PACIFIC RUBIALES ENERGY CORP.

MANAGEMENT DISCUSSION AND ANALYSIS
May 13, 2010

Form 51-102F1
For the three month period ended March 31, 2010

This Management Discussion and Analysis (the "MD&A) contains forward-looking information and is based on the current expectations, estimates, projections and assumptions of Pacific Rubiales Energy Corp. (the "Company"). This information is subject to a number of risks and uncertainties, many of which are beyond the Company's control. Users of this information are cautioned that actual results may differ materially. For information on material risk factors and assumptions underlying our forward-looking information, see page 27.

This MD&A is management's assessment and analysis of the results and financial condition of the Company, and should be read in conjunction with the accompanying consolidated financial statements for the first quarter of 2010 and related notes. The preparation of financial information is reported in United States dollars and is in accordance with Canadian generally accepted accounting principles ("GAAP") unless otherwise noted. The financial measures EBITDA and net operating income from operations referred to in this MD&A are not prescribed by GAAP and are outlined in Non-GAAP Financial Measures on page 27. 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.

Barrels of oil equivalent (boe) may be misleading, particularly if used in isolation. A boe conversion ratio of six thousand cubic feet (mcf) of natural gas to one barrel of crude is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

In order to provide shareholders with full disclosure relating to potential future capital expenditures, we have provided cost estimates for projects that, in some cases, are still in early stages of development. These costs are preliminary estimates only. The actual amounts are expected to differ and these differences may be material. For further discussion of the significant capital expenditures, see Capital Expenditures on page 18.

References to "we", "our", "us", "Pacific Rubiales" or "the Company" mean Pacific Rubiales Energy Corp., its subsidiaries, partnerships and joint venture investments, unless the context otherwise requires.

The table and charts in this document form an integral part of this MD&A.

Additional information relating to the Company filed with Canadian securities regulatory authorities, including the Company's quarterly and annual reports and the Annual Information Form, are available on SEDAR at www.sedar.com and www.pacificrubiales.com. Information contained in or otherwise accessible through our website does not form a part of this MD&A and is not incorporated by reference into this MD&A.

Index to the MD&A

1. Company Overview with Selected Operating Financial Information

Operating Summary

	Three months ended March 31,			
	2010 Oil	2010 Gas	2010 Combined	2009 Combined
Average daily production sold (boe/day)	55,734	9,968	65,702	34,283
Operating netback ($/boe) [(1)]				
Crude oil and natural gas sales price	70.50	29.99	64.35	35.65
Cost of Production [(2)]	4.10	1.76	3.74	3.75
Transportation	7.68	0.47	6.59	6.76
Upgrading cost (diluent including transportation)	15.15	-	12.85	5.91
Other costs [(3)]	(0.42)	1.44	(0.14)	(0.93)
Overlift/Underlift [(4)]	(0.97)	-	(0.82)	(0.21)
Operating netback	44.96	26.32	42.13	20.37

(1) Combined operating netback data based on weighted average daily production sold which include diluents necessary for the upgrading of the Rubiales blend.
(2) Cost of production mainly includes lifting costs and other production costs such as personnel, energy, security, insurance and others.
(3) Other costs mainly correspond to royalties on gas production, external road maintenance at Rubiales field, inventory fluctuation, and the net effect of the currency hedges of operating expenses incurred in COP during the period.
(4) Corresponds to the net effect of the overlift position for the period amounting to $4.9 million, which generated a reduction in the combined production costs of $0.82 per boe as explained in the section Corporate Development Highlights – Financial Position– Operating Costs.

Summary of First Quarter 2010 Operating Results

The results for the first quarter of 2010 underline the strength of the Company´s operational activity, its capacity to increase production and commitment from management to deliver robust financials. Management is focused on realizing challenging operational objectives while continuing the Company's ambitious exploration and production ("E&P") investment program. The average WTI price for the period was $78.45 per barrel (bbl) in comparison with $44.53/bbl for the three months ended March 31, 2009, which represents an increase of 76%. As a result, the average combined realized oil and gas sales price for the Company for the first quarter of 2010 increased to $64.35 per barrel of oil equivalent (boe) from $35.65 per boe in the same period of 2009, representing an increase of 81%. This last figure demonstrates how the Company was able to execute above the norm through its trading and commercial initiatives.

The increase in gross operated production of the Company during the first quarter of 2010 was a significant achievement, averaging 129,686 boe per day (boe/d), which is 60,496 boe/d (88%) greater than operated production for the same period of 2009. This growth in operated production came mainly through the increase in production at the Rubiales heavy oil field. As of April 30, 2010, the Company's total operated production exceeded 136,000 boe/d for all its fields, which makes the Company the fastest growing oil and gas company in Colombia.

In the execution of its commercial strategy, the Company continued exporting its oil production to international markets mainly to the USA, China, and Europe, while maintaining a presence in the local market with direct sales to the bunker and industrial sectors. During the first quarter of 2010, the Company exported 4.5 million bbl of crude oil, and sold 0.4 million bbl to the Colombian domestic market.

The Company significantly increased revenues by 246% to $380.5 million as compared to $110 million in the same period of 2009. This was the result of the considerable increase in production and the optimization of marketing activities, coupled with higher combined crude oil and gas sale prices, as mentioned above. This operational success resulted in increased revenues and increased net income for the period to $32.1 million.

The Oleoducto de los Llanos Orientales ("ODL") pipeline was fully commissioned in this quarter and this project is now a reality that will allow the development of the Rubiales field to its full potential, as well as the leveraging of Quifa and the Company's surrounding exploration blocks. Also, in a strategic move due to projected full capacity projected for Colombian pipelines, the Company bought firm pipeline capacity in the Ocensa system for 50,000 bbl/d in 2010 and 60,000 bbl/d from 2011 until 2016, which ensures that the Company will not experience pipeline transport limitations in the future.

During the first quarter of 2010, the Company focused its exploration and appraisal campaign on the Quifa, Rubiales and Moriche blocks, drilling a total of 10 wells at those locations (2 exploratory, 3 stratigraphic and 5 appraisal wells). The results of one exploratory and two stratigraphic wells, drilled in the northern part of Quifa Block, confirmed the presence of hydrocarbons in prospects "A", "F" and "Q", incorporating a total of 251 mmbbl of certified gross resources for these prospects, and the four appraisal wells, drilled in the southwest of Quifa, confirmed the extension of prospects "H" and "E" to the northeast. At the Rubiales field, one successful appraisal well extended the area of the Rub-147 (prospect "D") to the northeast. In the Moriche Block, one successful exploratory well incorporated a total of 1.22 million bbl of combined proved plus probable (2P) gross reserves, or 0.46 million bbl net reserves before royalties. The total net reserves after royalties reached 0.43 million bbl.

Milestones

- On April 26, 2010 the Company announced the final results of the first phase of its exploration campaign from late 2007 through to April 2010, on its Quifa and Rubiales Blocks. These results have led to a declaration of commerciality for the Quifa southwest area and the Rubiales southwest area, an important event for the Company as it has focused significant effort and capital to bring these areas into production. The closing of this first phase is a key milestone in the Company´s strategy to continuously grow our resources, prove new reserves and rapidly bring new areas into our existing production infrastructure. The success of the exploration campaign within Quifa in particular, leading to over 40,000 ha of declared commerciality, is also very significant since it demonstrates the long term viability of the Rubiales region and the Llanos Basin.

- On April 7, 2010, the Company announced the successful completion of the first phase of the Synchronized Thermal Additional Recovery (STAR) project, and the kick-off of the second phase, as contemplated by the Memorandum of Understanding (MOU) executed with Ecopetrol on April 6, 2009. During the first phase of the STAR project a number of studies and tests were carried out at the University of Calgary´s research laboratories, and on the basis of the same, it has been determined that the Rubiales crude has a stable and controllable ignition point at reservoir conditions, that the fire front thereby generated is stable, and that there is evidence of significant additional recovery potential by using the STAR process at the Rubiales field. These results confirm the feasibility and potential of the technology and clear the way for the next stages of the project.

- On March 16, 2010, the Company announced a new oil discovery at the Quifa-24X exploratory well, as well as results of the Quifa-32 appraisal well located in the Quifa Block. The sustained effort and focus in this area continues to show positive results and extends the Company´s understanding of the Quifa region and its hydrocarbon potential.

- On February 24, 2010, the Company announced an update to the independently certified Statement of Reserves Data and Other Oil and Gas Information for all of the Company's assets, estimating total 2P reserves at 280.6 million boe (MMboe), net after royalties, having a total net present value (NPV) (10% discount, before tax) of $8.32 billion. Despite a total net production of 12.4 MMboe in 2009, the Company's net proven plus probable reserves increased by 34.3%, from 209 MMboe as of December 31, 2008. These reserves represent 1.3 bbl of net 2P reserves per outstanding share as of December 31, 2009.

- During the first quarter of 2010, the Company exported a total of 4.5 million bbl of oil mainly to US and China refineries, including eight Castilla crude oil cargoes for 4 million bbl, and one Vasconia crude oil cargo for 0.5 million bbl at an average price of $70.37/bbl, which is a significant commercial accomplishment typifying the quality of our production. The Company also maintained its flexible commercial strategy by selling 0.4 million bbl of Rubiales production in the Colombian domestic market, at an average price of $68.26/bbl.

- During the first quarter of 2010 the sales of gas increased, achieving an average of 59.7 mmscf/d of natural gas sold from the La Creciente field at an average price of $4.95/mscf, representing a premium of 41% over the weighted domestic regulated price ($3.51/mscf) and only 7% lower than the Henry Hub natural gas prices in the United States Gulf Coast.

- During the first quarter of 2010, exploration activity mainly concentrated on drilling campaigns at the Quifa, Rubiales and Moriche blocks for a total of 10 wells drilled in these three areas. As a result of this activity, a total of 2 exploratory, 3 stratigraphic and 5 appraisal wells were drilled. The total gross exploration expenditure in the drilling campaign was $25.48 million. As a result of the drilling campaign, the Company incorporated a total of 1.43 million bbl gross of oil reserves, and 251 million bbl of certified gross resources. The total net exploration expenditure was $13.42 million. The Company incorporated a total of 0.43 million bbl oil net reserves before royalties.

- On March 2, 2010, a capacity test of the ODL pipeline was performed reaching a total of 167,642 bbl during 24 hours of continuous pumping. Over 16 million bbl of diluted crude have been transported from Rubiales to Monterrey since the pipeline entered in operation in October 2009.

- During the first quarter of 2010 the Company transported 55,934 bbl/d through the different trucking and pipeline systems, 39,043 bbl/d of Rubiales crude (12.5° API), and 16,891 bbl/d of diluents and other crudes produced, and 92% of this volume was transported via the pipeline systems. During this quarter, the Company transported through the ODL pipeline a combined volume of 3.64 million bbl of heavy oil and diluents, generating savings in transportation costs for the Company of approximately $8 per bbl, or 45% lower in comparison to the truck transportation cost.

- Due to higher realized crude oil prices and a substantial increase in production volume during the first quarter of 2010, the Company was able to significantly increase revenues by 246% in comparison to the prior period ($380.5 million during the first quarter of 2010 versus $110 million during the same period of 2009), mainly due to a substantial increase in production volume and trading optimisation.

- As of April 30, 2010, the Company had reached the historical milestone of exceeding 136,000 boe/d of gross operated production, equivalent to 55,123 boe/d net after royalties. The 136,000 boe/d milestone resulted from the continuous growth in production of heavy oil in the Rubiales/Piriri blocks, further supported by the coming into operation of the ODL pipeline. This volume also incorporates the development of the Company's light and medium oil blocks, as well as the natural gas volume produced (at a conversion rate of 6,000 standard cubic feet per barrel) from the La Creciente block and other smaller fields.

- EBITDA during the first quarter of 2010 totalled $229.7 million, which represents a significant increase of 361% compared to the first quarter of 2009 EBITDA of $49.8 million. EBITDA from international sales represented 82% of this amount, while EBITDA from gas and domestic sales contributed 10% and 8%, respectively.

- The Company entered into currency risk management contracts in the form of costless collars to reduce the foreign currency exposure associated with operating expenses, as well as general and administrative expenses, incurred in Colombian Pesos. During the first quarter of 2010, the Company had currency risk management contracts outstanding totalling $319 million with expiration dates between April and December 2010.

- Total capital expenditures during the period totalled $81.0 million ($72.3 million net of the 30% tax benefit effect in Colombia), of which $13.42 million went into exploration activities including seismic, aerogravimetry, aeromagnetometry and drilling ($1.42 million to geophysics and $12.0 million to drilling of wells). Also, $36.66 million were invested in the expansion and construction of production infrastructure and $30.92 million in production drilling activities.

- The Company announced on November 4, 2009 an expanded and fully funded capital plan of $853 million for 2010. With this investment program the Company expects to double its net production to reach 92,000 boe/d before royalties at the end of 2010 versus the 2009 year end figure of 40,579 boe/d. The $853 million capital program for 2010 includes $165.5 million for development drilling, $190.8 million for exploration, $471.8 million for production facilities and $25 million to advance the STAR pilot project. This is an increase of $471 million over 2009 capital expenditures. As of March 31, 2010, a total of $81.0 million of capital investments had been made.

- On April 17, 2010 the Company closed the syndication of a $250 million unsecured revolving credit facility. Pricing of the facility varies in accordance with the rating assigned to the Company's senior debt securities by Standard & Poor's Ratings Group and Fitch Inc. The Company will pay commitment fees on the unutilized portion of any outstanding commitments under the facility and regular spread over any disbursed amounts. Based on the Company's current rating and expected usage, the commitment fee will be 100 basis points and the applicable margin will be LIBOR plus 325 basis points. Subject to customary acceleration events set out in the credit agreement, or unless terminated earlier by the Company without penalty, repayment of the outstanding principal on the facility will be made in full on the second anniversary of the closing date.

2. Company Vision and Strategy Statement

Vision

The Company aims to be the premier independent E&P company in the Latin American region, noted for its technical excellence, operational capabilities and its outstanding ability to discover, develop and market new hydrocarbon reserves.

Strategy

The Company has an enviable strategic position with the right combination of production assets and exploration areas. The cornerstone of the Company's strategy is the technical excellence of its people coupled with the experience and the know-how to deliver its vision. It is expected that the significant cash flows and profit from operations through production growth will be utilized to support the Company's ambitious exploration and production activities. The Company's goal of steadily increasing its reserves and growing its production will be reached through exploration activities on the one hand, and on the other through an increase in the recovery rates by better delineating our resource base and by a continuous use of the appropriate technology. We will continue to concentrate our exploration activity in areas where our knowledge and talents can provide a significant advantage.

We have over 140 highly skilled geoscientists with 15 to 25 years of operating experience. Our management team is primed to take full advantage of present and future opportunities in exploration and production.

3. Corporate Development Highlights

ODL Pipeline

The Company's interest in ODL is 35% with the balance of 65% owned by Ecopetrol S.A. The project was completed at a total cost of $558 million, on schedule. Since October 1, 2009 a total of 16,271,670 bbl of diluted crude have been transported from the Rubiales field to Monterrey Station.

In light of increasing production in the Rubiales field and Quifa, in November 2009, the ODL board of directors approved an expansion to 340,000 bbl/d. The project includes construction of two booster stations, increased storage capacity at the Rubiales Pumping Station and construction of a pipeline branch to Cusiana Station. The total budget for the expansion is $232 million. As of the end of March 2010 19% of the expansion project was completed, with an expected completion date of March 2011; an early stage will be operational by December 2010, in order to transport incremental production from the Rubiales and Quifa fields.

In February 2010 negotiations with Grupo Aval for the financing of the expansion project were completed and Grupo Aval also agreed to refinance the existing facility of $200 million. The new facility for $340 million has an interest rate of DTF (Colombian base rate for fixed rate deposits over 3 months) + 4% and a maturity of 7 years, with 2 years' grace period. The new terms represent a savings of 100 bps on the interest rate, two additional years of term and one additional year of grace period. Financial covenants were also substantially reduced. In order to guarantee this facility, the sponsors (Ecopetrol and Pacific Rubiales) will execute Ship or Pay Contracts for 180,000 bbl/d, in proportion to their respective equity participation.

Llanomulsion Project

As part of the efforts to minimize transportation costs in the ODL pipeline while maximizing line capacity, in January 2009 the Company initiated the development of a special transport emulsion formula (oil in water), which eliminates the need for diluents. The patented formula, called Llanomulsion, increases capacity of the pipeline by reducing fluid viscosity to one-third of the original viscosity of the diluted crude.

As of the end of March 2010, the 70/30 oil/water emulsion was tested in the main ODL pumping station, with excellent results. The next industrial test will be performed when the new ODL leg to Cusiana is operational. In the meantime, design parameters for breaking the emulsion will be developed and tested in the pilot plant at Rubiales.

Implementation of this technology is expected to have a significant impact on the transportation costs for the Rubiales and Quifa fields, and could represent a breakthrough for the development of the Llanos Basin.

STAR Project

Pursuant to the previously signed binding MOU with Ecopetrol, the Company has continued laboratory and pilot tests which hitherto have confirmed that STAR (Synchronized Thermal Additional Recovery) is the most suitable enhanced recovery technology for the Rubiales field. To ensure the highest standard and quality of the design of the pilot test, the Company integrated a qualified multidisciplinary team and executed agreements with four well-regarded Canadian academic and research institutions:

- The University of Calgary developed three in situ combustion tests with the objective of assessing (i) the burning characteristics of the Rubiales oil under the same pressure conditions that would be encountered in the field, and (ii) the burning temperature of the Rubiales reservoirs. Also, the University was asked to determine the in situ combustion kinetic model and to assess key values needed for reservoir simulation.

- The Alberta Research Council (ARC) carried out a Technology Screening in order to corroborate the suitable technologies for Rubiales reservoirs.

- Techsera Solutions determined the crude upgrading capability for the Rubiales reservoirs.

- High Level Heavy Oil Consultants contributed the numerical simulations to estimate the expected recovery factor, among other key parameters.

The Company successfully completed three in-situ combustion tests (ICT). These tests have been carried out using high temperature, high pressure combustion reactors in the University of Calgary's laboratories, and cores and fluids produced from Rubiales' wells. Tests have shown vigorous and stable combustion characteristics, as indicated by rapid ignition, stable combustion front velocities, stable gas composition and oil burned with observed peak temperatures in the range of 480 - 530°C. Ramped temperature oxidation tests have also demonstrated stable kinetic reactions and the high temperature oxidation characteristics of the Rubiales field. All these results clearly indicated the good performance that the Rubiales field might have under the STAR process.

As at January 2010, and in addition to the tests mentioned above, a set of preliminary numerical simulations had been performed based on the lab test results; more than 30 runs and scenarios have been simulated. The pilot tests location has been selected and production and economic models have been generated. An oil crude characterization has been made, as well as conceptual engineering in order to estimate the operational and capital expenditures involved in the pilot test and the eventual commercial project. We expect to start pilot testing by the third quarter of 2010.

The Company continues its commitment to the implementation of this technology, not only because it opens the door to extended production at Rubiales, but also because we believe that once in place STAR will be a game changer for all of the Llanos region.

Exploration

Overview

The exploration campaign for first quarter of 2010 was focused on the Quifa, Rubiales and Moriche blocks, with a drilling campaign of 10 wells: two exploratory, three stratigraphic and five appraisal wells. The Company's total net investment in exploration for the first quarter of 2010 was $13.42 million.

Exploratory Wells

The exploration campaign for the first quarter of 2010 was on schedule. In the Quifa Block, the Company drilled eight wells: one exploratory (Quifa-6), three stratigraphic (Quifa-23X, Quifa-24X and Quifa-26X), and four appraisal (Quifa-14, Quifa-18,Quifa-31 and Quifa-32). At the Rubiales-Piriri field, the Company drilled 1 appraisal well: Rub-372. In the Moriche Block, the Company drilled one exploratory well: the Mauritia Este-1 (ME-1). From these ten wells, the Quifa-6, Quifa-14, Quifa-18, Quifa-31, Quifa-32 and ME-1 wells were completed as oil producers.

Exploration Indices

For the first quarter of 2010, the Company invested $25.48 million (net $13.42 million) in drilling the ten wells. The successful wells effectively incorporated 2P net certified reserves before royalties of 0.46 million bbl or 0.43 million bbl 2P net certified reserves after royalties, reaching a total of 276.3 mmbl of certified net reserves after royalties.

Exploration Results and Milestones

Key milestones of the Company's exploration activity during the first quarter of 2010 were:

- The Company continued exploration in the Quifa and Rubiales blocks with nine wells drilled in these areas: one exploratory, three stratigraphic and five appraisal wells, eight of them successful. From these eight wells, five were completed as oil producers. The five wells are currently under extended production tests with an average individual production of 200 bbl/d. Based on these results, the Company plans to drill an additional five stratigraphic, seven appraisal and two exploratory wells in the Quifa Block during the remainder of 2010.
- The Company also continued the exploratory drilling campaign in the Moriche Block and drilled one well, which resulted in a successful discovery.
- In the CPE-6, CPO-1, CPO-12 and CPO-14 blocks, the Company started an aerogravimetry project that covers a total of 13,133 km.
- In the Guama, La Creciente and CPE-6 areas, the Company started three 3D seismic programs which will cover a total of 288 km^2 and a 2D seismic survey of 679 km of seismic lines.
- In the search for light and medium oil, in the coming months, the Company plans to drill 30 additional exploratory wells: Quifa (12), CPE-6 (6), CPO-1 (1), La Creciente (1), Guama (1), Arauca (2), Topoyaco (2), Guaduas (1), Buganviles (1), and Abanico (3).

Farm-out and Farm-in Contracts

CPO-1 Block

During the last quarter of 2009, the Company completed a private competitive bidding process for the farming out of several blocks. As a result of this bidding process, in November 2009, the Company awarded 50% of its working interest in the CPO-1 Block to Petroamerica Oil Corp., a Calgary-based oil & gas company, in exchange for Petroamerica providing 100% of the total investment required to complete the first phase of the minimum exploratory program for the block. This minimum investment, calculated at approximately $8.6 million, must be spent on the acquisition of 200 km of 2D seismic, the drilling of one exploratory well and geological and geophysical studies. The Company will retain a 50% working interest in the block. The final agreement with Petroamerica was executed in March, 2010.

Buganviles Block – Future Prospect

In November 2009, a Participation Agreement was signed between the Company and Petrodorado Ltd. As a result of this agreement, the Company awarded 29.5% of its working interest in a future prospect in the block to Petrodorado in exchange for Petrodorado providing 100% of total investment for future exploratory work in the prospect, equal to approximately $2.27 million. This exploration activity involves a minimum investment of $4.6 million, which will be spent on the drilling of one exploratory well in a new prospect. The Company will retain a 19.75% working interest in said prospect and will keep 49.75% in the rest of the block. The final agreement with Petrodorado is still pending negotiation and execution.

Tacacho Block

In November 2009, a Participation Agreement was signed by and between the Company and Petrodorado. As a result of this agreement, the Company awarded 49.5% of its working interest to Petrodorado in exchange for Petrodorado providing 100% of the total investment required to complete the first phase of the minimum exploratory program for the block, equal to $8.0 million, which will be spent on the acquisition of 480 km of 2D seismic. The Company will retain a 50.5% working interest in the block. The final agreement was executed in January 2010.

Moriche Block – Prospect Mauritia East

In November 2009, a Participation Agreement was signed by and between the Company and Petrodorado, by which the Company assigned certain private interests in the Moriche Block. The Company awarded 49.5% of its working interest in the "Mauritia East Prospect" to Petrodorado in exchange for Petrodorado providing 100% of the total investment for the current exploratory phase for the block, equal to $5.53 million. This exploration phase requires a minimum investment of $6.5 million, which will be spent on the drilling of one exploratory well. The Company will retain a 37.5% working interest in the Mauritia East Prospect and an 87% working interest in the rest of the block. The final agreement was executed in January 2010.

Peru Blocks 135 and 138

During the last quarter of 2009, the Company awarded 45% of its working interest in Block 135 and Block 138 to Petrodorado in exchange for Petrodorado providing 45% of the total investment for the second exploratory phase for both blocks, equal to $16.2

million and to $15.3 million, respectively. The exploration phase for Block 135 requires a minimum investment of $36 million, which will be spent on the acquisition of 704 km of 2D seismic and the drilling of one exploratory well. The Company will retain a 55% working interest in Block 135. The exploration phase for Block 138 involves a minimum investment of $34 million, which will be spent on the acquisition of 525 km of 2D seismic and the drilling of one exploratory well. The Company will retain a 55% working interest in Block 138. The final agreement was executed in January 2010.

Production

Average Daily Oil and Gas Production – Net Volumes before and after Royalties

	Share before royalties		Share after royalties	
Producing Fields	**Q1 2010**	**Q1 2009**	**Q1 2010**	**Q1 2009**
	boe/d	**boe/d**	**boe/d**	**boe/d**
Rubiales / Piriri (1)	48,896	24,626	39,117	19,701
Quifa (2)	1,078	97	1,013	91
La Creciente	9,900	8,155	9,898	8,088
Puli (3)	31	34	25	28
Dindal / Rio Seco	661	823	529	658
Moriche	5	146	4	134
Quinchas	17	30	16	28
Abanico	1,066	767	1,139	729
Buganviles	2	10	2	10
Rio Ceibas (3)	530	555	424	444
Chipalo	-	7	-	6
Cerrito	60	6	60	51
Total	**62,246**	**35,256**	**52,227**	**29,968**

1) Net of internal consumption at the field
2) New discoveries under production test
3) Corresponds to the Company´s share in non-operated fields

Total operated production for the first quarter of 2010 averaged 129,686 boe/d (52,227 boe/d net after royalties) for an increase of 60,496 boe/d (22,259 boe/d net after royalties) over the same period of 2009. This represents an 88% growth in operated production, which came about mainly through the increase in production at Rubiales and Quifa, attributable to the following:

- The successful execution of the drilling program of a total of 10 producing wells at the Quifa, Rubiales-Piriri, and Moriche blocks during the first quarter of 2010, which effectively incorporated 2P net certified reserves before royalties of 0.46 million bbl or 0.43 million bbl 2P net certified reserves after royalties.

- Optimization of the crude oil facilities constructed during 2009 at the Rubiales field as well as the construction of new facilities during the first quarter of 2010. During the first quarter the following new facilities were constructed, mainly at the Rubiales field: i) 13 km of new roads in Rubiales and 69 km in Quifa, ii) 26 km of flow lines between 10" and 30", iii) 10 km of power distribution grid in the field, and 10 new power sub-stations, iv) new water treatment facilities at CPF-1 in order to handle an incremental volume of 200,000 bbl/d of water.

During the first quarter of 2010 the Company averaged a daily production of 59.6 mmscfd from the La Creciente natural gas field, which was 23% higher than the prior period´s production, as a result of additional investments in production facilities, which will allow the Company to keep the same production trend during 2010. The Company will acquire 3D seismic toward the southeast of the La Creciente Block so that the Company will be able to drill some of the new prospects it has identified by the end of 2010.

The Company´s production continued to increase subsequent to March 31, 2010, such that during April 2010 the historical milestone of exceeding 136,000 boe/d of gross operated production was achieved, equivalent to 55,123 boe/d net after royalties.

The following is the Company´s reconciliation of barrels equivalent produced with the barrels sold during the first quarter of 2010:

Inventory Movements	**Total boe Net**	**Aver. day Net**
Ending inventory as of December 2009	1,265,858	
ODL pipeline fill	(160,879)	
Transactions in 2010		
Net oil and gas production	4,700,415	52,227
Settlement of overlift position from 2009 (1)	(94,941)	(1,055)
Purchases of diluents	1,105,914	12,288
Total sales	(5,913,168)	(65,702)
Overlift position as of March 2010 (2)	9,874	110
Volumetric compensation	(3,171)	(35)
Ending inventory as of March 2010	**909,902**	

Reconciliation of Volumes Sold Vs. Volumes Produced YTD 2010

	Net Volumes Produced	Volumes Sold	Difference (higher volume sold)	
	Oil and Gas (boe)	**Oil and Gas (boe)**	**Oil and Gas (boe)**	
Total 2010 (Q1)	4,700,415	5,913,168	1,212,753	
Avg. Per day	52,227	65,702	13,475	(a)

(a) The main reason for the higher volumes sold in comparison to the volumes produced in the first quarter of 2010 is explained as follows:

Production after royalties 2010	52,227
Production sold 2010	65,702
Difference	**13,475**
Explanation of the difference	
Beginning inventory - Net	12,277
Diliuent 2010	12,288
Overlift settlement from 2009 (1)	(1,055)
Volumetric compensation	(35)
Overlift position at March 31, 2010 (2)	110
Ending Inventory	(10,110)
Reconciliation	**13,475**

(1) This volume corresponds to the settlement of the 2009 overlift position of 94,941 bbl of Rubiales crude oil, which was made in 2010, and resulted in a lower volume of sales during the first quarter of 2010.

(2) This volume corresponds to overlift position of 9,874 boe of crude oil and gas as of March 31, 2010 which will be settled in the following period.

Health, Safety, Environmental and Quality - HSEQ

During the first quarter of 2010 the Company's subsidiaries operating in Colombia continued improving the HSEQ standards. The Company's lost time injury rate ("LTIR") continued decreasing from 1.11 for the first quarter of 2009 to 0.70 in the first quarter of 2010, which is significantly lower by 36.9% in comparison to the LTIR rate in 2009 (based on 4.3 million man hours worked during 2010 against 2.7 million man hours worked in 2009). The Company has achieved its stated goal of a 20% reduction for the first quarter of 2010.

During the first quarter the Company continued its efforts to increase the HSEQ standards for contractors, and thereby improving the HSEQ external audit results. Also, the Company is implementing a "Behavior-based Safety" program to improve the overall safety performance of the employees working at the oil fields.

The Company has implemented ongoing improvement programs on environmental matters, including water treatment (increasing quality in its treatment before disposal), as well as a reforestation program to achieve the goal of 130 hectares of trees planted in 2010.

Crude and Gas Prices

Average benchmark crude oil and natural gas prices for the first quarter of 2010 and 2009 were as follows:

Average Crude Oil Reference Prices	2010 Q1 ($/Bbl)	2009 Q1 ($/Bbl)	°API
Domestic Market /Bunkers	$68.26	$38.12	12.5
WTI NYMEX (Weighted Average Cargoes PRE)	$78.45	$44.53	38
Vasconia (Weighted Average Cargoes PRE)	$71.61	$38.72	24
Castilla (Weighted Average Cargoes PRE)	$70.34	N/A	19
Rubiales Blend*	$70.37	$36.08	18.5
PRE Natural Gas Sales ($/mscf)	$4.95	$4.40	N/A
Combined Realized Oil and Gas Sales Price	$64.35	$35.65	N/A
WTI NYMEX ($/Bbl)	$78.88	$43.31	
Henry Hub average Natural Gas Price ($/mscf)	$5.30	$4.32	

*Average weighted export price of Rubiales in the Company's Vasconia/Castilla cargoes.

During the first quarter of 2010, WTI NYMEX continued its upward and volatile trend, reaching an average of $78.88/bbl vs $43.31/bbl in the first quarter of 2009 and $74.48/bbl in the fourth quarter of 2009. The combined realized oil and gas sales price for the Company for the first quarter of 2010 was $64.35 per boe (Q1 2009 – $35.65 per boe) representing an increase of 81% in comparison to the same period of 2009.

The following is a summary of the Company's crude oil and gas commercial activities during the first quarter of 2010:

- The Company exported eight Aframax cargoes (500,000 bbl) of Castilla crude oil (19° API), totalling 4.05 million bbl, mainly to the USA and China at an average of $8.62 less than WTI in comparison to $9.13 less than the market prices reported by Platts for Castilla.

- The Company exported one Aframax cargo of Vasconia totalling 0.5 million bbl at $2.98 less than WTI compared to $6.48 less than WTI of our sales in the same period of 2009.

- During Q1 2010, our total crude exports of 4.55 million bbl (4.05 MMBbl of Castilla and 0.5 MMBbl of Vasconia) realized an average price of $70.47/bbl compared to 2.0 million bbl (Vasconia) exported during the same period of 2009 at approximately $56.21/bbl.

- During Q1 2010, US refineries ran at significantly lower rates because of low refinery margins. To optimize its commercial activities, the Company developed new markets in Asia, Europe, and Africa to be able to sell cargoes at better prices than US Gulf Coast options. The Company started using Petroterminal de Panama (PTP) facilities in Panama, which provide an advantage in supplying the Asian market.

- The Company maintains commercial flexibility by selling part of its Rubiales production in the Colombian domestic market; an average of 5,008 bbl/d in the quarter was sold at an average price of $68.26/bbl.

- During Q1 2010, an average of 59.7 mmscf/d of natural gas from the La Creciente field was sold at an average price of $4.95/mscf, representing a premium of 41% over the weighted domestic regulated price ($3.51/mscf) and only 7% lower than the Henry Hub natural gas prices in the United States Gulf Coast.

- During Q1 2010, the Company began the purchase of light crude oils (5,191 bbl/d) in the eastern Llanos, for the blending of Rubiales crude in the ODL, instead of using imported naphtha and natural gasoline, with estimated savings of about $2.5/bbl for our net blending cost. However, the blending cost incurred during first quarter of 2010 is 85% higher than the same period of 2009 due to the 76% increase in WTI prices and the 6% increase in trucking cost. Additionally, in first quarter of 2009, the Company incorporated (via transportation contracts at our Guaduas facilities) 81,000 bbl of light crudes from other producers, which contributed to reduce our blending cost; conversely, in the ODL pipeline operation it is not possible to handle crude from other producers.

4. Reserves Summary

The total proved and probable oil-equivalent reserves of the Company as of March 31, 2010, discounting production for the first quarter of 2010 is 324.52 million bbl gross (before royalties) or 276.31 million bbl net to the Company. Oil equivalent is expressed in thousands of barrels (Mbbl). Gas volumes are expressed in billion cubic feet (Bcfg) and, when expressed in oil equivalent, were converted using 6,000 cubic feet of gas equivalent to one (1) bbl. The reserve report was prepared following all industry standard procedures and in conformity to COGE guidelines.

The following table summarizes the proved plus probable (2P) reserve growth for the Rubiales-Piriri, Quifa, La Creciente, Guaduas, Rio Ceibas, Abanico and Puli blocks as at March 31, 2010:

	2P Reserves									Oil Equivalent		
	Condensate, Light & Medium Oil			Heavy Oil			Associated & Non associated Gas					
	100%	Gross	Net	100%	Gross	Net	100%	Gross	Net	100%	Gross	Net
	(MMbbl)	(MMbbl)	(MMbbl)	(MMbbl)	(MMbbl)	(MMbbl)	BCF	BCF	BCF	(MMboe)	(MMboe)	(MMboe)
At December 31, 2009	13.66	7.59	6.47	545.92	247.23	204.4	472.22	449.76	418.22	638.28	329.78	280.57
Net Reserve Additions				1.22	0.46	0.43				1.22	0.46	0.43
Production Q1, 2010	0.54	0.21	0.18	10.23	4.53	3.61	6.22	5.89	5.44	11.80	5.72	4.70
Total Reserves at March 31, 2010	13.12	7.38	6.29	536.91	243.16	201.22	466.00	443.87	412.79	627.70	324.52	276.31

5. Summary of Quarterly Results

(in thousands of US$ except per share amounts or as noted)	2010 Q1	2009 Q1
Average production of oil and gas sold (boe/d)	65,702	34,283
Average combined crude oil and natural gas sales price ($/boe)	64.35	35.65
Combined operating netback ($/boe)	42.14	20.37
Net sales	380,523	110,000
Income from Operations (1)	159,954	5,849
Funds Flow from Operations (2)	150,727	31,548
Per share - basic ($)	0.63	0.15
- diluted ($)	0.60	0.15
EBITDA (3)	229,655	49,797
Per share - basic ($)	0.96	0.24
- diluted ($)	0.91	0.24
Net Income (4)	32,125	52,636
Per share (5) - basic ($)	0.13	0.25
- diluted ($)	0.13	0.25

(1) Income from operations includes revenues less operating costs, depletion, depreciation & amortization and G&A expenses, and excludes effect of the overlift, stock-based compensation and other income and expenses.

(2) Calculated based on cash flow from operations before changes in non-cash operating working capital.
(3) See Non-GAAP Financial Measures.
(4) Net income for the period of $32.1 million includes a series of non-operating expenses totaling $78.5 million (March 31, 2009 – gain of $50.5 million), mainly corresponding to:
  a) Non-cash items of $62.7 million (same period of 2009 – gain of $67.0 million), due to unrealized exchange losses resulting from the strengthening of the Canadian dollar and Colombian peso against the US dollar, and unrealized loss on risk management contracts outstanding as of the end of March 2010 (which may or may not materialize in future periods) and stock-based compensation costs. During the first quarter of 2010, the Company entered into foreign exchange hedging contracts to reduce its foreign currency exposure associated with operating expenses incurred in Colombian Pesos.
  b) Non-operating expenses of $15.8 million (same period of 2009 – $16.5 million) consisting of interest primarily due to financial costs associated with financing facilities for the development of the oil infrastructure to increase the production capacity of the Rubiales field, and other costs.
(5) The basic weighted average number of common shares outstanding for the first quarter of 2010 and 2009 was 240,126,671 (diluted – 251,582,984) and 210,600,249 (diluted – 211,543,738), respectively.

Financial Position

Total assets were $3.2 billion as at March 31, 2010 compared to $2.8 billion as at December 31, 2009. The $3.2 billion in assets primarily consisted of $2.0 billion in oil and gas properties and equipment (December 31, 2009 - $2.0 billion), $606.4 million in cash and cash equivalents (December 31, 2009 - $398.8 million), $124.1 million in accounts receivable (December 31, 2009 - $135.0 million), $79.5 million in investments and other assets, primarily ODL (December 31, 2009 - $74.8 million), and $390 million in other assets (December 31, 2009 - $228.7 million).

During the three months ended March 31, 2010, C$45,000 of the convertible debentures ($32,000 in amortized cost) was converted to 3,460 of the Company's common shares. The amortized cost of $32,000 and the corresponding equity portion of convertible debentures of $12,000 were reclassified to common shares as at March 31, 2010.

The Company has outstanding senior notes with an aggregate principal amount of $450 million and maturity dates of November 10, 2014 (33.3%), November 10, 2015 (33.3%), and November 10, 2016 (33.4%). The notes carry an interest rate of 8.75%, payable on May 10 and November 10 of each year, beginning on May 10, 2010. The notes may be redeemed in whole (but not in part) at any time at the discretion of the Company with a redemption price equal to the greater of (1) 100% of the principal amount of the Notes to be redeemed, and (2) the sum of the present values of the remaining scheduled payments of principal and interest discounted to the date of redemption on a semi-annual basis at the applicable Treasury Rate plus 75 basis points, in each case plus accrued and unpaid interest on the outstanding principal amount. The notes are senior unsecured and will rank equal in right of payment with all of the Company's existing and future senior indebtedness. The notes are listed on the Official List of the Luxembourg Stock Exchange and are traded on the Euro MTF.

As of March 31 2010, the Company has issued standby and letters of credit for operational commitments for a total of $143.8 million (December 31, 2009 – $110.3 million). Most of these bank guarantees are related to naphtha and light oil purchases.

On December 14, 2009, the Company's proposed offer of a cash payment of C$1.50 per warrant as an incentive for holders of the warrants to exercise their warrants during an early exercise period was approved by shareholders and warrantholders. The period commenced on December 14, 2009 and expired January 20, 2010. Warrantholders were able to exercise their warrants within this period to acquire one common share of the Company per warrant at an exercise price of C$6.30 instead of the original C$7.80 exercise price. As of December 31, 2009, 16,361,293 warrants had been exchanged for common shares under the early exercise program.

On January 12, 2010, the Company announced that greater than 66 2/3% of its publicly-traded warrants outstanding as of December 14, 2009 had been exercised pursuant to the early exercise transaction. As a result of reaching the 66 2/3% threshold, each warrant that had not been so exercised during the 30-day early exercise period was deemed automatically exchanged by the warrantholder, without any further action or payment of additional consideration on the part of the warrantholder (including payment of the exercise price thereof), for consideration payable by the Company of C$0.75 (the "Exchange Payment") plus a fraction of a common share (collectively, the "Exchange Shares") equal to: (A) the volume weighted average trading price of the common shares on the TSX for the five trading days immediately prior to the early exercise expiry date (the "Market Price") minus (B) the current exercise price, divided by (C) the Market Price. Warrants that were held by U.S. warrantholders were not subject to the automatic exchange. In total, 27,295,661 warrants were exchanged in the first quarter of 2010, for C$170 million in cash and 27,106,081 common shares of the Company.

Revenues

	Q1			
		2010		2009
Net sales	$	380,523	$	110,000
$ per boe		64.35		35.64

Net sales in the first quarter of 2010 totaled $380.5 million, which were significantly higher by $270.5 million (246%) in comparison to the prior period in 2009, mainly attributable to the increase in the Rubiales field's net production, which was almost doubled in comparison to the prior period, as well as the increase in the combined oil and gas realized prices by 81% in comparison to the same period in 2009.

Operating Costs

	Q1			
		2010		2009
Operating costs	$	136,232	$	47,805
Overlift (Underlift)	$	(4,865)	$	(645)
$ per boe	$	23.04	$	15.49
$ per boe Over/Underlift	$	(0.82)	$	(0.21)

Operating costs for the first quarter of 2010 were $136.2 million (March 31, 2009 - $47.8 million); and the increase over the previous period is primarily due to the 99% increase in net oil production at the Rubiales field. Production cost per boe increased to $23.04, or 49% higher than the same period of 2009. $23.04 per boe consists of cost of production of $3.74, transportation cost of $6.59, dilution cost of $12.85 and other cost recovery of $0.14. The increase of $7.55 per boe during the first quarter of 2010 in comparison to the same period in the previous period was mainly due to:

a) 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.

b) The cost of light crude oil used to dilute and transport the Rubiales crude oil to upgrade the Rubiales crude oil from 12.5° to 18.5° API increased by 78%, as it is linked to the WTI NYMEX reference price. During the first quarter of 2010, the Company began the purchase of light crude oils (5,191 bbl/d) in the eastern Llanos, for the blending of Rubiales crude in the ODL, instead of using imported naphtha and natural gasoline, with estimated savings of about $2.5/bbl for our net blending cost. However, the trucking costs for diluents also increased as product is now transported from the coast to the new ODL blending facilities at the Rubiales field, unlike in the first quarter of 2009 when product was delivered to the Guaduas facilities. This represents an extra 700 km and therefore a significant increase in the overall diluents transportation cost.

c) Increase in other production costs is mainly attributable to transportation of personnel to and from the field, technical assistance, catering, and security due to the expansion of the field's facilities and drilling campaign.

d) In addition to the above, the operating costs for this period were affected by the 25% revaluation of the Colombian Peso against the US dollar when compared to the same period of 2009 (Q1 2009 2,561 COP to $1.00 against 1,928 COP to $1.00 for Q1 2010). The majority of the operating costs are incurred in Colombian pesos and therefore subject to fluctuation when converted to the US dollar.

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.

The overlift recognized as of the end of March 2010 of $4.9 million is the net balance between the overlift position reflected as of the end of 2009 of $5.4 million (94,941 boe), settled in the first quarter of 2010, and the actual overlift as of the end of March 2010 of $0.5 million (9,855 boe). The overlift balance of $4.9 million was valued at the realized price of heavy crude oil, and recorded as a liability and a reduction in the operating costs at March 31, 2010. This overlift and its related financial impact will be reversed once the volume is settled in the second quarter of 2010.

Depletion, Depreciation and Amortization

	Q1 2010	Q1 2009
Depletion, depreciation and amortization	$ 64,836	$ 43,303
$ per boe	10.96	14.03

The Company used the historical reserve reports issued as of December 31, 2009, in calculating depletion and amortization for the period. The March 31, 2010 depletion charge of $64.8 million is calculated on $2.3 billion of oil and gas property costs subject to depletion. Included in the costs subject to depletion is $1.0 billion of future development costs that are estimated to be required to bring proved undeveloped reserves to development.

As at March 31, 2010, amortization expense of $2.3 million (March 31, 2009 - nil) related to the leased property is charged to depletion, depreciation and amortization. The amortization is based on the unit of production method over the term of the lease.

Included in oil and gas properties and equipment is $210.6 million (December 31, 2009 – $191 million) of unproved properties that were excluded from the depletion, depreciation and amortization calculation.

General and Administrative

	Q1 2010	Q1 2009
General and administrative costs	$ 19,501	$ 13,043
$ per boe	3.30	4.23

General and administrative expenses for the first quarter of 2010 were $19.5 million (March 31, 2009 - $13 million); the increase from the same period in 2009 is primarily due to professional fees and additional personnel needed to support the increased operations and oil production at the Rubiales field in 2010. However, general and administrative expenses on a per boe basis reflected a reduction of $0.93/boe (21%) due to the effect of higher volume of production and sales during the first quarter of 2010.

Stock-Based Compensation Costs

	Q1 2010	Q1 2009
Stock-based compensation costs	$ 40,822	$ 64
$ per boe	6.90	0.02

For the first quarter of 2010, stock-based compensation increased to $40.8 million from $0.1 million in the same period of 2009. The increase is due to higher stock options granted during the first quarter of 2010 of 6,296,500 compared to 50,000 stock option grants in the same period of 2009.

All stock options outstanding as at March 31, 2010 are completely vested and exercisable.

Foreign Exchange

	Q1 2010	Q1 2009
Foreign exchange (loss) gain	$ (31,749)	$ 60,932
$ per boe	(5.37)	19.74

Foreign exchange gains or losses result from the translation of monetary assets or liabilities which are denominated in Colombian Pesos and Canadian dollars. For the first quarter of 2010, the strengthening of the Colombian Peso and the Canadian dollar against the US dollar averaged 4% and 6%, respectively, compared to a devaluation for the same period in the previous year.

The strengthening of both the Colombian Peso and Canadian dollar resulted in a loss during the first quarter of 2010 of $31.7 million (March 31, 2009 – gain of $60.9 million). The foreign exchange loss of $31.7 million included $33.7 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 $26.7 million loss upon the conversion to US dollars for financial reporting purposes compared to a $51.1 unrealized gain in the prior year. 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 $173.3 million, which is denominated in Canadian dollars, resulted in a foreign exchange loss of $4.6 million.
c) The conversion of Colombian Peso denominated debt resulted in a net unrealized loss of $1.7 million.

Interest Expense

	Q1 2010	Q1 2009
Interest expense	$ 14,195	$ 5,847
$ per boe	$ 2.40	$ 1.89

Interest expense includes interest on bank loans, convertible debentures, senior notes offering of $450 million and fees on letters of credit. For the first quarter of 2010, interest expense increased to $14.2 million compared to $5.8 million for the same period in the previous year. The increase is due to the increase in long-term debt upon the completion of a senior notes offering with an aggregate principal amount of $450 million on November 10, 2009.

Income Tax Expense

	Q1 2010	Q1 2009
Current income tax	57,077	4,168
Future income tax	(7,753)	(425)
Total	49,324	3,743

The tax rate in Canada and Colombia is 33% in 2010. The effective tax rate was impacted in 2010 primarily by non-deductible stock-based compensation of $40,822 and other non-deductible expenses.

Current income tax expense increased $52.9 million to $57.1 million which was mainly attributable to the following:

a) Higher taxable income due to the increased volume of sales as well as better combined oil and gas prices during the first quarter of 2010 as compared to the prior period. During the first quarter of 2010, the taxable income reached $174 million while during the same period of 2009 the taxable income was $12.9 million, and therefore, this generated a higher income tax payable in Colombia of $53 million during this period.

b) Reduction in the special tax benefit in the acquisition of qualified expenditures from 40% in 2009 to 30% in 2010 onwards. This reduction generated an increase of $2.1 million in the current income tax of the first quarter of 2010 calculated on the capital expenditures of this period.

c) The above is offset by loss carry forwards utilized by Pacific Stratus in Colombia totaling $1 million to reduce income tax expense for 2010.

Fiscal planning strategies have been implemented by the Company to optimize income tax expense during 2010.

Future income tax income recovery increased to $7.8 million from $0.4 million from the same period in 2009 primarily due to the following:

a) The utilization of previously unrecognized loss carry-forwards in Pacific Stratus as discussed above, and
b) The increase in non-deductible depletion related to the Company's acquisitions.

Net Income (Loss)

	Q1		
	2010		2009
Net income	32,125	$	52,636
$ per boe	5.44		17.06

Net income for the first quarter of 2010 totaled $32.1 million, which was impacted by a number of non-cash items which were primarily:

(a) Non-cash unrealized items of $62.7 million, including exchange losses due to the strengthening of the Canadian dollar and Colombian Peso against the US dollar, gain on the change in the fair value of risk management contracts and stock-based compensation costs.

(b) Costs not related to operating expenses of $15.8 million, primarily as a result of the increase in the credit facilities to finance investment activities.

(c) An increase in operating expenses and depletion, depreciation and amortization expense due to the increase of production and development of the Rubiales field in 2009.

Funds Flow from Operations

	Q1			
		2010		2009
Funds flow from operations	$	150,727	$	31,548
$ per share, diluted		25.49		10.22

The Company continued to generate positive cash flow from operations as a result of the 88% increase in production together with the increase in the combined realized oil and gas price.

6. Liquidity and Capital Resources

Liquidity

Funds provided by operating activities during the first quarter of 2010 totaled $264.7 million (March 31, 2009 – $22.1 million). The increase in cash flow in the first quarter of 2010 was the result of the considerable increase in production and higher combined crude oil and gas sale prices. The Company has been generating cash flows from operations from the sale of crude oil and natural gas and continues to plan for increased future production.

As of March 31, 2010, the Company held debt denominated in Colombian Pesos and US dollars for a total amount of $664.3 million compared to $620.9 million as at December 31, 2009.

As of March 31, 2010, the Company had working capital of $437 million, mainly composed of $606.4 million of cash and cash equivalents, $124.1 million of account receivables, $38.7 million of inventory, $278.5 million of accounts payable and accrued liabilities, and $17.1 million of risk management liability.

The original development plan for the Rubiales field 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 of up to 70,000 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.

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 2010 of 7,133 bbl/d and 68 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 concentrated its activity during 2010 in Quifa and in those blocks for which it has immediate contractual obligations with the Agencia Nacional de Hidrocarburos ("ANH") to explore. The Company has complied with 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.

On April 17, 2010 the Company closed the syndication of a $250 million unsecured revolving credit facility, as described under "Corporate Development Highlights". The facility will replace existing smaller facilities currently available to the Company and will be utilized to support short and medium term revolving credit needs of the Company as they may arise in the ordinary course of business. The Company does not expect to fully draw down the facility during the 2010 financial year.

The Company believes it has adequate resources to fund its 2010 capital plan with the Company's cash flows from operations and current debt. However, if additional resources are required, possible sources of funds available to the Company to finance additional capital expenditures and operations include cash flows from operations, the issuance of additional common shares (if necessary), existing working capital and incurring new debt.

7. Capital Expenditures

Total capital expenditures during the first quarter of 2010 totalled $81.0 million ($72.3 million net of the 30% tax benefit effect in Colombia), of which $13.42 million went into exploration activities including seismic, aerogravimetry, aeromagnetometry and drilling ($1.42 million to geophysics and $12.0 million to drilling of wells); $36.66 million were invested in the expansion and construction of production infrastructure and $30.92 million in production drilling activities.

In line with the capital drilling expenditures, the Company has reduced the drilling time in the Rubiales field from 16 days to 13 days for horizontal wells and from 13 to 10 days for vertical wells, on average (including completion), generating considerable savings of $7.5 million during the first quarter of 2010 drilling campaign.

The Company has a substantial plan of development to bring the current gross capacity of the Rubiales field of 129,686 gross bbl/d (net 52,227 bbl/d) as of March 31, 2010 to 170,000 gross bbl/d (net – 61,200 bbl/d) by the fourth quarter of 2010, due to the expansion of the field facilities and the entering in operation of the ODL pipeline.

In the light/medium blocks we expect to increase the production from 2,199 bbl/d as of March 31, 2010 to 7,133 bbl/d by the end of the year. At the La Creciente field we expect to increase gas production to 68 mmscf/d at the beginning of 2011 pending the upgrade of the transportation system.

On the exploration side, the Company has re-examined its commitments, and will concentrate its activities during 2010 in the Quifa block and on those blocks for which it has immediate contractual obligations to the ANH.

The Company announced on November 4, 2009 an expanded capital plan for 2010 that includes an $853 million capital expenditure program. With this investment program the Company will double its net production, before royalties, from the average 2009 production of 46,000 boe per day to 92,000 boe at the end of 2010. The $853 million capital program for 2010 includes $165.5 million for development drilling, $190.8 million for exploration, $471.8 million for production facilities and $25 million to advance the STAR pilot project. This is an increase of $471 million over the 2009 capital expenditures and $394 million over the previously projected 2010 budget.

8. *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 as of March 31, 2010. The principal commitments of the Company are ship or pay arrangements on crude oil and gas transportation, asset retirement obligations, debt repayments, service contracts with suppliers in relation with the exploration and operation of oil properties and engineering and construction contracts, among others. Commitments as of March 31, 2010 are summarized in the following table:

	2010	2011	2012	2013	2014	to 2014	Total	
Operating leases	$ 1,346	$ 294	$ -	$ -	$ -	$ -	$ 1,640	(a)
Transportation and processing commitments	46,575	61,949	61,949	61,949	61,949	169,646	464,017	(b)
Minimum work commitments	121,402	35,771	13,598	-	-	-	170,771	(c)
Abandonment obligations	2,331	1,180	393	106	2,402	32,758	39,170	(d)
Repayment of debt	14,032	-	-	236,222	149,985	300,015	700,254	(e)
BOOMT Contract (Power Generation Rubiales Field)	8,518	11,306	11,337	11,306	11,306	16,944	70,717	(f)
Total	$ 194,204	$ 110,500	$ 87,277	$ 309,583	$ 225,642	$ 519,363	$ 1,446,569	

The Company has various commitments in place in the ordinary course of business between the first quarter of 2010 and subsequent to 2014:

a) Operating leases of $1.6 million mainly related to office rental in Bogota until the end of 2010. For 2011 and onwards, the office rental agreements do not include future payment commitments and can be terminated on three-months' notice with no penalty.
b) Ship or pay contracts totaling $464 million as follows: $438.2 million signed with ODL for the transportation of crude oil from the Rubiales field to Colombia's oil transportation system, and $25.8 million signed with Promigas for gas transportation from the 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 that include acquisition and processing of seismic data and drilling exploration wells in Colombia ($132.3 million), as well as exploration and drilling activities in Peru ($38.5 million).
d) The amount of the asset retirement obligation of $39.2 million considers the present as well as the undiscounted future obligations on drilling of wells or construction of facilities.
e) Debt repayment of $700.3 million on the short and long term debt, details of which are in the Liquidity and Capital Resources section. This amount includes the future repayment of the Senior Notes of $450 million with maturity dates of November 10, 2014 (33.3%), November 10, 2015 (33.3%), and November 10, 2016 (33.4%).
f) Corresponds to a capital lease on a BOOMT (Built, Operate, Own, Maintain and Transfer) contract signed with Energy International Corp. for power generation at the Rubiales and Piriri fields until June 2016. This amount corresponds to the share on the contractual minimum lease payments recognized by the Company as a capital lease. Operational rates 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.

9. Risk Management Contracts

The Company has entered into the following commodity price risk management contracts that are outstanding at March 31, 2010:

Type of Instrm.	Term	Volume	Strike Price ($/bbl)	Benchmark	Fair value ($'000)
Written call option	May 1, 2010 - Jul 30, 2010	770,000	80	WTI	$ (4,849)
Written call option	Jun 1, 2010 - Aug 31, 2010	504,000	90	WTI	(1,560)
Written call option	Sep 1, 2010 - Nov 30, 2010	500,001	89.50	WTI	(2,817)
Written call option	Dec 1, 2010 - Dec 31, 2010	300,000	95.30	WTI	(1,392)
	Total	**2,074,001**			**(10,618)**

Type of Instrm.	Term	Volume	Strike Price ($/bbl)	Premium ($/bbl)	Fair value
Put option	Apr 1, 2010 - Apr 30, 2010	150,000	40	1.16	0
Put option	Apr 1, 2010 - Apr 30, 2010	150,000	65	1.38	(207)
Put option	Apr 1, 2010 - Jun 30, 2010	450,000	40	1.41	(634)
Put option	May 1, 2010 - Jun 30, 2010	300,000	40	1.95	(585)
Put option	Jul 1, 2010 - Dec 31, 2010	600,000	40	2.45	(1,433)
Put option	Apr 1, 2010 - Jun 30, 2010	450,000	40	1.28	(576)
Put option	Jul 1, 2010 - Dec 31, 2010	585,000	40	1.91	(1,082)
Put option	Apr 1, 2010 - Apr 30, 2010	150,000	65	0.86	(129)
Put option	May 1, 2010 - May 31, 2010	150,000	65	0.96	(132)
Put option	Jun 1, 2010 - Jul 31, 2010	300,000	65	0.94	(179)
Put option	May 1, 2010 - May 31, 2010	150,000	65	0.90	(129)
Put option	Jun 1, 2010 - Jun 30, 2010	150,000	65	0.95	(111)
Put option	Jul 1, 2010 - Jul 31, 2010	150,000	65	0.94	(70)
Put option	Jan 1, 2011 - Mar 31, 2011	300,000	40	2.45	(703)
Put option	Jan 1, 2011 - Mar 31, 2011	292,500	40	1.91	(528)
Put option	Apr 1, 2011 - Jul 31, 2011	400,000	40	2.45	(884)
Put option	Apr 1, 2011 - Jun 30, 2011	292,500	40	1.91	(496)
	Total	**5,020,000**			**(7,876)**
	Total				**$ (18,494)**
	Short-term				(17,114)
	Long-term				(1,380)
	Total				**$ (18,494)**

For the three months ended March 31, 2010, the Company recorded a gain of $5 million on commodity price risk management contracts in net income. The amount includes $6.8 million (2009 - $5.5 million) of unrealized gains representing the change in the fair value of the contracts, and a realized loss of $1.8 million (March 31, 2009 – $nil).

If the forward WTI crude oil price estimated at March 31, 2010 had been $1/bbl higher or lower, the unrealized loss on these contracts would change by approximately $1.5 million (2009 – $1.3 million) and would be reflected in the statement of operations of the Company.

Foreign currency derivatives

To reduce its foreign currency exposure associated with operating and general and administrative expenses incurred in Colombian Pesos, the Company decided to enter into currency risk management contracts such as foreign exchange forwards, options, and costless collars. The Company had the following currency risk management contracts outstanding as at March 31, 2010 that qualify for cash flow hedge accounting:

Instrument	Expiration Date	Amount ($)	Floor / Ceiling (COP/$)	Fair value ($'000)
Currency collars	April 15, 2010	$ 20,445,000	2000-2050 and 2000-2060	$ 850
Currency collars	April 30, 2010	20,894,000	2000-2050 and 2000-2060	888
Currency collars	May 25, 2010	17,691,000	2000-2050 and 2000-2060	747
Currency collars	June 25, 2010	19,288,000	2000-2050 and 2000-2060	785
Currency collars	July 26, 2010	22,531,000	2000-2050 and 2000-2060	875
Currency collars	August 25, 2010	24,887,000	2000-2050 and 2000-2060	913
Currency collars	September 27, 2010	28,291,000	2000-2050 and 2000-2060	965
Currency collars	October 25, 2010	38,825,000	2000-2050 and 2000-2060	1,232
Currency collars	November 26, 2010	40,131,000	2000-2050 and 2000-2060	1,150
Currency collars	December 23, 2010	41,653,000	2000-2050 and 2000-2060	1,091
Currency collars	December 23, 2010	44,366,000	2000-2050 and 2000-2060	1,162
	Total	**$ 319,002,000**		**$ 10,658**

The effective portion of the changes in the fair value of the above currency hedges are recognized in other comprehensive income as unrealized gains or losses on cash flow hedges. The unrealized gains or losses on currency hedges are reclassified to operating expenses in the same period as the hedged operating expenses incurred in COP are recognized in net income. During the period, $8 million of unrealized gains were recorded in other comprehensive income, and $2.1 million (2009 – $nil) of unrealized hedge gains were recorded against operating expenses. The Company excludes changes in fair value due to the time value of options and records these amounts along with hedge ineffectiveness in foreign exchange gains or losses in the period that they arise. During the period, $0.5 million of ineffectiveness was recorded in foreign exchange gains (2009 - $nil).

10. *Selected Quarterly Information*

(In thousands of US$ except per share amounts or as noted)	**Q1 2010**	**Q4 2009**	**Q3 2009**	**Q2 2009**	**Q1 2009**	**Q4 2008**	**Q3 2008**	**Q2 2008**
Financials:								
Net sales	380,523	211,650	156,557	160,994	110,000	123,216	202,354	158,567
Net income (loss) for the period	32,125	(24,563)	(63,107)	(118,540)	52,636	12,971	77,324	42,128
Capital expenditures	43,617	120,071	88,141	83,640	100,823	123,652	66,311	64,877
Funds flow from operations (1)	150,727	50,570	73,489	38,934	31,548	40,810	117,032	62,145
Earnings (loss) per share (3)								
- basic	$ 0.13	$ (0.12)	$ (0.29)	$ (0.56)	$ 0.25	$ 0.06	$ 0.37	$ 0.21
- diluted	$ 0.13	$ (0.12)	$ (0.29)	$ (0.56)	$ 0.25	$ 0.06	$ 0.35	$ 0.19
Operations:								
Operating netback ($/boe) (2)								
Crude oil and natural gas sales price	64.35	55.94	55.31	50.12	35.65	43.23	91.11	85.93
Costs of Production	3.74	7.09	7.61	5.16	3.75	6.38	6.85	7.68
Transportation	6.59	10.90	11.18	10.46	6.76	7.08	8.78	7.42
Upgrading cost (diluent including transportation)	12.85	8.27	7.73	6.19	5.91	8.55	14.73	15.57
Other costs	(0.14)	(2.04)	0.10	2.85	(0.93)	3.21	2.65	2.35
Overlift/Underlift	(0.82)	0.37	(7.89)	6.05	(0.21)	4.08	(0.10)	(0.32)
Operating netback	42.14	31.35	36.57	19.41	20.37	13.94	58.20	53.24
Average daily crude oil sold (Bbl/day) (4)	55,734	32,429	24,438	30,405	25,755	24,549	19,045	14,901
Average daily natural gas sold (Boe/day)	9,968	9,145	6,669	5,283	8,528	6,770	5,363	5,603
Average daily oil and gas sold (Boe/day) (5)	65,702	41,574	31,107	35,688	34,283	31,319	24,408	20,504

(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. 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 consolidation.
(4) Weighted average daily production sold for Q2 2009 has been changed to correct an overstatement of 362,082 bbl reported in this interim period. As a result, the corrected netback is $19.41, which is higher by $1.98 /bbl from that previously reported. No additional changes are derived from this correction.
(5) Operating netback data based on weighted average daily production sold.

The following discussion highlights some of the significant factors that impacted the results in the two most recently completed years ended December 31, 2009:

During the first quarter of 2010, net sales totalled $380.5 million, which were higher by $168.8 million over the fourth quarter of 2009, due to the increase in both the combined realized price of $8.41 per barrel (a 15% increase) as well as the volume of sales from 41,575 boe/d in the fourth quarter of 2009 to 65,702 boe/d in the first quarter of 2010, a 58% increase. Additionally, the operating costs in the first quarter of 2010 slightly increased to $23.04, per barrel, or 1%, mainly attributable to the increase in the production and higher dilution cost as light crude oil used to upgrade Rubiales crude oil is linked to the WTI NYMEX reference price.

During the fourth quarter of 2009, net sales totalled $211.7 million, which were higher by $55.1 million over the previous quarter, due to the $0.63 (a 1% increase) increase in both the combined realized price and the average daily volume of oil and gas sold from 41,574 boe/d in the third quarter of 2009 to 31,107 boe/d in the fourth quarter, a 34% increase. This increase in the volume of sales in the fourth quarter is the result of the drilling program initiated during the first quarter of 2009 and the optimization of field facilities to improve the storage and transport capacity at the Rubiales field. Operating netback was reduced by $5.22 boe to $31.35, in comparison to the prior quarter, primarily due to the increase in other production costs and upgrading costs in the fourth quarter as detailed in the Operating Costs section, and the effect of the overlift position recognized in the third quarter.

During the third quarter of 2009, net sales totalled $156.6 million, which were lower by $4.4 million over the previous quarter, due to the settlement of the overlift position recognized in the prior period of 455,000 boe amounting to $19.4 million, offset with an increase in the crude and gas production, which resulted in a slight reduction of the volume of sales as compared to the second quarter of 2009 (a 2% reduction). The effect of the lower volume of sales was offset by the increase in the combined realized price of $10.26 per barrel (22%) over the second quarter of 2009.

During the second quarter of 2009, net sales totalled $161.0 million, which were higher by $50.9 million over the previous quarter, due to the increase in both the combined realized price of $14.47 per barrel (a 41% increase) as well as the volume of sales from 34,283 boe/d in the first quarter of 2009 to 35,688 boe/d in the second quarter, a 4% 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 $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 of 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/boe, 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.

11. *Outstanding Share Data*

Issued and Fully Paid Common Shares

As at March 31, 2010, 262,036,432 common shares were issued and outstanding.

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

Stock Options and Warrants

As at March 31, 2010, 6,296,500 warrants to acquire an equal number of common shares were outstanding and exercisable (27,910,343 – December 31, 2009) and 23,497,512 stock options were outstanding (19,223,131 – December 31, 2009), of which all were exercisable.

Subsequent to March 31, 2010, 3,117,500 options were granted at a weighted exercise price of C$9.95.

12. *New Accounting Pronouncements*

Adopted

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

In January 2009, the CICA issued Handbook Sections 1582, "Business Combinations" ("Section 1582"), 1601, "Consolidated Financial Statements" ("Section 1601") and 1602, "Non-controlling Interests" ("Section 1602"). Section 1582 replaces CICA Handbook Section 1581, "Business Combinations", and establishes standards for the accounting for business combinations that are equivalent to the business combination accounting standard under IFRS. Section 1582 is applicable 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, with early adoption permitted. Section 1601 together with Section 1602 replaces CICA Handbook Section 1600, "Consolidated Financial Statements". Section 1601 establishes standards for the preparation of consolidated financial statements and Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. Sections 1601 and 1602 are applicable for interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011, with early adoption permitted. An entity must adopt Section 1582, 1601 and 1602 at the same time. The Company has adopted these standards effective January 1, 2010 and the adoption did not have a material impact on the results of operations or financial position.

b) Intangible assets

Intangible assets are recorded at their fair value on the date of acquisition. Intangible assets with finite useful lives are amortized over their useful lives. The Company does not have intangible assets that have an infinite life and would not be subject to amortization. The Company applies an impairment test to the carrying value of the intangible asset to ensure that such costs do not exceed the estimated amount ultimately recoverable. Any reduction in the carrying value, as a result of the impairment test, is included in depletion, depreciation and amortization expense. The intangible asset is amortized based on the usage of the 160 million barrel capacity over the term of the agreement.

Future accounting changes

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.

In July 2009, the International Accounting Standards Board (IASB) issued an amendment to IFRS 1 "First Time Adoption of International Reporting Standards." The amendment allows full cost accounting corporations to elect, at the time of adoption, to measure exploration and evaluation assets at the amount determined under the entity's previous GAAP. The amendment will also permit full cost accounting corporations to measure, at the time of adoption, oil and gas assets in the development or production phases, by using the total value determined under the entity's previous GAAP and allocating values at the unit of account level based on the Company's reserve volumes or reserve values as of the date of conversion. This exemption will relieve the Company from retrospective application of IFRS for its oil and gas assets. The Company currently anticipates that this exemption will be used. In addition the Company is reviewing the cash generating unit (CGU) level, and has anticipated it will be determined at the field level. Management is evaluating whether initial allocation at CGU will be performed on reserves volumes or values. However it anticipated it will not have any impairment indicators.

The Company has hired an external advisor to assist management in the implementation of this project to generate comparative 2010 consolidated financial statements under Canadian GAAP and IFRS. The Company has established that the conversion project will be executed in three phases: phase I - Initial diagnostic and planning to be completed March 2010, phase II - Impact analysis and evaluation to be completed by May 2010, and phase III - Implementation and review to be completed by August 2010. Currently, the Company has completed phase I, related to the diagnostic of major differences between Canadian GAAP and IFRS, as well as the potential effects of IFRS (to) for accounting and reporting processes, information systems, business processes and external disclosures. As a result, the following key issues are expected to have the most significant impact on the results of operations, financial position and disclosures:

• IFRS 1 – First-time adoption of International Financial Reporting Standards;
• IFRS 6 – Exploration and evaluation of mineral resources;
• IFRS 16 – Property, Plant and Equipment;
• IAS 36 – Impairment of assets;

Management is continuing training its personnel. The project is currently on track, however, at this time, the impact from the changeover to IFRS on the Company´s financial statements is not reasonably determinable until completion of the project.

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.

Critical Accounting Policies and Estimates

The Company's financial statements are prepared in accordance with Canadian GAAP, which requires 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 2009 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.

Property, Plant and Equipment – 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.

The Company applies an impairment test to the net carrying value of oil and gas properties and equipment designed to ensure that such costs do not exceed the estimated amount ultimately recoverable. This amount is the aggregate of estimated undiscounted future net cash-flows from production of proved reserves and the cost of unproved oil and gas properties less impairments. Future cash-flows are estimated using future prices and costs without discounting. Should the net carrying value of oil and gas properties and equipment exceed the amount ultimately recoverable, the amount of the impairment is determined by deducting the discounted estimated future cash-flows from proved and probable reserves based on the future prices plus the cost of unproved properties, net of impairment allowances, from the carrying value of the related assets. Any reduction in the net carrying value, as a result of the impairment test, is included in depletion, depreciation and amortization expense.

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.

13. *Related-party Transactions*

a) 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 $55,000 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. In addition, the Company has a receivable of $16,000 from Blue Pacific related to certain administrative costs paid by the Company on behalf of Blue Pacific.

b) As at March 31, 2010, the Company had trade accounts receivable of $2.7 million (December 31, 2009 - $10.5 million) from Proelectrica, in which the Company has a 21.7% indirect interest and which is 31.49% owned by Blue Pacific. The Company's and Blue Pacific's indirect interests are held through Ronter Inc. ("Ronter"). Revenue from Proelectrica in the normal course of the Company's business was $7.4 million for the three months ended March 31, 2010 (2009 - $4.5 million).

c) As at March 31, 2010 the Company had a $3.5 million (December 31, 2009 - $6.0 million) deposit to acquire land through Lando Industrial Park S.A. As at March 31, 2010, Lando is 100% owned by Ronter and is a Panamanian company commencing a project to develop in Colombia a port, an industrial park and a free trade zone.

d) The Company has an accounts receivable in the amount of $22,000 (December 31, 2009 - $173,000) from Medoro Resources Ltd., a company related by way of a director and two officers in common. The receivable balance is related to the Company's share of general and office expenses, including administrative support and office premises in Canada.

e) Loans receivable from related parties in the aggregate amount of $322,000 (December 31, 2009 – $290,000) are due from one director and two officers of the Company. The loans are non-interest bearing and payable in equal monthly payments over a 48-month terms.

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

14. *Internal Controls over Financial Reporting*

The Pacific Rubiales internal audit system, which is embedded in all key operations, provides assurance to the Board of Directors and management regarding the effectiveness of all aspects of the Company's system of internal control, risk management, and corporate governance. The internal audit process delivers reasonable assurance over the:

- Effectiveness and efficiency of operations,
- Reliability of internal and external reporting, and
- Compliance with applicable laws and regulations.

The Chief Corporate Auditor (head of the internal audit function) reports the results of the audit activities to the Audit Committee on a quarterly basis. The internal audit activities for 2010 were approved by the Audit Committee through the Audit Plan. The 2010 Audit Plan included the following activities for the first quarter:

- Evaluation of the effectiveness of internal controls, encompassed within the requirements of National Instrument 52-109 ("NI 52-109") issued by the Canadian Securities Administrators (CSA), over the design and operating effectiveness of the ICFR (Internal Controls Over Financial Reporting). The evaluation of 212 controls was performed during this quarter, to ensure that the information required to be disclosed by the Company is accumulated and communicated to management for timely assessment and certification by the Chief Executive Officer and Chief Financial Officer.
- Three audit reports were completed by the internal audit team during the quarter. Another five audit projects have been started and are still in progress at the time of this report. These audit reports included the evaluation of operational effectiveness controls of core and support business processes in each of the following areas: Procurement, Human Resources, Pipeline Transportation, Production, Security, Insurance and Treasury. The results were reported to management and the Audit Committee and action plans of improvement agreed with business process owners.
- As part of the risk management activities the internal audit facilitated the methodology for the identification and evaluation of significant business risks, including financial, operational and compliance risk, which could undermine the achievement of business objectives. Senior managers were selected to develop risk mitigation activities and their effectiveness. Internal audit provides coaching and coordinates Enterprise Risk Management activities.

The Company concluded that there are opportunities to improve on the design and operation of the ICFR in the following areas:

- Financial consolidation process to improve on the timeliness of reporting,
- Distribution of appropriate segregation of duties through SAP modules, and
- Training for all personnel involved in the financial reporting process.

The Company will continue to review its processes and procedures in 2010, including the engagement of professional consultants to improve on the areas identified.

Regulatory Policies

Certification of Disclosures in Annual Filings

In accordance with NI 52-109 of the CSA, the Company quarterly and annually issues a Certification of 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.

During 2007 and 2008, the Company experienced a significant level of growth through the acquisitions of RHL, Pacific Stratus and Kappa. The Company concluded that its DC&P and ICFR were ineffective as at December 31, 2008. In 2009 and 2010 the Company reviewed the structure and capacity of its financial reporting group and made changes to enhance DC&P and ICFR. The changes included the hiring of additional resources, engaged professional consultants to augment internal resources and provided additional training for personnel involved in the financial reporting process. The Company also has completed the implementation of a Company-wide ERP system to facilitate the standardization of the accounting and reporting functions. As a result the Company has concluded that its DC&P and ICFR were effective as at March 31, 2010.

15. ***Outlook***

The Company will continue working on increasing its production and transport capacity. Expansion of current facilities and of the ODL pipeline will allow the Company to double its production with a target of the end of the year of 225,000 boe/d (net) and significantly reduce its transportation costs.

The Company will continue to sell crude in the international markets, as well as in the domestic market. In 2010 the Company expects to increase its sales to an average of 68,000 bbl/d. Once the expansion of the ODL pipeline is completed, it will allow for transportation of all the Company’s production from the Rubiales oil field to Monterrey, where it is connected to the main Colombian pipeline system.

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 transporters the commercial terms for an expansion of the latter’s infrastructure in the area.

The exploration activities will continue at a steady pace during 2010 and the Company is on schedule to complete its program for the year, which includes drilling 30 exploratory wells in the Colombian blocks: twelve more wells in the Quifa block (four exploratory and eight appraisal), and eighteen exploratory wells in the rest of the blocks. The campaign also includes the final acquisition of the 13,133 km of high resolution magneto-gravimetric airborne data in four blocks in Colombia and the acquisition of 5,026 km of 2D seismic and 631 km^2 of 3D seismic in 14 blocks: 12 in Colombia and 2 in Peru.

16. Non-GAAP Financial 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.

A) Reconciliation of cash flow from operating activities to funds flow from operations:

	Period ended March 31,	
	2010	2009
Net cash provided by operating activities	264,743	22,120
Changes in non-cash working capital	(114,016)	9,428
Funds flow from operations (non-GAAP)	150,727	31,548

B) Reconciliation of Net (Loss) Income to EBITDA

	Period ended March 31, 2010	2009
Net (loss) income	32,125	52,636
Adjustments to net (loss) income		
Income taxes expense	49,324	3,743
Foreign exchange (gain) loss	31,749	(60,932)
Interest expense	14,195	5,847
Realized and unrealized gain on risk management contracts	(5,018)	(5,546)
Other expense (income)	1,658	10,675
(Income) loss from equity investment	(36)	7
Stock-based compensation	40,822	64
Depletion, depreciation and amortization	64,836	43,303
EBITDA	229,655	49,797

EBITDA was redefined in 2009 upon the completion of the senior notes offering with an aggregate principal amount of $450 million. The redefined EBITDA represents the EBITDA used in and defined in the covenants of the senior notes offering. The previous period's EBITDA has been recalculated to conform to the current year's definition.

17. *Legal Notice – Forward-Looking Information and 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.

18. 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 2008-2009 concurrent with shifts in the global economy. Any decreases in oil and natural gas prices would 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 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 at that time, 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.

Cash Flows and Additional Funding Requirements

Although the Company has significant revenues from operations, a significant percentage of funds available to the Company for its acquisition and development projects has in the past been derived from the issuance of equity and debt. Although the Company presently has sufficient financial resources and has been successful in the past in obtaining equity and debt financing to undertake its currently planned exploration and development programs, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms advantageous to the Company. The ability of the Company to arrange such financing in the future will depend in part upon the prevailing capital market conditions as well as the business performance of the Company. The global financial crisis of 2008-2009 resulted in severe economic uncertainty and illiquidity in capital markets which, if it were to reoccur, would increase the risk that additional financing will only be available on terms and conditions unacceptable to the Company or not at all.

Global Financial Conditions

Recent global financial conditions have been subject to high volatility resulting in numerous commercial and financial enterprises having either gone into bankruptcy or creditor protection or having had to be rescued by governmental authorities. In 2008-2009, access to public financing was 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 a 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 had been adversely affected by the worldwide economic crisis and had 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, if they were to reoccur, 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 variable for the near future as a result of market uncertainties over the supply and demand of these commodities due to the fluctuation of world economies, OPEC actions and global credit and liquidity concerns.

These factors may impact the Company's future 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 reoccur at levels experienced during 2008-2009, the Company's operations could be adversely impacted and the trading price of the Company's securities could be adversely affected.

In addition, certain of our customers could be unable to pay us, in the event that 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 noneconomical 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 transports via pipeline and trucks (to a certain extent) 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, mechanical problems 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 labour 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, labour 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.

Enforcement of Civil Liabilities

Substantially all of the assets of the Company are located outside of Canada and certain of the directors and officers of the Company are 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.