assessments of proposed projects carry a heightened degree of responsibility for companies and directors, officers and employees. The cost of compliance with changes in governmental regulations has a potential to reduce the profitability of operations. The exploration, development and production activities of the Company will require certain permits and licenses from various governmental authorities and such operations are and will be governed by laws and regulations governing exploration, development and production, labor standards, occupational health, waste disposal, toxic substances, land use, environmental protection, safety and other matters. Companies engaged in exploration activities generally experience increased costs and delays as a result of the need to comply with applicable laws, regulations and permits. There can be no assurance that all licenses and permits which the Company may require to carry out exploration and development of its projects will be obtainable on reasonable terms or on a timely basis, or that such laws and regulations would not have an adverse effect on any project that the Company may undertake.

Title Matters

The acquisition of title to oil and natural gas properties in Colombia is a detailed and time consuming process. The Company's properties may be subject to unforeseen title claims. While the Company will diligently investigate title to all property and will follow usual industry practice in obtaining satisfactory title opinions and, to the best of the Company's knowledge, title to all of the Company's properties is in good standing; this should not be construed as a guarantee of title. Title to the properties may be affected by undisclosed and undetected defects.

Dependence on Management

The Company strongly depends on the business and technical expertise of its management team and there is little possibility that this dependence will decrease in the near term.

Changes in Legislation

The oil and natural gas industry in Colombia is subject to extensive controls and regulations imposed by various levels of government. All current legislation is a matter of public record and the Company will be unable to predict what additional legislation or amendments may be enacted. Amendments to current laws, regulations and permits governing operations and activities of oil and natural gas companies, including environmental laws and regulations which are evolving in Colombia, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in expenditures and costs, affect the Company's ability to expand or transfer existing operations or require the Company to abandon or delay the development of new oil and natural gas properties.

Repatriation of Earnings

Currently there are no restrictions on the repatriation from Colombia of earnings to foreign entities. However, there can be no assurance that restrictions on repatriation of earnings from Colombia will not be imposed in the future.

Integration of Pacific Stratus and Kappa

The Company recently completed the Pacific Stratus Acquisition and the Kappa Acquisition. The future success of the Company will depend to some extent on the success of management of the Company in integrating the operations, technologies and personnel of Pacific Stratus and Kappa now that each has been acquired. The failure of the Company to achieve such integration could result in the failure of the Company to realize some or all of the anticipated benefits of the Pacific Acquisition and the Kappa Acquisition, and could impair the results of operations, profitability and financial results of the Company. In addition, the overall integration of the operations, technologies and personnel of Pacific Stratus and Kappa into the Company may result in unanticipated operational problems, expenses, liabilities and diversion of management's attention.

Enforcement of Civil Liabilities

Substantially all of the assets of the Company will be located outside of Canada and certain of the directors and officers of the Company will be resident outside of Canada. As a result, it may be difficult or impossible to enforce judgments granted by a court in Canada against the assets of the Company or the directors and officers of the Company residing outside of Canada.

Competition

The oil and natural gas industry is competitive in all its phases. The Company will compete with many companies and individuals that have substantially greater financial and technical resources than the Company in the search for, and the acquisition of, properties as well as for the recruitment and retention of qualified employees. The Company's ability to increase its interests in the future will depend not only on its ability to explore and develop its present properties, but also on its ability to select, acquire and develop suitable properties or prospects.

Dividends

Any payments of dividends on the common shares of the Company will be dependent upon the financial requirements of the Company to finance future growth, the financial condition of the Company and other factors which the Company's Board of Directors may consider appropriate in the circumstance. It is unlikely that the Company will pay dividends in the immediate or foreseeable future.

Internal Controls over Financial Reporting

During the first quarter of 2009, the internal auditors tested the effectiveness of all aspects of the Company's system of internal control, risk management, and governance practices including operational effectiveness and regulatory compliance.

The internal audit teams also performed assessments of all controls and other procedures that are designed to ensure that information disclosed by the Company in its regulatory filings and other public disclosures is recorded, processed, summarized, and reported within the time periods specified in the Canadian Securities Administrators ("CSA") rules and forms. Activities also include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company is accumulated and communicated to the Company's management (including its principal executive and financial officers) for timely assessment and disclosure pursuant to National Instrument 52-109 of the CSA.

In addition, the internal audit function performed an evaluation of the design and operating effectiveness of internal control over financial reporting and disclosure ("ICFR"), on behalf of the Company, as of the end of the period covered by this report. As part of its evaluation ICFR, the Company evaluated risks related to significant accounts and relevant assertions, considered quantitative and qualitative factors to significant accounts and disclosures, evaluated risks to fraudulent financial reporting, and evaluated documentation supporting the effective operation of controls. As a result of its evaluation, the Company identified opportunities for improvement and significant deficiencies in internal control over financial reporting.

The Company continues to monitor and execute on the opportunities to improve controls in the following areas:

1. Focus on control and review procedures in the financial consolidation process to ensure compliance with the CSA requirements in a timely manner.
2. The Company will hire additional expert resources which may be necessary and will provide training for all personnel involved in the Canadian statutory reporting process.
3. The implementation of SAP on July 1, 2009 as the corporate ERP will facilitate standardization of accounting and reporting.

Regulatory Policies

Certification of Disclosures in Annual Filings

In accordance with Multilateral Instrument 52-109 of the Canadian Securities Administrators, the Company annually issues a "Certification of Annual Filings" ("Certification"). The Certification requires certifying officers to state that they are responsible for establishing and maintaining disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR").

The Certification requires certifying officers to state that they designed DC&P, or caused it to be designed under their supervision, to provide reasonable assurance that: (i) material information relating to the Company is made known to the certifying officers by others; (ii) information required to be disclosed by the Company in reports filed with, or submitted to, securities regulatory authorities is recorded, processed, summarized and reported within the time periods specified under Canadian securities legislation. In addition, the Certification requires certifying officers to state that they have designed ICFR, or caused it to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes.

In completing the 2008 consolidated financial statements, the Company determined certain accounts were either over or understated as a result of the accounting for a special tax deduction associated with some development expenditures incurred in Colombia as a reduction in income tax expense instead of accounting for it as a reduction in the cost base of the expenditure capitalized in oil and gas properties. As a result, the Company's 2007 annual consolidated financial statements for the year ended December 31, 2007, and each of the 2008 interim financial statements have been restated. The Company has concluded that its DC&P and ICFR were ineffective as at December 31, 2008 and therefore is currently undertaking a review of the structure and capacity of its financial reporting group and plans to hire the necessary resources and provide additional training for personnel involved in the financial reporting process. The Company is also in the process of implementing a company-wide ERP-SAP 6.0 by the second half of 2009 which is expected to facilitate the standardization of the accounting and reporting functions. In addition, the Company is currently applying best practices among the operative branches in Colombia including the integration of the administrative, accounting and technical teams of Pacific Stratus and Kappa. This integration has facilitated the adoption of standardized processes and procedures among the companies and will improve the quality and reliability of the financial information consolidated by the Company.

Outlook

The Company's current production is limited by infrastructure and transportation. Expansion of current facilities and construction of the ODL continue to be a focus as they are key to the Company's future growth and development.

The Company will continue to sell 18.5° API blended crude on the international markets via the transfer and blending process at the Guaduas station and pipeline to the Coveñas terminal, as well as to the domestic market. From January 2009 through to September 2009, the Company expects to increase its sales through this scheme to 28,800 bbl/d. Subsequently, the ODL is expected to be completed allowing all the Company's production from the Rubiales oil field of 45,360 bbl/d to be sold in the international markets as 18.5° API blended crude via blending at the Rubiales field and transportation through the ODL to Monterrey, where it will be connected to the Ocensa pipeline to Coveñas.

The Company will also concentrate on increasing its gas sales from the La Creciente Field, and in order to achieve it, is currently negotiating with the gas transporter the commercial terms for an expansion of the latter's infrastructure in the area.

The exploration activities of the Company have continued at a steady pace during the first quarter of 2009 and are well on schedule to complete the year's program.

The Company will focus on implementing its revised investment program using the funding structured during the first quarter of 2009 and executed on May 5 2009, thus ensuring a robust financial base to develop the business plan for the year.