PACIFIC RUBIALES ENERGY CORP.

MANAGEMENT DISCUSSION AND ANALYSIS
August 13, 2009

Form 51-102F1
For the three and six months period ended June 30, 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 and six month periods ended June 30, 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

Operating Summary

	Three months ended June 30			
	2009 Oil	2009 Gas	2009 Combined	2008 Combined
Average daily production sold (boe/day) [1]	34,428	5,283	39,711	20,504
Operating netback ($/boe) [2]				
Crude oil and natural gas sales price	48.05	25.44	45.05	85.93
Lifting costs	2.84	1.79	2.70	4.09
Transportation and other costs	10.77	3.66	9.83	8.93
Upgrading cost (diluent including transportation)	6.42	-	5.57	15.47
Other production costs	3.94	4.97	4.08	4.64
Overlift /Underlift [3]	6.19	0.49	5.44	(0.44)
Operating netback	17.89	14.53	17.43	53.24

(1) 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.

(2) Combined operating netback data based on weighted average daily production sold which include diluents necessary for the upgrading of the Rubiales blend.

(3) Corresponds to the effect of overlift position of 455,000 boe as of June 30, 2009 amounting to $19.4 million, or a net combined effect of $5.44 per boe in production costs.

Second Quarter 2009 Results Summary

The oil and gas industry has been adversely impacted by the downturn in the global economy and the decline in crude oil prices. Nevertheless, the results of the second quarter of 2009, and by implication those of the first six months of 2009, reflect the continuous strength of the operations and the commitment of management to deliver robust financials, realise very challenging operational objectives, and continue the Company´s ambitious investment program.

During the second quarter the operated production of the Company reached an average of 71,533 boe/d, an increase of 28,829 boe/d over the same period last year. This growth in operated production came mainly through the increase in production at the Rubiales heavy crude oil field. By August 2, 2009, the production at Rubiales had reached 65,000 bbl/d, making this the fastest growing, and also the highest producing, field in Colombia. Production costs per barrel continue to decrease, showing a 48% reduction over the same period last year. This is evidence of management´s commitment to cost control while increasing production.

During the quarter, the marketing strategy of the Company continued creating value in spite of the lower oil prices as compared with the same period last year. We continued balancing volumes for export with volumes for the internal market, trying to optimise value creation and market maintenance. During the second quarter of 2009, the domestic market amounted to an average volume of 5,302 bbl/d.

As a result of the significant increase in production, and in spite of the relative lower prices for oil and gas during the second quarter of 2009 compared with the same period last year (WTI $60.32/bbl versus $133.88/bbl), the Company was able to generate the same level of revenues for the period ($160.9 million in 2009, $158.6 million in 2008). These revenues and the operational successes that allowed the Company to achieve these revenues were modulated by a number of financial charges arising from financial and non-cash items that will level off during the course of the year. These non–cash financial charges reflect mainly foreign exchange risks associated with future income taxes liabilities, which may or may not materialize, and the effect of overlift volumes that are a reflection of the Company having marketed, for operational reasons, greater volumes than its equity participation in production, which overlift should be cancelled out over the short term.

While operations generate the value for today, the Company continues to move forward on its aggressive investment plan, namely in the development of the Rubiales Master Plan. As of August 2, 2009, the ODL pipeline was mechanically completed and in the final stages of hydrostatic testing. Early filling should start by the end of August 2009. In parallel, the production and processing capacity at the Rubiales field is well on track to fulfil the goal of 100,000 bbl/d by the end of the year.

Milestones

- 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 second quarter of 2009, the Company continued to be the most dynamic E&P company operating in Colombia, with an average production of 71,533 boe/d, an increase of 28,829 boe/d (9,474 boe/d net) over the same period of 2008. This growth in operated production came through increases in the Rubiales field production and development of other assets.

- During the second quarter of 2009 the Company drilled the Abanico 20, RUB-150, RUB-220 RUB-221, RUB-222 and RUB-224 appraisal wells, and the Mirla Negra 1 exploratory well, all with positive production results.

- 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 second quarter 2009 the Company handled an average of 28,795 bbl/d (a 244% increase from the average for the second quarter of 2008) through the new facility in Guaduas (PF2), generating revenues of $4.5 million.

- The construction of the Rubiales Pipeline "Oleoducto de los Llanos Orientales" ("ODL") has shown significant progress during the second quarter of 2009. The ODL project's progress reached 82% and a strategy was specially developed for early filling of the pipeline which will generate additional cash flow for the Company while allowing ODL to complete the project one month ahead of schedule.

- In the second quarter of 2009, revenues increased to $160.9 million from $158.6 million in the second quarter of 2008, primarily due to a substantial increase in production, despite the lower realized crude oil prices in the second quarter of 2009 when compared with the same period 2008.

- EBITDA during the six months of 2009 totalled $98.1 million while for the second quarter of 2009 EBITDA amounted to $48.3 million. EBITDA from international sales represented 71% of this amount, while EBITDA from gas and domestic sales contributed 19% and 10%, respectively.

- On May 5, 2009 the Company closed on initial commitments totalling $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 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. The Company has received the entire $180 million from this loan during the second quarter of 2009.

- Total cash capital expenditures during the first six months of 2009 totalled $149.0 million ($184.5 million in the cash flow which excludes the 40% taxable benefit in Colombia). The actual cash capital expenditures of the period were $71.4 million (net of the 40% taxable benefit in Colombia) of which $14.9 million went into exploration activities including seismic, aerogravimetry, aeromagnetometry and drilling ($8.4 million to geophysics and $6.5 million to drilling of wells); $31.6 million were invested in the expansion and construction of production infrastructure and $24.9 million in production drilling activities.

- Total capital expenditures during the first six months of 2009 totalled $149 million. The actual capital expenditures in the second quarter were $71.4 million, of which $14.9 million went into

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 the following financial terms that are not considered measures under Canadian GAAP: operating netback, net operating income from operations, funds flow from operations, and EBITDA.

Corporate Development Highlights

ODL Pipeline

The Company’s interest in ODL is 35% with the balance of 65% owned by Ecopetrol S.A. The budgeted cost of the project is estimated at $530 million.

As of June 30, 2009, the pipeline and pumping stations construction was 82% completed and total expenditures amounted to $357 million. Construction disbursements were $62.6 million during the first quarter of 2009, and $99.6 million during the second quarter of 2009. As of June 30, 2009 the current progress of the entire pipeline project, including the storage tanks and receiving station, was as follows:

Pipeline:	90% completed
Pumping Stations:	74% completed
Storage Tanks:	76% completed
Receiving Stations:	70% completed

As of the date of this MD&A hydrostatic testing of the pipeline is ongoing. Once mechanical completion of the pipeline is achieved, early filling of the pipeline will start directly from the Central Production Facility 1 (CPF-1). This will allow the Company to increment production, generating additional cash flow for the Company, while allowing ODL to complete the project one month ahead of schedule.

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

STAR Project

The Company concluded negotiations with Ecopetrol, which resulted in the signature of the binding MOU, on April 7, 2009, to pursue the evaluation of 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 MOU the Company successfully completed two laboratory combustion tests at the University of Calgary. Based on these results the Company will continue with further evaluation stages towards the implementation of a pilot project at the Rubiales field.

Exploration Results

Key milestones of the Company's exploration activity during the second quarter of 2009 are as follows:

- The Company completed the RUB-150, RUB-220 RUB-221, RUB-222 and RUB-224 appraisal wells in the Rubiales field. Those wells were completed as vertical producers, confirming the extension of the known accumulation of the Rubiales field to the southwest.
- The Company drilled the Abanico 20 appraisal well in the north-eastern section of the Abanico oilfield. This well extends the known accumulation of the field to the north.
- The Company acquired in the Tacacho Technical Evaluation Area 1,680 km of SFD lines, an emergent technology that allows the identification of anomalies and therefore structures favourable to hydrocarbon accumulation. In the Arauca Technical Evaluation Area, the Company acquired 2,170 Km^2 of high resolution remote sensing.
- The Company discovered oil in the Mirla Negra 1 exploratory well with light oil production of 130 bbl/d.
- On July 27, 2009 the Company announced the discovery of oil at its exploratory I-9 ST-2 well, drilled on Prospect "I" at the Quifa Block, located in the Llanos Basin of Colombia. The Company is presently planning to test the well and complete it as a producer. Based on these results, the Company plans to drill approximately 4 exploratory wells in the Quifa area during the second half of 2009.

Reserve Reports

The total proved and probable oil-equivalent reserves of the Company as of June 30, 2009, discounting the production from December 31, 2008, is 241,322 Mbl gross (before royalties) or 203,624 Mbl net to the Company. Oil equivalent is expressed in thousands of barrels (Mbl). Gas volumes are expressed in billion cubic feet (Bcf) and when expressed in oil equivalent were converted using 6000 cubic feet of gas equivalent to one (1) barrel. The reserve report was prepared following all industry standard procedures and in conformity to the COGE guidelines.

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%
	Priri	259	50%	Ecopetrol	Rubiales	Production	20%
	Quifa	226	60%	Ecopetrol	Rubiales	Exploration	6%
	CPO1	153	100%	ANH	PRE award	Exploration	8% - OIL 6.4% - GAS (1)
	CPO12	283	40%	ANH	PRE award	Exploration	8% - OIL 6.4% - GAS (1)
	CPO14	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	Stratua	Exp/Pro	8%
	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	726	80%	ANH	Stratus	Exploration	8% - OIL 6.4% - GAS (1)
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 Magdalena	Guama	216	100%	ANH	Stratus	Exploration	8% - OIL 6.4% - GAS (1)
	La Creciente	68	100%	ANH	Stratus	Exp/Pro	6.40%
	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 Magdalena	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 Magdalena	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 the second half of 2009 includes four exploratory and two appraisal wells. The campaign also includes the acquisition of 636 km of 2D, 162 km^2 of 3D seismic, the reprocessing of 17,265 km of 2D seismic and the airborne acquisition of 12,664 km^2 of gravimetric and hyperspectral data. The total investment for the Company in exploration for the second half of 2009 will be $35.3 million. The exploration emphasis is on the Quifa block where the Company has two exploratory and two appraisal wells. The rest of the four exploratory wells are located in the Guama and Cicuco blocks.

Exploratory Wells

The exploration campaign for the second quarter of 2009 is on schedule. So far, the Company has drilled the Mirla Negra exploratory well in the Arrendajo block, drilled the exploratory well Abanico-20 in the Abanico oilfield and drilled five appraisal

wells, RUB-150, RUB-220, RUB-221,RUB-222 and RUB-224 in the Rubiales field and is preparing the locations for exploratory wells at the Guama and Quifa blocks (4 wells).

The Abanico-20 well was drilled in the northeastern section of the Abanico oilfiled, located in the Magdalena Upper Valley Basin, the well found the Lower Guadalupe Member at 2,986 feet measured depth ("MD"), or 1,809 feet true vertical depth at sub-sea level ("TVDSS"). The petrophisycal evaluation shows a net-oil pay of 113 feet in these sandstones, with an average porosity of 22.6%. A total of 46 feet were perforated in the interval 2990-3030 feet MD, resulting in an initial, and natural flow oil production of 901 barrels per day of 22.5° API oil with a 4.7% water cut. Pacific Rubiales has a 50% working interest in this area of the Abanico Block.

The petrophysical evaluation of the wells RUB-150, RUB-220, RUB-221, RUB-222 and RUB-224 indicates a net pay zone of 23, 38, 20, 33 and 22 feet respectively, with porosities in the range of 30; those wells were completed as vertical producers. The positive results of those wells in conjunction with the results of the wells RUB-51 and RUB-52, drilled during 2008 in the same area, enables the Company to request the declaration of commercial potential of this portion of the block. This would allow for the extension of the existing Rubiales field towards the Quifa Block.

The Mirla Negra 1 well was drilled to a total depth of 6,237 feet 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 TVDSS. 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 out 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, Kappa Energy Resources. To date, the Company has not received the certified reserves added from this discovery.

Exploration Indices

For the second quarter of 2009, the Company incurred $8.4 million in exploration expenditures which comprises the acquisition of the SFD in the Tacacho Technical Evaluation Area, and acquisition of high resolution remote sensing in the Arauca Technical Evaluation Area.

The Company incurred $6.5 million in appraisal drilling activities, including the Abanico-20 well in the Abanico block and the five appraisal wells RUB-150, RUB-220, RUB-221, RUB-222 and RUB-224 in the Rubiales oilfield. As well, the successful drilling of the Mirla Negra 1 well was the only exploratory well drilled to date, meaning the exploration success ratio achieved by the Company for the second quarter of 2009 is 100%.

Exploration Focus on Quifa-Rubiales Blocks

On July 2, 2009 the Company spudded the Quifa I-9 well in the Quifa Block. This exploratory well is located on Prospect "I", which the Company believes to be the geological extension of the Rubiales reservoir toward the southwest. Prospect "I" is the third prospect to be drilled on the Quifa Block, after the successful results obtained on prospects "D" and "E", drilled during 2008. 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 "I", "A" and "H" 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 "A" and the appraisal well on prospect "D" and "E" in the third 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 $2.4 billion as at June 30, 2009 compared to $2.3 billion as at December 31, 2008. The $2.4 billion in assets primarily consisted of $1.96 billion in oil and gas properties and equipment (December 31, 2008 - $1.90 billion), $138.5 million in cash and cash equivalents (December 31, 2008 - $90.4 million), $123.1 million in accounts receivable (December 31, 2008 - $70.5 million), $103.9 million in investment, primarily in the ODL (December 31, 2008 - $120.8 million), and $121.4 million in other assets (December 31, 2008 - $109.9 million).

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

The debentures have been classified into their debt and equity components. The fair value of the equity component was valued using the Black-Scholes option pricing model assuming a risk free rate of 3.65%, no dividends paid, expected life of 5 years and an expected volatility of 50% with the residual of the cash received allocated to the debt component. As a result, on

the issuance of the debentures, $149.7 million (net of $8.5 million issuance costs) was classified as the debt component and $66.1 million (net of $3.8 million issuance costs) was classified as the equity component. The debt component will accrete up to the principal balance over the term of the debenture using the effective interest method. The accretion and interest paid are expensed as interest expense yielding an effective annual rate of 18%.

Convertible debenture - debt component		Amount
Gross proceeds due on maturity (C$240 million)	$	228,159
Costs		(12,316)
	$	215,843
Fair value of equity component (net of $3,773 issuance costs)		66,130
Value attributed to liability component on issuance (net of $8,543 issuance costs)		149,713
Non-cash interest		3,954
Foreign exchange gain upon conversion to US$		(21,666)
Balance as at December 31, 2008	$	132,001
Non-cash interest		2,105
Foreign exchange gain upon conversion to US$		(4,853)
Balance as at March 31, 2009	$	129,253
Non-cash interest		2,571
Foreign exchange gain upon conversion to US$		11,648
Balance as at June 30, 2009	**$**	**143,472**

At June 30, 2009, the Company has a syndicated $250 million extendible revolving credit facility with a stated term date of June 30, 2013. The facility is available on a revolving basis for a period of 22 months. On May 5, 2011, the facility will be available on a non-revolving basis for a 26 month term with principal and interest payable on a quarterly basis. At June 30, 2009, $180 million was drawn under this credit facility. Under the terms of the revolving credit facility, the Company is required to maintain (1) a debt to annual EBITDA ratio of less than 3.5; (2) a guaranteed debt to annual EBITDA ratio of less than 2.5; (3) current ratio of greater than 1.0; (4) a reserve tail ratio, which is defined as net present value of proved reserve divided by total debt, of less than 1.4; and (5) to maintain at least $5 million in cash or banking commitments. The Company was fully compliant with these financial covenants as of June 30, 2009. The revolving credit facility is secured by a first floating charge over the Company's reserve base and its assets.

In addition to the revolving credit facility, at June 30, 2009, the Company also has a non-revolving bilateral credit facility for up to $18.7 million. Subject to the bank's right to demand payment, the repayment terms are monthly repayment of principal and interest maturing on April 23, 2010. At June 30, 2009, $4.3 million (December 31, 2008 - $6.6 million) was drawn under this credit facility. Under the terms of the non-revolving bilateral credit facility, the Company is required to maintain a debt to cash flow ratio of less than 3.5. The Company was fully compliant with this financial covenant at June 30, 2009. The non-revolving bilateral credit facility is unsecured.

In the six months ended June 30, 2009, the Company issued six promissory notes payable carried at $2.0 million, $4.2 million, $9.7 million, $3.1 million, $4.2 million and $7.0 million. The notes are due on July 3, 2009, August 28, 2009, September 10, 2009, November 3, 2009 and December 24, 2009, respectively. The notes bear interest payable semi-annually until maturity.

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

Average Daily Oil and Gas Production – Net Volumes

Producing Fields	2Q-2009 boe/d	2Q-2008 boe/d
Rubiales / Piriri	21,207	11,493
Quifa	0	0
La Creciente	5,063	6,019
Puli	30	39
Dindal / Rio Seco	621	626
Moriche	87	129
Quinchas	24	0
Abanico	786	0
Buganviles	20	0
Rio Ceibas	423	554
Chipalo	5	0
Cerrito	68	0
Total	**28,334**	**18,860**

Production for the second quarter of 2009 average 71,533 boe/d (28,334 boe/d net) for an increase of 28,829 boe/d (9,474 boe/d net) over the previous period of 2008. This growth in operated production came about through the increase in production at Rubiales, offset by a reduction in other fields during this period, attributable to the following:

- The successful execution of the drilling program of a total of 50 producing wells in 2009: 23 wells as of March 2009 and another 27 producing wells drilled during the second quarter of 2009 (34 horizontal and 16 vertical wells),
- The construction of new storage (reaching a total of 312,000 bbl/d), 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. An average of 15,134 bbl/d was piped to Coveñas for export, and the remaining 6,173 bbl/d were trucked for local industry consumption.

During the second quarter 2009 the Company averaged a daily delivery 31 mmscfd from La Creciente natural gas field; production has been limited by delivery constraints and by the execution of scheduled maintenance and testing activities agreed to by the transporter and the buyer. The Company continues with the implementation of its plan to install temporary compression capacity that will allow delivery of an estimated 80 mmscfd by year-end while the installation of definite compression equipment is completed.

Overall the Company´s production continued to increase subsequent to June 30, 2009, averaging gross production of 74,981 boe/d (31,500 boe/d net) during July 2009.

Health, Security, Environmental and Quality - HSEQ

During the second quarter of 2009 the Company's subsidiaries operating in Colombia continued improving their HSEQ standards. The Company's lost time injuries frequency ("LTIF") continue decreasing from 3.75 for 3,203,615 men hours worked to 0.88 for 5,655,315 men hours worked in comparison to the second quarter 2008, a 76% decrease in the LTIF. The Company is well on target to achieve its stated goal of a 20% reduction proposed for 2009.

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 ready to certify this management system. These management systems are well developed and the Company devotes significant time and resources to achieve good E&S performance; Meta Petroleum will undergo its first certification audit in August.

The environmental licenses and the associated environmental management plans are fully completed. The Company has 100% of the licenses required to operate. The license process for the new exploration blocks is on line with the seismic program, ready to obtain the environmental and community permits.

During the second quarter of 2009 efforts continued to cover all the employees with the Company health programs, such as ergonomics, noise control, cardiovascular care, chemical and respiratory protection, and implementing direct actions to prevent any illness in the work force.

Crude and Gas Prices

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

	Q2 2009 ($/bbl)	Q2 2008 ($/bbl)	API
Domestic Market	46.31	64.48	12.5
WTI Nymex (Weighted Average Cargoes PRE)	60.32	133.88	38
Vasconia (Weighted Average PRE)	55.10	117.04	24
Rubiales Blend	52.91	110.17	18.5
PRE Natural Gas Sales ($/mcf)	4.24	4.37	
Average Natural Gas Reference Price ($/mcf)	3.32	4.87	
Henry Hub Natural Gas ($/mcf)	3.71	13.27	

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 with a slight recovery during the second quarter of 2009. The combined realized oil and gas sales price for the Company for the second quarter of 2009 was $45.05 per boe (second quarter 2008 – $85.93 per boe) representing a reduction of 48% in comparison to the same prior period of 2008. The following is a summary of the Company's crude oil and gas commercial activity during the second quarter of 2009:

- The Company exported five Vasconia crude oil cargoes totalling 2.25 million bbl to US refineries at approximately $5.2/bbl less than WTI, compared to 1.14 million bbl during the second quarter of 2008, at approximately $10 less than WTI; the WTI used for the second quarter of 2009 in the sales report is the weighted average WTI for export sales, while the WTI for the second quarter of 2008 is the average WTI for the quarter.

- The Company maintains commercial flexibility by selling part of its production in the domestic markets, depending on netbacks. The domestic market netback during the second quarter of 2009 was $23.63 bbl, for an average volume of 5,302 bbl/d.

- During the second quarter of 2009, an average of 31 mmscf/d of natural gas from La Creciente and Cerrito fields was sold at an average price of $4.24/mscf, representing a premium of 28% over the domestic regulated price ($3.32/mscf) and 14% higher than the Henry Hub natural gas prices in the United States Gulf Coast.

The Company has entered into the following risk management contracts that are outstanding at June 30, 2009:

Country	Bank	Type of Instrm.	Term	Volume	Price (USD$/bbl)	Benchmark	Fair value
Colombia	BNP	Zero Cost Collar	July 1 - Dec 31, 2009	3,012,000	45 floor /$70 ceiling	WTI	$ (19,037)
Colombia	Calyon	Zero Cost Collar	July 1 - Dec 31, 2009	900,000	45 floor /$92 ceiling	WTI	$ (625)
			Total				$ (19,662)

Country	Bank	Type of Instrm.	Term	Volume	Price (USD$/bbl)	Benchmark	Fair value
Colombia	BNP	Calls	Jan 1, 2010 - Feb 28, 2010	300,000	$65.25 strike price	WTI	$ (3,921)
Colombia	BNP	Calls	Mar 1, 2010 - Apr 30, 2010	300,000	$76.1 strike price	WTI	$ (2,357)
			Total				$ (6,278)

Country	Bank	Type of Instrm.	Term	Volume	Price (USD$/bbl)	Premium	Fair value
Colombia	BNP	Deferred Premium puts	Jan 1, 2010 - June 30, 2010	900,000	$40 strike price	$1.95/bbl	$ (347)
Colombia	BNP	Deferred Premium puts	July 1, 2010 - Dec 31, 2010	600,000	$40 strike price	$2.45/bbl	$ (878)
Colombia	Calyon	Deferred Premium puts	Jan 1, 2010 - June 30, 2010	900,000	$40 strike price	$1.28/bbl	$ (509)
Colombia	Citibank	Deferred Premium puts	Jan 1, 2010 - June 30, 2010	900,000	$40 strike price	$1.41/bbl	$ (744)
Colombia	BNP	Deferred Premium puts	Jan 1, 2011 - July 31, 2011	700,000	$40 strike price	$2.45/bbl	$ (838)
			Total				$ (3,315)
			Total				**$ (29,255)**

In order to comply with the credit agreement signed on May 5, 2009 with BNP, the Company contracted hedging operations to cover the risk associated with oil prices for an agreed volume of 10,000 bbl/d from July 2009 to June 2010 and 6,500 barrels per day from July 2010 to June 2011; provided that such Crude Oil Hedging Agreement shall be limited to 80% of the reasonably anticipated projected production of crude oil from proved reserves. The hedge facilities are in the format of the so-called “Zero Cost Collar”, establishing a price band for the West Texas Intermediate (WTI) Light Sweet Crude oil, and the use of deferred premium put options which provide the right to sell crude oil at a minimum floor price. Payment of the premium is deferred and paid when the contracts are settled monthly.

The realized gain and loss on the risk management contracts settlements for the six month period ended June 30, 2009, resulted in a $64,000 realized loss and a $436,000 realized gain in two separate contracts, which were included in the financial results. The unrealized loss on risk management contracts represents the change in the fair value of the contracts outstanding as at June 30, 2009. The fair value of these contracts is calculated based on the expected future settlements which as of June 30, 2009 represented an unrealized loss of $29.3 million. Of this amount $28.2 million impacted the results for the period and was recognized as an unrealized loss according to Canadian GAAP.

If the forward WTI crude oil price estimated at June 30, 2009 had been $1/bbl higher or lower, the unrealized loss on these contracts would change by approximately $7.9 million and would be reflected in the statement of operations of the Company.

Financial Summary

(in thousands of US$ except per share amounts or as noted)	Three months ended June 30, 2009	2008
Net sales	160,994	158,567
Operating costs	(79,238)	(60,902)
Depletion, depreciation and amort.	(43,231)	(22,902)
Net Operating Income from Operations	38,525	74,763
General & administrative expenses	(14,021)	(11,049)
Other non-cash[1] items and taxes	(143,044)	(21,586)
Net Income (Loss) for the period	(118,540)	42,128
Interest expense and others	8,355	168
Income tax expense	1,802	32,535
Depletion, depreciation and amort.	43,231	22,902
Non cash unrealized loss on risk management contract	28,227	-
Foreign exchange (gain) loss	85,235	(10,532)
EBITDA	48,310	87,201
Net Income per share - basic and diluted[2]		
- basic	(0.56)	0.21
- diluted	(0.56)	0.19
Capital expenditures (include $12.2 million of advances paid to suppliers)	(83,640)	(64,877)
Total assets	2,448,927	1,882,494
Fund flow from operations [3]	38,934	62,145

(1) Other non-cash items include:
- *a) The provision for an unrealized foreign exchange conversion loss of $85.2 million due to the revaluation of the Colombian peso and the Canadian dollar against the US$ during the period;*
- *b) A provision to account for the overlift of 455,000 barrels of oil and gas of $19.4 million which will be settled when the volumes are balanced by an appropriate underlift;*
- *c) A non-cash unrealized loss originated from the fair value calculation of the risk management contracts of $28.2 million at June 30, 2009; and*
- *d) Others: interest expense/income of $8.4 million, income tax of $1.8 million*

(2) The weighted average number of common shares outstanding for the three months and six months ended June 30, 2009 was 211,964,610 and 211,286,198, respectively, to calculate basic loss per share (203,536,198 and 190,672,316 for the same respective periods in 2008). Diluted shares totaled 233,325,757.

(3) Calculated based on cash flow from operations before changes in non-cash operating working capital.

Revenues

	Q2		Year to Date	
	2009	2008	2009	2008
Net sales	$ 160,994	$ 158,567	$ 270,994	$ 253,494
$ per boe	45.05	85.93	40.69	79.14

Although there was a strong reduction in combined realized prices during the first six months of 2009 of almost 50% in comparison to the same period in 2008, net sales continued to grow mainly due to the increase in the Rubiales field's production.

Net sales in the second quarter of 2009 totalled $160.9 million, which were higher by $2.3 million in comparison to the prior period. Despite the significant reduction in price of $40.9 per barrel (48%) during the second quarter of 2009, net sales continued to grow due to the increases in production at all operated fields from 18,860 boe net in the second quarter of 2008 to 28,334 boe net in 2009, or a 50% increase period over period. Revenues include income from overlift volumes of 455,000 boe totalling $19.4 million

Operating Costs

	Q2		Year to Date	
	2009	2008	2009	2008
Operating costs	$ 79,238	$ 60,902	$ 127,043	$ 108,091
Overlift (Underlift)	$ 19,425	($585)	$ 18,780	$872
$ per boe	22.18	33.00	19.08	33.74
$ per boe Over/Underlift	5.44	(0.32)	2.82	0.27

Operating costs for the six months of 2009 were $127.0 million (2008 - $108.1 million); the increase over the previous year is primarily due to increase in oil production at the Rubiales field of 84%. However, production cost per boe was reduced to $19.08, or 32% lower than the same period in 2008. .

Second quarter 2009 operating costs were $79.2 million (2008 – $60.9 million), which resulted in lower operating costs of $22.18 per boe (2008 – $33 per boe). Operating cost of $22.18 per boe breaks down to lifting cost of $2.70, dilution cost of $5.57, transportation cost of $9.83 and others $4.08. The reduction of $10.83 per boe in comparison to the same period of 2008 is mainly due to:

a) The percentage of diluents needed to dilute and transport the Rubiales crude oil during the six months of 2008 to upgrade the Rubiales crude oil from 12.5° to 18.5° API was 18.5%, using high priced naphtha, while in the same period of 2009 this percentage was reduced to 15.35% due to the use of light crude oil from other oil producers. 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.

b) Due to the sharp decline in international oil prices in 2009, 38.2% of the Rubiales oil was sold in the Colombian market as fuel oil and intermediate fuel oil and therefore it did not require diluents for upgrading. During the same period of 2008, the portion of domestic sales was almost nil, as international oil prices were much higher than the local prices and therefore there was no incentive to market the crude oil locally.

c) The cost of diluents was significantly reduced by 51.4% due to the overall drop of WTI prices in 2009.

d) The increased level of production at the Rubiales field generated a higher volume of chemicals and equipment required for the treatment of water produced along with the crude oil; however the unit price per barrel was reduced because of the increased production.

e) Operations were optimized using existing third party facilities in Barranquilla and Cartagena, for exporting 50,000 bbl of crude oil to the bunkering market during the second quarter of 2009, resulting in a reduction of operating costs and an improvement in the netbacks for the Company.

Overlift or underlift corresponds to any resulting short term imbalance between cumulative production entitlement and cumulative sales attributable to each participant at the reporting date. Lifting or offtake arrangements for oil and gas produced in jointly owned operations are frequently such that it is not practicable for each participant to receive or sell its precise share of the overall production during the period. Overlift represents an obligation to transfer future economic benefit (by foregoing

the right to receive equivalent future production), and therefore constitutes a liability. Underlift represents a right to future economic benefit (through entitlement to receive equivalent future production) which constitutes an account receivable.

As of June 30, 2009 the total balance of overlift totalled $19.4 million corresponding to 455,000 barrels of oil and gas, which are part of the revenue for the period and were valued at the realized price and recorded as a liability and an increase in the operating costs of June 2009 by the same amount. This overlift and its financial impact will be reversed once the volume is being settled.

Depletion, Depreciation and Amortization

	Q2		Year to Date	
	2009	2008	2009	2008
Depletion, depreciation and amortization	$ 43,231	$ 22,902	$ 86,534	$ 41,799
$ per boe	12.10	12.41	$ 12.99	$ 13.05

For the first six months of 2009 the Company used the historical reserve reports issued as of December 31, 2008 in calculating depletion and amortization. The 2009 depletion charge of $86.5 million is calculated on $3.2 billion of oil and gas property costs subject to depletion of which $643 million is attributed to the proved portion of oil and gas properties acquired with the Pacific Stratus Acquisition and $98 million in the Kappa Acquisition. Included in the costs subject to depletion is $1.2 million of future development costs that are estimated to bring proved undeveloped reserves to development.

For the second quarter of 2009 the depletion, depreciation and amortization charge totalled $43.2 million, which was higher by $20.3 million over the same period in 2008, primarily due to the increase in the depletion, depreciation and amortization base as a result of future capital investments made in 2009 for the drilling campaign at the Rubiales field, as well as the utilization of the proved reserves to calculate the amortization rate due to the production increase during this period.

General and Administrative

	Q2		Year to Date	
	2009	2008	2009	2008
General and administrative costs	$ 14,021	$ 11,049	$ 27,064	$ 17,914
$ per boe	3.92	5.99	$ 4.06	$ 5.59

General and administrative expenses for the first six months of 2009 were $27.1 million (2008 - $17.9 million), primarily due to professional fees and additional personnel needed as a result of the expanding operations at the Rubiales field in 2009 to increase oil production. Despite the increase in general and administrative expenses in 2009, general and administrative expenses on a per boe basis reflected a 27% reduction to $4.06 due to the increase in production at the Rubiales field and at La Creciente.

The second quarter 2009 administrative expenses were $14.0 million (2008 – $11.0 million), and, as mentioned above, the increase is due to the greater resources required to support the increased operations, compared to the previous year. General and administrative expenses on a per boe basis were $3.92, lower by 35% over the same period in the previous year. This reduction is also due to an ongoing optimization of administrative costs at all of the operating Colombian companies.

Stock-Based Compensation Costs

	Q2		Year to Date	
	2009	2008	2009	2008
Stock-based compensation costs	$ 247	$ 292	$ 311	$ 31,614
$ per boe	0.07	0.16	0.05	9.87

For the six months ended June 30, 2009, stock-based compensation decreased to $0.3 million from $31.6 million for the same period in the previous year. The decrease is due to fewer stock options granted in 2009 of 100,000 compared to 10,212,081 in 2008. The options granted in 2008 and 2009 all vested immediately upon grant.

For the three months ended June 30, 2009 stock-based compensation decreased to $0.2 million from $0.3 million for the same period in the previous year. The decrease is primarily the result of the complete vesting of all options in 2009 and therefore no amortization of stock compensation costs compared to the 2008 amortization in accordance with the vesting periods of stock options in 2008.

All stock options outstanding as at June 30, 2009 are completely vested and exercisable.

Foreign Exchange

	Q2		Year to Date	
	2009	2008	2009	2008
Foreign exchange loss (gain)	85,235	(10,532)	24,303	31,559
$ per boe	23.85	(5.71)	3.65	9.85

Since the Company's functional reporting currency is the US dollar, but the monetary accounts are recorded in Colombian Pesos and Canadian dollars, as the case may be, foreign exchange gains or losses are generated in the US dollar financial statement reporting.

For the six months ended June 30, 2009, the weakening of the Colombian Peso and the Canadian dollar against the US dollar in the first quarter was more than offset by the strengthening of both currencies during the second quarter.

This revaluation trend has resulted in a loss during this period of $85.2 million (2008 – gain of $10.5 million). The second quarter foreign exchange loss of $85.2 million included $84.2 million in non-cash unrealized losses which primarily consisted of the following:

a) Non-cash Colombian Peso denominated future income tax liabilities resulted in a $65.9 million loss upon the conversion to US dollars for financial reporting purposes. The future income tax liability relates to the business acquisitions which generate temporary taxable differences (future income tax liability) when the fair value of the carrying amount is compared with the tax value of the asset.
b) The convertible debenture of $143.5 million, which is registered as Canadian dollars, resulted in a foreign exchange loss of $11.7million.
c) The conversion of Colombian Peso denominated debt resulted in $6.6 million unrealized loss.

Interest Expense

	Q2		Year to Date	
	2009	2008	2009	2008
Interest expense	$ 8,063	$ 1,551	$ 14,801	$ 2,400
$ per boe	2.26	0.84	$ 2.22	$ 0.75

Interest expense includes interest paid on bank loans and convertible debentures and fees on letters of credit. For the first six months of 2009, interest expense totaled $14.8 million (2008 - $2.4 million). The increase is attributable to the $224.9 million (C$240 million) convertible debenture completed in August 2008 bearing interest at 8% and to $180 million drawn on the Company credit facility. The interest related to the convertible debenture includes the cash portion of $3.8 million as well as a non-cash portion of $2.6 million, yielding an effective annual rate of 18%.

Interest expense in the second quarter of 2009 increased $6.5 million over the same period in the previous year, primarily due to cash and non-cash interest on the convertible debenture and the $180 million drawn on its credit facility during the quarter.

Income Tax Expense

	Q2		Year to Date	
	2009	2008	2009	2008
Current income tax	2,759	27,112	6,927	29,144
Future income tax	(957)	5,423	(1,382)	7,337
Total	1,802	32,535	5,545	36,481

During the first six months of 2009 the income tax provision totaled $5.5 million and the reduction from the same period of 2008 was attributable to tax loss carry forwards generated in 2009 and the implementation of fiscal planning.

The income tax provision for the second quarter of 2009 totaled $1.8 million which was significantly lower from the same period of 2008, mainly due to the 40% super deduction resulting in a lower effective tax rate as this special deduction reduces the cost of the eligible property acquired and the future income tax asset is recognized. The future income tax expense is recognized upon the deduction of this special 40% deduction when calculating current income tax expense for the period. The effect is to recognize the special 40% deduction through a reduction in the cost of oil and properties and hence a reduction in depreciation and depletion over the life of the asset compared to a direct recognition of the income tax benefit in the year the eligible expenditure was made.

Net Income

	Q2		Year to Date	
	2009	2008	2009	2008
Net income	(118,540)	42,128	(65,904)	(14,181)
$ per boe	(33.17)	22.83	(9.90)	(4.43)

Net cumulative loss for the six months ended June 30, 2009 totaled $65.9 million. The increase in loss is primarily due to non-cash unrealized foreign exchange losses of $24.3 million due to the strengthening of the Canadian dollar and the Colombian Peso during this period, as explained above, an unrealized change in the fair value of risk management contracts of $22.7 million, and the lower realized sales prices in comparison to the prior period (almost 50%). The net income was also impacted by an increase in operating costs and depletion, depreciation and amortization of $18.9 million and $44.7 million, respectively, primarily due to the increased production.

During the second quarter of 2009, the net loss was $118.5 million (second quarter 2008 – gain of $42.1 million). This net loss in the period arose mainly from the revaluation of the Canadian dollar and the Colombian Peso, which generated non-cash

realized and unrealized foreign exchange loss of $85.2 million during this period and a non-cash change in the fair value of risk management contracts of $28.2 million.

Funds Flows from Operations

	Q2		Year to Date	
	2009	2008	2009	2008
Funds flow from operations	$ 38,934	$ 62,145	$ 70,482	$ 100,141
$ per share, diluted	0.17	0.28	0.30	0.53

Despite the significant reduction in the prices realized upon the sale of oil during the first six months of 2009 (a 48% reduction), the Company continued to generate positive cash flow from operations. The funds flow from operations during the six months of 2009 totaled $70.5 million.

Funds flow from operations for the second quarter of 2009 was reduced by $23.2 million over the same period of 2008. This reduction is primarily attributable to a reduction in net back of $35.81 per boe, from $53.24 per boe in the second quarter of 2008 to $17.43 per boe in the same period of 2009. The decrease in net back is due to a decrease in realized prices from $85.93 boe to $45.05 boe. This reduction in the net back was offset by the increase in oil production (almost 50%) at the Rubiales field.

The following table shows the reconciliation of funds flow from operations to cash flow from operating activities for the second quarter 2009 as compared with the second quarter of 2008:

	2009	2008	2009	2008
Funds flow from operating activities	21,093	42,991	43,213	42,497
Changes in non-cash working capital	(17,841)	(19,154)	(27,269)	(57,644)
Funds flow from operations (non-GAAP)	$ 38,934	$ 62,145	$ 70,482	$ 100,141

Capital Expenditures

Total cash capital expenditures during the first six months of 2009 totalled $149.0 million ($184.5 million in the cash flow which excludes the 40% taxable benefit in Colombia). The actual cash capital expenditures of the period were $71.4 million (net of the 40% taxable benefit in Colombia) of which $14.9 million went into exploration activities including social and environmental studies, seismic acquisition and processing airborne geophysics, and drilling ($8.4 million to seismic and $6.5 million to drilling of wells); $31.6 million were invested in the expansion and construction of infrastructure and $24.9 million in production drilling activities.

Of the $71.4 million cash capital expenditures during the second quarter of 2009, $17.8 million corresponds to the net capital expenditures capitalized in the second quarter of 2009 and pending payment as of June 30, 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 second quarter of 2009.

The Company has a substantial plan of development to bring the current gross capacity of the Rubiales field of 59,395 gross bbl/d (net 21,207 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

Funds used by operating activities during the second quarter of 2009 were $21.0 million (2008 - $42.9 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 June 30, 2009, the Company held debt denominated in Colombian Pesos and US dollars for a total amount of $214.9 million (December 31, 2008 - $29.8 million). Of the total debt position of $214.9 million, $180.0 million was incurred during the second quarter of 2009.

During the third quarter of 2008, the Company issued convertible debt resulting in net proceeds after costs of $216 million. The debt is repayable August 29, 2013 and bears interest at 8%, which is payable semi-annually in June and December. The proceeds were used for the Kappa Acquisition and for general working capital purposes.

As of June 30, 2009 the Company had a working capital of $60.2 million primarily due to cash and cash equivalents $138.5 million, $123 million of account receivables and $169.6 million of accounts payable and accrued liabilities on services rendered by contractors and suppliers as of the end of June 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), existing working capital and incurring new debt.

On April 3, 2009, the Company obtained a $50.0 million one-year term loan bearing interest at 550 basis points 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 $180.0 million under a previously announced senior secured revolving credit facility of up to $250.0 million. The facility consists of $50.0 million commitments from each of BNP Paribas, Calyon and Banco Davivienda S.A. and $30.0 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 and Piriri fields up to 100,000 bbl/d 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.

In February 2009, the Colombian branch of ODL, received credit approval for a $200.0 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 June 30, 2009, these funds have been fully drawn.

The Company's investment program calls for an expenditure of $379 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 113,000 bbl/d and the construction of a second facility (CPF2) with an additional capacity of 50,000 bbl/d. A redesigned CPF2, with a capacity up to 50,000 bbl/d, will be operational in the third quarter of 2010. This re-engineering will synchronize the development of the production and pumping facilities with the original production profile for the field.

In parallel with the reshaping of the capital expenditure profile, Phase I of the construction of the ODL pipeline, that connects 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 for 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 100,000 bbl/d by the end of 2009. Phase II of the ODL pipeline construction will see the pipeline reaching a capacity, without additional boosters, of 170,000 bbl/d by the first quarter of 2010.

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 bopd 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 its resource base.

On the exploration side, the Company has re-examined its commitments, and will concentrate its activity during 2009 in Quifa and in those blocks for which it has immediate contractual obligations with the ANH to explore. 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.

Selected Quarterly Information

	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
(In thousands of US$ except per share amounts or as noted)	**2009**	**2009**	**2008**	**2008**	**2008**	**2008**	**2007**	**2007**
Financials:								
Net sales	160,994	110,000	123,216	202,354	158,567	94,927	53,897	26,519
Net income (loss) for the period	(118,540)	66,536	12,971	77,908	42,128	(56,309)	13,599	630
Capital expenditures (include amounts of accounts payable or advances related with Capex)	83,640	100,823	123,652	66,311	64,877	25,998	21,088	6,204
Funds flow from operations (1)	38,934	43,966	40,810	117,032	62,145	37,995	30,529	12,433
Earnings (loss) per share (2)								
- basic	$ (0.56)	$ 0.32	$ 0.06	$ 0.37	$ 0.21	$ (0.32)	$ 0.12	$ 0.01
- diluted	$ (0.56)	$ 0.31	$ 0.06	$ 0.35	$ 0.19	$ (0.32)	$ 0.11	$ 0.01
Operations:								
Operating netback ($/boe) (3)								
Crude oil and natural gas sales price	45.05	35.65	43.23	91.11	85.93	69.90	68.78	39.76
Lifting cost	2.70	2.23	3.92	4.21	4.09	3.55	4.63	4.11
Transportation	9.83	6.90	7.12	8.77	8.93	15.17	12.44	15.25
Upgrading cost (Diluent including transportation)	5.57	5.91	8.55	14.88	15.47	12.64	-	-
Other production cost	9.52	0.24	9.70	5.05	4.20	4.46	6.07	3.11
Operating netback	17.43	20.37	13.94	58.20	53.24	34.08	45.64	17.29
Average daily crude oil sold (Bbl/day)	34,428	25,755	24,549	19,045	14,901	10,658	8,517	7,250
Average daily natural gas sold (Boe/day) (4)	5,283	8,528	6,770	5,363	5,603	4,431	-	-
Average daily oil and gas sold (Boe/day)	39,711	34,283	31,319	24,408	20,504	15,089	8,517	7,250

Figures for the first quarter of 2008 include 100% of Pacific Stratus' operations and net income from January 23, 2008 to June 30, 2008.

(1) Calculated based on cash flow from operations before changes in non-cash operating working capital.
(2) Combined operating netback data is based on weighted average daily production sold.
(3) 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.
(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.

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 benefit is greater than the cost, the application of CICA 3465 effectively reduces the cost of the eligible property acquired and the future income tax asset is recognized. The future income tax expense is recognized upon the deduction of this special

40% deduction when calculating current income tax expense for the period. The effect is to recognize the special 40% deduction through a reduction in the cost of oil and properties and hence a reduction in depreciation and depletion over the life of the asset compared to 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		Q2
	Prev	Rest	Prev	Rest	Prev
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	(918)
Net Income per share - Basic	0.16	0.12	0.00	0.01	(0.06)
Net Income per share - Diluted	0.14	0.10	0.00	0.01	(0.06)

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

The following discussion highlights some of the significant factors that impacted on the results in the eight most recently completed quarters ended June 30 2009:

During the second quarter of 2009, net sales totalled $160.9 million, which were higher by $50.9 million over the previous quarter, due to the increase in both; the combined realized price of $9.4 per barrel (a 26% increase) as well as the volume of sales from 34,283 boe/d in the first quarter of 2009 to 39,711 boe/d in the second quarter, a 16% increase. Additionally, the operating costs in the second quarter of 2009 totaled $27.62 per barrel which was negatively affected by the overlift position of 455,000 boe as of June 30, 2009 amounting to $19.4 million, or $5.44 per barrel.

During the first quarter of 2009, net sales were reduced by $13.2 million to $110.0 million over the previous quarter due to a reduction in realized oil and gas prices. Even though the production sold during this quarter was increased by 9% to 3.1 million bbl, the average realized price was 18% lower at $35.65 per bbl in the first quarter of 2009 in comparison to $43.23 per bbl in the fourth quarter of 2008.

Revenue in the fourth quarter of 2008 fell by $79.1 million to $123.2 million in comparison to the previous quarter in 2008, primarily due to significantly lower international oil and gas prices realized, in part compensated by higher crude oil production from the Rubiales field. Combined average oil and gas selling prices fell by by $47.88/boe over the fourth quarter to $43.23/boe (53%) when compared to the prior quarter, due to the strong reduction in oil prices. The average daily volume at oil and gas sold in the fourth quarter increased to 31,319 boe/d from 24,408 boe/d in 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 the reduction in realized prices in the fourth quarter over the third quarter and higher production costs, as detailed in the Operating Costs section.

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 $31.0 million and a decrease in foreign exchange loss of $52.6 million.

During the first quarter of 2008, net sales increased by $41.0 million to $94.9 million over the previous quarter due to higher production, increasing oil and gas prices, higher crude oil volume, sold in the international market due to the Company's new commercial scheme, and revenue from Pacific Stratus properties subsequent to its 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 $41.0 million and partially offset by interest income and future income tax recovery.

During the fourth quarter of 2007, sales increased by $27.4 million over the previous quarter primarily due to increasing commodity prices, increasing production at the Rubiales field, selling 3,000 bbl/d in the international market for the 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 depletion, depreciation and amortization 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

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

As at June 30, 2009, 213,576,047 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 June 30, 2009, 44,311,220 warrants to acquire an equal number of common shares were outstanding and exercisable (44,803,552 – December 31, 2008) and 17,745,487 stock options were outstanding (19,747,748 – 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 June 30, 2009, 45,830 warrants representing the balance of the warrants with an exercise price of C$0.60 were exercised before their expiry date. Also, 215,277 options were exercised, 100,000 options were granted and 8,334 options were cancelled.

New Accounting Pronouncements

Adopted

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.

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

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

In January 2009, the CICA issued Section 1582, "Business Combinations", which replaces former guidance on business combinations. Section 1582 establishes principles and requirements of the acquisition method for business combinations and related disclosures. This statement applies 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 2011 with earlier application permitted.

In January 2009, the CICA issued Sections 1601 "Consolidated Financial Statements", and 1602, "Non-controlling Interests", which replaces existing guidance. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are effective on or after the beginning of the first annual reporting period beginning on or after January 2011 with earlier application permitted.

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.

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 retrospectively adopted the new standard 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". This abstract provides guidance on how to take into account credit risk of an entity and its counterparty when determining the fair value of the financial assets and financial liabilities, including derivative instruments. The adoption of this abstract did not have a significant impact on the Company's consolidated financial statements as at June 30, 2009.

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 June 30, 2009 are summarized in the following table:

	2009	2010	2011	2012	2013	Subsequent to 2013	Total	
Operating leases	$ 784	$ 1,466	$ 40	$ -	$ -	$ -	$ 2,290	(a)
Transprtation and processing commitments	10,425	34,855	32,121	29,375	26,645	10,265	143,686	(b)
Minimum work commitments	90,561	135,220	69,350	36,808	29,267	46,150	407,356	(c)
Abandonment obligations	2,221	1,158	1,771	1,211	1,419	18,156	25,935	(d)
Other service contract	1,338	1,995	2,095	2,199	2,309	7,275	17,212	(e)
Repayment of debt	17,828	1,710	67,500	90,000	22,500	-	199,538	(f)
BOOMT Contract (Power generation - Rubiales)	947	4,385	5,385	8,000	7,994	14,635	41,346	(g)
Total	$ 124,103	$ 180,789	$ 178,261	$ 167,594	$ 90,134	$ 96,481	$ 837,362	

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

a) Operating leases of $2.3 million mainly related to office rental in Bogota for the remainder of 2009 and 2010.
b) Ship or pay contracts totaling $143.7 million as follows: $114 million signed with ODL for the transportation of crude oil from the Rubiales field to the Colombia´s oil transportation system, and $29.7 million signed with Promigas for gas transportation from La Creciente field to connect the Cartagena gas pipeline to deliver the product to customers facilities.
c) Minimum capital investments agreed in contracts with Ecopetrol and ANH in Colombia that include acquisition and processing of seismic data and drilling exploration wells in Colombia ($358 million), as well as exploration and drilling activities in Peru ($49 million).
d) The amount of the asset retirement obligation considers the present as well as the future obligations on drilling of wells or construction of facilities.

e) Service contracts with suppliers for $17.2 million in relation with the exploration and operation of oil properties and engineering and construction contracts.
f) Debt repayment of $199.5 million on the short and long term debt, details of which are in the Liquidity and Capital Resources section.
g) Corresponds to a BOOMT (Built, Operate, Own, Maintain and Transfer) contract signed with Energy Generation Corp. for power generation at the Rubiales field until June 2016 totaling $41.3 million. This contract is currently in the equipment installation phase, in which there is no obligation for disbursements until September 2009 and onwards, when it will enter in operation. Operational rates will include the maintenance and service fees as well as the cost of the equipment throughout the life of the contract.

Disclosure about the Company's significant commitments can be found in note 13 to the consolidated financial statements. The Company has no off-balance sheet arrangements.

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

b) For the three months ended June 30, 2009 the Company paid Endeavour Financial Corp. ("Endeavour"), a Company related by way of a director in common, $45,000 (2008 - $71,000) in retainer fees and financing fees of $3 million (2008 - nil) for the ODL pipeline pursuant to an advisory agreement dated November 8, 2007.

c) 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. On June 2009, the Company paid Endeavour, a Company related by way of a director in common, of $2.6 million in retainer and advisory fees for the arrangement of this revolving credit facility.

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

All 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. Corporate values and code of conduct have already been identified as the basis of the PRE culture. The definition of a new Company culture process which facilitates the integration will mitigate possible conflicts among the different organizations. 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, loosing of key personnel and knowledge, 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 second quarter of 2009, the internal auditors assessed in advance of the year end, the operating effectiveness over controls with significant deficiencies identified during the effectiveness testing conducted during the first quarter. Internal auditors also assessed controls and other procedures 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.

On July 1, 2009 the Company successfully implemented a Company-wide ERP-SAP 6.0 which will further allow the standardization of accounting and reporting functions. The automated internal controls over financial reporting and disclosure ("ICFR") designed in the SAP 6.0 are in the process of being performed by the auditors and the areas of concern were addressed by management. In addition, the Company is currently applying best practices among its operating branches in Colombia, including the integration of standardized processes and procedures among the companies, which will improve the quality and reliability of the financial information consolidated by the Company.

Regulatory Policies

Certification of Disclosures in Annual Filings

In accordance with National Instrument 52-109 of the CSA, 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 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.

Outlook

The Company will continue working on increasing its production and transportation capacity. Expansion of current facilities and construction of the ODL will allow the Company to double its production and cut its transportation costs by half.

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 July 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 of the Company's production from the Rubiales oil field of 47,450 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 this, 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 will continue at a steady pace during the second half of 2009 and the Company is well on schedule to complete its program for the year.

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