

HIGHLIGHTS OF THE THIRD QUARTER 2009 (“Q3 2009”) WERE AS FOLLOWS:

- Raised \$58.5 million of gross proceeds to fund a portion of our exploration capital expenditure, primarily in Colombia during the balance of 2009 and into 2010, to reduce our reserve-backed credit facility and augment our working capital
- Tested light gravity crude oil from the La Pinta #1 exploratory well in Colombia; remedial work to start shortly
- Retained Argentinean properties for continuing source of cash flow; recent drilling increases production 20 percent over Q3 2009 levels
- Reduced indebtedness and initiated discussions to refinance remaining reserve-backed term debt

SUMMARY RESULTS

	Three months ended Sept. 30			Nine months ended Sept. 30		
	2009	2008	% Change	2009	2008	% Change
FINANCIAL (\$000, except per share amounts)						
Total revenue	\$ 17,229	\$ 32,126	(46)	\$ 65,891	\$ 92,915	(29)
Cash flow from operations before non-cash working capital ⁽¹⁾	5,503	15,726	(65)	26,540	41,113	(35)
Per share, basic	0.07	0.29	(76)	0.41	0.79	(48)
Per share, diluted	0.07	0.28	(75)	0.40	0.78	(49)
Net earnings (loss)	(11,359)	3,564	(419)	(6,744)	8,892	(176)
Per share, basic	(0.14)	0.06	(333)	(0.11)	0.17	(165)
Per share, diluted	(0.14)	0.06	(333)	(0.11)	0.17	(165)
Capital expenditures	13,389	21,046	(36)	59,478	81,212	(27)
Cash	55,953	14,865	276	55,953	14,865	276
Working capital	724	8,148	(91)	724	8,148	(91)
Long-term debt	27,464	45,576	(40)	27,464	45,576	(40)
Shareholders' equity	238,475	178,069	34	238,475	178,069	34
Total assets	\$ 368,288	\$ 279,174	32	\$ 368,288	\$ 279,174	32
OPERATING						
Daily sales volumes						
Crude oil and natural gas liquids - bbl/d	3,653	6,850	(47)	4,511	6,896	(35)
Natural gas - mcf/d	4,252	5,363	(21)	5,633	6,106	(8)
Barrels of oil equivalent - boe/d ⁽²⁾	4,362	7,744	(44)	5,450	7,913	(31)
Average selling prices						
Crude oil and natural gas liquids - \$/bbl	\$ 48.07	\$ 48.93	(2)	\$ 49.87	\$ 47.01	6
Natural gas - \$/mcf	\$ 2.74	\$ 2.58	6	\$ 2.89	\$ 2.37	22
Barrels of oil equivalent - \$/boe	\$ 42.93	\$ 45.07	(5)	\$ 44.26	\$ 42.80	3
COMMON SHARES OUTSTANDING (000s)						
Weighted average						
Basic	82,418	54,884	50	64,205	51,876	24
Diluted ⁽³⁾	82,539	55,897	48	65,619	53,054	24
End of period	121,759	54,948	122	121,759	54,948	122

- (1) Cash flow from operations before non-cash working capital changes (“cash flow”) and cash flow per share do not have standardized meanings prescribed by Canadian generally accepted accounting principles (“GAAP”) and therefore may not be comparable to similar measures used by other companies. Cash flow includes all cash flow from operating activities and is calculated before changes in non-cash working capital. The most comparable measure calculated in accordance with GAAP would be net earnings (loss). Cash flow is reconciled with net earnings in the accompanying Management’s Discussion & Analysis (“MD&A”). Management uses these non-GAAP measurements for its own performance measures and to provide its shareholders and investors with a measurement of the company’s efficiency and its ability to fund a portion of its future growth expenditures.
- (2) All references to barrels of oil equivalent (boe) are calculated on the basis of 6 mcf : 1 bbl. Boes may be misleading, particularly if used in isolation. This conversion is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.
- (3) As the company has net losses during the three months and nine months ended September 30, 2009, the dilutive effect of stock options and stock purchase warrants became anti-dilutive causing the basic weighted average common shares outstanding to be used as the denominator in the dilutive per share net loss calculation.

LETTER TO SHAREHOLDERS

We successfully advanced our balance sheet reconstruction during the third quarter of 2009. This was accomplished through a marketed, underwritten offering of units comprised of one common share and one-half common share purchase warrant. A full warrant entitles the holder to acquire one additional common share in exchange for one full warrant at \$1.20 per common share for approximately a two year period. This financing raised approximately \$57.5 million of gross proceeds. Subsequently, a modest private placement was also completed with management and directors on the same terms as the public offering, adding over another \$1.0 million to our treasury. This reaffirmed the commitment of management and directors to the future of the corporation.

Proceeds were used to reduce bank indebtedness and to replenish working capital. At September 30, 2009 we had cash balances in excess of \$55 million.

Petrolifera's focus during Q3 2009 was on its balance sheet reconstruction, in light of the decision to retain its Argentinean assets and given the amount of cash used for its extensive capital expenditure programs in both Peru and Colombia during the past year or so. This need was advanced by the adverse commodity and capital market conditions, which emerged in late 2008 and continued through much of the first half of 2009. This limited the company's ability to complete farmouts of some of its properties, as prospective partners recalibrated their own financial conditions and commitment levels at a time when preserving liquidity was paramount for all players in the oil and gas industry.

We were successful in raising total gross proceeds of \$58.5 million from a successful marketed, underwritten financing (which raised \$57.5 million) and a subsequent private placement with management and directors (which raised a further \$1.0 million). Total proceeds, then, of \$58.5 million were used to pay related commissions and costs of the public offering and to reduce the company's reserve-backed indebtedness, with the balance added to working capital and to fund future capital expenditures, primarily in Colombia. We attracted a new body of committed shareholders and existing shareholders also supported the company's future prospects at a time when strong liquidity was of paramount importance.

With our new funding, we are in a better position to continue our high potential exploration activity in Colombia and Peru and can negotiate more favorable farmout terms for higher cost opportunities. As we do this, we are continuing our discussions with our lead lender to extend the term and refinance our existing reserve-backed indebtedness beyond its expiry of September 5, 2010, while we arrange a repayment schedule to reduce this debt over the next year or longer. Discussions in this regard are proceeding favorably, although a final term sheet and commitment letter are still forthcoming. In the meantime, we will record this debt as a current maturity on our balance sheet, which impacts our reported working capital. Nevertheless, we have steady cash flow from Argentina and strong cash balances exceeding \$55.0 million at September 30, 2009, to ensure continued exploration and drilling activity while fulfilling our financial obligations. There can be no assurance, however, that our reserve-backed loan can be renegotiated beyond its current expiry or on satisfactory terms, so we will be exercising considerable caution in our spending programs, until this process can be favorably concluded.

COLOMBIA

As has been previously reported, the La Pinta #1 exploratory well on the Sierra Nevada License in the Lower Magdalena Basin was drilled and cased earlier this year. The well was expensive due to very difficult drilling conditions largely related to overpressured conditions, which not only affected drilling but also logging, casing and testing operations. Unfortunately, during testing of the upper portion of the Cienaga de Oro ("CDO") formation, which was indicated to be hydrocarbon bearing based on logs and shows while drilling and after having recovered light gravity 45° API crude oil at an instantaneous rate of approximately 700 bbl/d, a casing split apparently occurred. This required operations to be suspended. The rig used to drill the well was released temporarily to a third party for one or possibly two wells to reduce continuing costs and we are continuing to examine the preferred method of remediation, having regard for related costs. In this regard, we are conducting an independent third party evaluation of the well and suggested remediation procedures to examine contingencies and identify available options. We continue to believe the La Pinta prospect is significant with considerable reserve and resource potential, despite the challenges encountered to date. As soon as it is practicable and as warranted by our ongoing study, we intend to reenter the well, retrieve the tubing string and down hole assembly and test the CDO, if possible, in this wellbore. This would be feasible if the casing breach is below the upper perforated zone in the CDO formation. If so, then we might be able to install a permanent bridge plug above the uppermost portion of the split in the casing, clean out and retrieve the tubing, rerun the tubing, log and test the well. If this is not feasible, we would intend to move uphole in the well and test shallower formations, primarily the Porquero, to evaluate indicated hydrocarbon bearing zones. This would mean a replacement well would be necessary to reassess the CDO.

In these circumstances, we envisage attracting an industry partner due to the inherent risk and cost experience at La Pinta. As the evaluation continues, we are moving ahead with our plans to drill the Brillante natural gas/gas liquids prospect on the Sierra Nevada license and we have two drill-ready prospects (La Pinta #2 and La Pinta #3) one of which could be drilled to evaluate shallower zones above the CDO if our testing program at La Pinta #1 proves successful and we complete the well as a crude oil producer from the deeper zone.



Immediately subsequent to the reporting period, we were awarded the Magdalena License by Agencia Nacional De Hidrocarburos, the Colombian state agency, over approximately 595,000 acres immediately adjacent to our Sierra Nevada License. The Block requires a work commitment of 150 km² of 3D seismic within fifteen months of award, so drilling should commence on this block in late 2010 or early 2011. It is primarily prospective for large natural gas and natural gas liquids accumulations.

We envisage attracting industry partners for some or all of our continuing work obligations and planned activity on both the Sierra Nevada License and the Magdalena License during the remainder of this year and into 2010. We have engaged in discussions with a number of qualified and financially strong parties. As these are projects requiring considerable associated capital, farmouts will take time to complete but with the quality of opportunity, we anticipate acceptable terms and conclusions can be reached. We note, however, that completion of suitable arrangements may have to await until 2010 as companies finalize their budgets to include these types of opportunities.

The farmout of our Turpial License in the Middle Magdalena Basin is nearing completion. Terms have been agreed and we are in the final stages of documentation. A US-based company has elected to join us in this project and will reimburse Petrolifera a portion of its sunk costs and carry the company through a portion of the next stage of evaluation, with drilling possible in 2010 on this property which is offset by large producing heavy oil fields.

PERU

We continue to hold three licenses in Peru with a 100 percent working interest. We have held extensive discussions with numerous large international oil companies about our Ucayali (Blocks 107/133) and Maranon Basin (Block 106) Blocks, which are all prospective for crude oil and in the case of Blocks 107/133, also for natural gas and associated liquids. The huge downturn in capital markets and commodity prices in late 2008 and throughout the first half of 2009 has hindered our ability to complete a successful farmout to date. Based on our discussions, we believe, however, that this is more attributable to the financial concerns of large companies over new commitments and their own liquidity than the quality of opportunities associated with our lands. We continue to engage in serious discussions with two large international companies about a farmin on our Ucayali acreage and recently a third large international exploration company has approached us. We did reject one proposal from a large company already involved in the region and another large company was interested but had no remaining 2009 budget available for new ventures.

We had hoped to be drilling in Peru during 2009. However, we were delayed for over one year by the process of securing approval of our Environmental Impact Assessment due to regulatory lag and understaffing at the related government agencies. When combined with the impact of the slowdown on decision making by companies over large capital commitments, we are behind where we had hoped to be at this time. However, this does not diminish the caliber of our prospects or the potential of our acreage, nor our conviction that the right farmout transaction will occur soon, especially with the resurgence in crude oil prices which is motivating the renewed search for the type of prospects we have identified with our geological and geophysical work.

ARGENTINA

With the decision to retain our Argentinean assets, following a market test of sale alternatives, we have reactivated our technical assessment and have already initiated a four-well infill program at Puesto Morales Norte to enhance overall production levels. Our production had fallen off in recent months due to the absence of sustaining capital investment. We anticipate our modest planned capital program prior to year end will result in production increases and improved revenue, cash flow and lower unit operating costs. We will attempt to farmout the balance of our Argentinean properties later this year and next year to reduce capital outlays, at least until there is evidence of improved crude oil pricing, more attuned to world market conditions.

OUTLOOK

Petrolifera's outlook has improved with the successful completion of our \$58.5 million equity financing in August 2009. Our strengthened financial condition will allow us the ability to continue our high potential exploration program in Colombia, to enhance production in Argentina and to pay down our reserve-backed debt, while we renegotiate terms of our borrowings and extend the term, as intended. We will also be better positioned in our negotiations of farmout terms in both Colombia and Peru.

We intend to husband our resources and continue our commitment to attracting third party funding of higher risk activity, which we can pursue because of the vast potential associated with our projects in both Colombia and Peru. We will also aggressively pursue farmouts in Argentina to eliminate residual work commitments incurred during more buoyant market conditions and before the harsh imposition of price controls on crude oil sales.



Our share price has been brutalized of late, as we restored adequate liquidity to our balance sheet and in the aftermath of uncertain results at La Pinta. Our number one priority, which we believe will be the catalyst to recovery, is to resolve the proper procedure to determine the full potential of the La Pinta discovery. We remain confident we have made what appears to be a significant find and we are also very enthused about our other exploration opportunities in the vicinity of the La Pinta prospect.

Our plans for next year are discussed in greater detail in the attached Management Discussion and Analysis ("MD&A"). We will conduct an exciting yet prudent capital program, supplemented by third party funding through farmouts. With healthy cash balances, a satisfactory level of cash generation from Argentina and the successful conclusion of the renegotiation of the terms of an extended loan facility, we will have sufficient financial wherewithal to conduct a meaningful value added program for our shareholders during 2010.

We thank our new shareholders for the commitment to the company and also appreciate the continuing loyalty and support of our broad shareholder base, including that of Connacher Oil and Gas Limited, our largest shareholder.

Respectfully submitted,

"Signed"

Richard A. Gusella

Executive Chairman

November 6, 2009

"Signed"

Gary D. Wine

President and Chief Operating Officer



MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")

The following is dated as of November 6, 2009 and should be read in conjunction with the unaudited consolidated financial statements of Petrolifera Petroleum Limited ("Petrolifera" or the "company") for the three months and nine months ended September 30, 2009, as contained in this interim report and the audited financial statements for the years ended December 31, 2008 and 2007, as contained in the company's 2008 Annual Report. Additional information relating to Petrolifera, including its Annual Information Form for the year ended December 31, 2008, is on SEDAR at www.sedar.com. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are presented in Canadian dollars. This MD&A provides management's view of the financial condition of the company and the results of its operations for the reporting periods indicated.

Information in this report, including the letter to shareholders, contains forward-looking information including but not limited to the company's plan to renegotiate its existing reserve-backed credit facility, anticipated remediation and further testing of the La Pinta #1 well in Colombia, future exploration and development opportunities in Argentina, Colombia and Peru, anticipated results from the La Pinta #1 well in Colombia, future drilling plans in Argentina, Colombia and Peru, and the anticipated timing associated therewith, planned capital expenditures (including sources of funding and timing thereof), strategies for reducing the company's financial exposure to high cost exploration and drilling activities and eliminate residual work commitments in Argentina including, planned farm-out and/or joint ventures arrangements, recovery of the company's investment in asset-backed commercial paper ("ABCP"), the anticipated impact of the proposed conversion to International Financial Reporting Standards ("IFRS") on the company's consolidated financial statements, payments to be made against the company's reserve-backed credit facility and the timing thereof and the company's ability to continue to comply with financial covenants imposed pursuant to its reserve-backed credit facility. See "Forward – Looking Information" for a discussion of the forward-looking information contained in this MD&A and the risks and uncertainties associated therewith. Additional risks and uncertainties relating to Petrolifera and its business and affairs are also described in detail in its Annual Information Form for the year ended December 31, 2008. Throughout this MD&A, per barrel of oil equivalent ("boe") amounts have been calculated using a conversion rate of six thousand cubic feet of natural gas to one barrel of crude oil (6:1). The conversion is based on an energy equivalency conversion method primarily applicable to the burner tip and does not represent a value equivalency at the wellhead. Boe may be misleading, particularly if used in isolation.

PETROLIFERA TO RETAIN ARGENTINEAN OPERATIONS

Petrolifera announced on March 2, 2009 that its Board of Directors had authorized the company to initiate a process to dispose of its Argentinean interests. Petrolifera's Argentinean interests represented all of its current production, related revenues and substantially all of its reserves. During early July, 2009, several bids for the company's Argentinean interests were received from third parties. After careful consideration, on July 15, 2009 the company announced that the process to dispose of its interests did not result in any acceptable bids. Accordingly, management decided to retain the company's Argentinean interests and the company is currently in the process of drilling four in-fill development wells in Puesto Morales Norte ("PMN") and increasing the water treatment capacity of its facilities to enhance production.

The Argentinean operations are presented within the unaudited consolidated financial statements and MD&A for the three months and nine months ended September 30, 2009 (combined together as the "Interim Report") as "held for use", given the decision made on July 15, 2009 to retain these operations. As required by Canadian GAAP, because of the decision to retain the Argentinean operations, these operations must be presented as though they were "held for use" despite the 2009 first and second quarter's Interim Reports classification as discontinued operations. For the three months ended September 30, 2009 the classification of the Argentinean operations as "held for use" has resulted in the recognition of depletion and depreciation related to the period from March 2 through to June 30, 2009 in addition to depletion and depreciation expense for the third quarter of 2009. The recognition of depletion and depreciation related to previous periods has partially contributed to the company's reported net loss for the three months ended September 30, 2009. Because of the additional depletion during the quarter, depletion, depreciation and accretion expense and the resulting net loss recognized for the three months ended September 30, 2009 may not be comparable to prior periods.



FINANCIAL AND OPERATING REVIEW

SALES VOLUMES, PRICING AND REVENUE

	Three months ended Sept. 30			Nine months ended Sept. 30		
	2009	2008	%	2009	2008	%
Daily sales volumes:						
Crude oil and natural gas liquids – bbl/d	3,653	6,850	(47)	4,511	6,896	(35)
Natural gas – mcf/d	4,252	5,363	(21)	5,633	6,106	(8)
Equivalent – boe/d	4,362	7,744	(44)	5,450	7,913	(31)
Average selling prices:						
Crude oil and natural gas liquids – \$/bbl	\$ 48.07	\$ 48.93	(2)	\$ 49.87	\$ 47.01	6
Natural gas – \$/mcf	\$ 2.74	\$ 2.58	6	\$ 2.89	\$ 2.37	22
Weighted average selling price – \$/boe	\$ 42.93	\$ 45.07	(5)	\$ 44.26	\$ 42.80	3
Petroleum and natural gas sales (\$000)	\$ 17,229	\$ 32,110	(46)	\$ 65,854	\$ 92,793	(29)
Interest income (\$000)	-	16	(100)	37	122	(70)
Total revenue (\$000)	\$ 17,229	\$ 32,126	(46)	\$ 65,891	\$ 92,915	(29)

Petroleum and natural gas revenues for the nine months ended September 30, 2009 were \$65.9 million on average sales volumes of 5,450 boe/d, compared to \$92.8 million on sales of 7,913 boe/d during the same period in 2008, a decrease of 29 percent for revenue and 31 percent for sales volumes. Petroleum and natural gas revenues for the third quarter of 2009 were \$17.2 million on sales volumes of 4,362 boe/d, compared to \$32.1 million on sales of 7,744 boe/d during the third quarter of 2008, a decrease of 46 percent for revenue and 44 percent for sales volumes. For the three months and nine months ended September 30, 2009, sales of crude oil and natural gas liquids represented 84 and 83 percent of the company's sales volumes, respectively, which was lower than the 88 and 87 percent for the comparable periods, respectively. The reduction of sales represented by crude oil and natural gas liquids for the third quarter of 2009 relative to the same period in 2008 was mainly the result of operational challenges as detailed herein. All of Petrolifera's sales during the three months and nine months ended September 30, 2009 were from its Puesto Morales/Rinconada, Puesto Morales Este ("PME") and, to a lesser extent, Gobernador Ayala II Concessions in Argentina and all of its crude oil sales were made to the Argentinean operation of a large multinational company.

The reduction in sales revenues during the three months and nine months ended September 30, 2009, compared to the same periods in 2008 reflects minimal investment undertaken during the period leading up to and during the sale process related to the company's Argentinean interests and operational challenges, which included labour strikes and downtime at several wells in addition to natural production declines. Operational challenges during the three months and nine months ended September 30, 2009, relative to the comparable period in 2008, included several labour strikes resulting in the shut-in of production for periods ranging from 24 to 48 hours (estimated average decrease of 125 boe/d for the three months ended September 30, 2009), a scheduled workover of a key producing well, PMN x- 1002 and shut-ins caused by equipment failures at PMN – 1113 and, to a lesser extent, PMN a-1013 and 1021 (estimated average decrease of 300 boe/d for the three months ended September 30, 2009). Also, the company experienced certain challenges with the PMN waterflood program initiated during 2008, including rising water cuts. Remedial measures are being evaluated through a tracer sampling program and improvements in the water treatment capacity of the company's facilities.

The company's realized crude oil price rose six percent to average \$49.87/bbl for the nine months ended September 30, 2009, compared to \$47.01/bbl realized in the same period in 2008, mainly due to a weakening of the Canadian dollar compared to the US dollar, resulting in a higher reported price as expressed in Canadian dollars. The company's realized crude oil price fell two percent to average \$48.07/bbl for the third quarter of 2009, compared to \$48.93/bbl realized in the third quarter of 2008, mainly from lower realized US dollar pricing of US\$44.70/bbl during the third quarter of 2009 relative to the US\$47.00/bbl during the third quarter in 2008. During 2009, Petrolifera negotiated a new crude oil sales agreement with a well-established multinational purchaser and secured a crude oil price with some exposure to world crude oil price ("WTI") improvements. During the three months and nine months ended September 30, 2009, the crude oil price realized by Petrolifera averaged approximately 66 and 76 percent of the WTI average of US\$67.26/bbl and US\$56.59/bbl, respectively.

Relative to the second quarter of 2009, when petroleum and natural gas revenues were \$22.3 million on sales volumes of 5,691 boe/d, lower revenues and sales volumes (both down 23 percent) were experienced during the third quarter of 2009. The reduction of crude oil and natural gas liquids production during the third quarter of 2009 relative to the second quarter of 2009 reflects the minimal investment undertaken during the period of the sales process of the company's Argentinean interests, combined with operational changes, which included several labour strikes and downtime at several wells. A one percent decrease occurred in realized crude oil and natural gas liquids prices during the third quarter of 2009, relative to the \$48.72/bbl realized during the second quarter of 2009. The modest fall in the realized crude oil and natural gas liquids prices compared to the second quarter of 2009 is mainly attributable to a six percent strengthening of the Canadian dollar relative to the US dollar, resulting in the reduction in Petrolifera's realized prices as expressed in Canadian dollars.



In the three months and nine months ended September 30, 2009, natural gas prices respectively increased six percent and 22 percent over the level realized during the same periods in 2008 to average \$2.74/mcf and \$2.89/mcf, respectively. This reflected some relaxation of regulated Argentinean natural gas prices in industrial markets. The company successfully negotiated a price increase for Argentinean 2008/2009 winter sales volumes to US\$2.40/mcf. This was a 10 percent improvement relative to the US\$2.19/mcf realized during the 2007/2008 winter sales volumes of 2008. Natural gas prices are believed to have the potential of further improvement in the longer term, due to market conditions and new Argentinean policy initiatives aimed at further eventual market deregulation for industrial sales, including for power generation.

ROYALTIES, OPERATING EXPENSES AND CORPORATE NETBACKS

CORPORATE NETBACKS ⁽¹⁾

(\$000, except per unit amounts)	Three months ended Sept. 30				Nine months ended Sept. 30			
	2009		2008		2009		2008	
	Total	Per boe	Total	Per boe	Total	Per boe	Total	Per boe
Average daily sales (boe/d)	4,362		7,744		5,450		7,913	
Petroleum and natural gas sales	\$ 17,229	\$ 42.93	\$ 32,110	\$ 45.07	\$ 65,854	\$ 44.26	\$ 92,793	\$ 42.80
Interest income	-	-	16	0.02	37	0.02	122	0.05
Royalties	(2,445)	(6.09)	(4,842)	(6.80)	(9,362)	(6.29)	(12,892)	(5.95)
Net revenue	14,784	36.84	27,284	38.29	56,529	37.99	80,023	36.90
Operating costs	(5,763)	(14.36)	(6,410)	(9.00)	(17,362)	(11.67)	(18,675)	(8.61)
Corporate netback	\$ 9,021	\$ 22.48	\$ 20,874	\$ 29.29	\$ 39,167	\$ 26.32	\$ 61,348	\$ 28.29

(1) Calculated by dividing related revenue and costs by total boe sold, resulting in a corporate netback. Netback does not have a standardized meaning prescribed by GAAP and therefore is unlikely to be comparable to similar measures used by other companies. The most comparable measure calculated in accordance with GAAP would be net earnings (loss). Nevertheless, Petrolifera's management uses netbacks as a performance measurement of operating efficiency and the prevailing royalty regime. A high ratio of netback to selling price is a positive indicator. A reconciliation of corporate netback to net income (loss) can be found in the Net Earnings (Loss) table.

Petrolifera's corporate netback of \$26.32 per boe decreased seven percent during the nine months ended September 30, 2009, compared to that recorded in the same period in 2008. Higher realized commodity pricing during the nine months ended September 30, 2009, compared to the same period in 2008, was more than offset by higher operating costs per boe. The corporate netback per boe decreased 23 percent during the third quarter of 2009 relative to the third quarter in 2008. Lower realized commodity pricing and higher operating costs per boe contributed to the reduction in the third quarter's 2009 corporate netback relative to the third quarter of 2008. Petrolifera's calculated unit netbacks of \$22.48/boe and \$26.32/boe remained a respectable 52 and 59 percent of the selling price per boe during the three months and nine months ended September 30, 2009, both respectively reductions from the 65 and 66 percent corporate netbacks relative to the selling prices per boe during the same periods in 2008.

Relative to the corporate netback of \$25.20/boe for the second quarter of 2009, the corporate netback was 11 percent lower during the third quarter of 2009. Higher operating costs per boe during the three months ended September 30, 2009, compared to the prior period in 2009 contributed to the reduction in the corporate netback per boe.

OPERATING COSTS

Total operating costs during the three months and nine months ended September 30, 2009, respectively, decreased by approximately 10 percent and seven percent compared to the same periods in 2008, largely due to lower production volumes. On a per boe basis, operating costs increased 60 percent and 36 percent for the three months and nine months ended September 30, 2009, respectively, compared to the same periods for 2008. Lower crude oil and natural gas liquids production volumes, well servicing costs, transportation costs and one-time labour costs during the three months and nine months ended September 30, 2009 resulted in the increases on a per boe basis. Also contributing to higher operating costs per boe during the three months and nine months ended September 30, 2009, compared to the same periods in 2008, were the additional number of wells being operated resulting from the active 2008 drilling program, the number of wells on pump or that require servicing on a more frequent basis and inflationary pressures. The challenges related to the company's waterflood program caused an increase in total fluid throughput, with a lower percentage of crude oil combined with the additional fluid handling costs resulting in an increase in the operating costs per boe for the nine months ended September 30, 2009 relative to the same period in 2008.



ROYALTIES

Royalties represent charges levied by governments and landowners against production or revenue. Included in royalties are revenue taxes imposed by provincial jurisdictions. Royalties in the nine months ended September 30, 2009 were \$9.4 million (\$6.29 per boe) or 14 percent of petroleum and natural gas revenue, compared to \$12.9 million (\$5.95 per boe), or 14 percent of petroleum and natural gas revenue in the same period in 2008. The increase on a boe basis is primarily attributable to the higher realized commodity pricing during the first nine months of 2009 compared to the same period of 2008. Royalties in the third quarter of 2009 were \$2.4 million (\$6.09 per boe) or 14 percent of petroleum and natural gas revenue, as compared to \$4.8 million (\$6.80 per boe) or 15 percent of petroleum and natural gas revenue in the same period in 2008 and to \$3.5 million (\$6.74 per boe) or 15 percent of petroleum and natural gas revenue in the second quarter of 2009.

NET EARNINGS AND SHARES OUTSTANDING

	Three months ended Sept. 30				Nine months ended Sept. 30			
	2009		2008		2009		2008	
(\$000, except per unit amounts)	Total	Per boe	Total	Per boe	Total	Per boe	Total	Per boe
Corporate netback	\$ 9,021	\$ 22.48	\$ 20,874	\$ 29.29	\$ 39,167	\$ 26.32	\$ 61,348	\$ 28.29
General and administrative	(2,278)	(5.68)	(2,240)	(3.15)	(6,370)	(4.28)	(6,326)	(2.92)
Stock-based compensation	(1,561)	(3.89)	(1,123)	(1.57)	(3,999)	(2.69)	(4,252)	(1.96)
Finance charges	(1,132)	(2.82)	(1,361)	(1.91)	(4,057)	(2.73)	(3,584)	(1.65)
Foreign exchange gain (loss)	1,102	2.75	239	0.34	110	0.07	(969)	(0.45)
Fair value impairment	(2,104)	(5.24)	(1,885)	2.65	(2,104)	(1.41)	(5,377)	(2.48)
Depletion, depreciation and accretion	(17,568)	(43.78)	(6,599)	(9.26)	(24,610)	(16.54)	(17,656)	(8.14)
Income tax recovery (provision)	3,428	8.54	(3,855)	(5.41)	(3,250)	(2.18)	(12,484)	(5.76)
Taxes other than income taxes	(267)	(0.67)	(486)	(0.68)	(1,631)	(1.10)	(1,808)	(0.83)
Net earnings (loss)	\$ (11,359)	\$ (28.31)	\$ 3,564	\$ 5.00	\$ (6,744)	\$ (4.53)	\$ 8,892	\$ 4.10

For the nine months ended September 30, 2009, the company reported a net loss of \$6.7 million, which equated to a net loss of \$0.11 per weighted average basic and diluted share, compared to net earnings of \$8.9 million, which equated to \$0.17 per weighted average basic and diluted share for the same period in 2008. For the third quarter of 2009, the company reported a net loss of \$11.4 million, which equated to a net loss of \$0.14 per weighted average basic and diluted share, compared to net earnings of \$3.6 million, which equated to \$0.06 per weighted average basic and diluted share for the same period in 2008.

A net loss resulted for the nine months ended 2009 compared to net earnings during the same period in 2008, mainly due to lower crude oil and natural gas liquids sales volumes, higher finance costs and higher depletion, depreciation and accretion expense. A net loss was recognized during the third quarter of 2009, relative to the net earnings in the same quarter in 2008, mainly due to lower crude oil and natural gas liquids volumes and realized prices, higher stock-based compensation and higher depletion, depreciation and accretion expense. The depletion, depreciation and accretion expense for the quarter ended September 30, 2009 is not comparable to the third quarter of 2008 due to the previous classification of the company's Argentinean interest as discontinued operations. See "Depletion, Depreciation and Accretion-Discontinued Operations".

For the three months and nine months ended September 30, 2009, the company's comprehensive loss was \$20.5 million and \$23.6 million as compared to the comprehensive income in the corresponding 2008 periods of \$8.1 million and \$15.5 million, respectively. The comprehensive loss during the three months and nine months ended September 30, 2009, was due to the aforementioned net loss in each of the current periods and a weakening of the US dollar, relative to the Canadian dollar, of eight percent and 14 percent, respectively, which reduced the reported net assets of the company's Argentinean operations as denominated in US dollars. As the company's Argentinean operation is considered self-sustaining, changes in this operation's reported net assets, as expressed in Canadian dollars, resulting from foreign exchange differences between the US dollar and Canadian dollar is recognized as comprehensive income (loss).

During the three months and nine months ended September 30, 2009 the weighted average number of common shares outstanding was 82.4 million and 64.2 million, respectively, compared to 54.9 million and 51.9 million during the same periods in 2008. The increase in the weighted average number of common shares for the three months ended September 30, 2009, relative to the same period in 2008, reflected the August 2009 equity financing for gross proceeds of \$57.5 million, which resulted in the issuance of 65.3 million common shares; the September 2009 private placement for gross proceeds of \$1.0 million, which resulted in the issuance of 1.1 million common shares and the exercise of 0.2 million warrants and 0.3 million options which were respectively exercised during the third quarter of 2008 and 2009, resulting in the issuance of a like number of common shares in the period. The increase in the weighted average number of common shares for the nine months ended September 30, 2009 relative to the same period in 2008 includes the same issuances as explained for the third quarter of 2009 relative to the third quarter of 2008, in addition to the June 2008 equity financing for gross proceeds of \$40.0 million, which resulted in the issuance of 4.4 million common shares at \$9.00 per share. As the company had net losses during the three months and nine months ended September 30, 2009, the effect of "in-the-money" stock options and stock purchase warrants



became anti-dilutive, resulting in the exclusion of the effect of these convertible equity instruments on the diluted net loss per common share calculation, whereas in the same periods in 2008, 1.0 million and 1.2 million additional common shares were respectively included in the diluted net earnings per share calculation.

As at the close of business on November 5, 2009, the company had the following securities issued and outstanding:

- 121,758,510 common shares; and
- 7,636,067 stock options; and
- 33,240,250 warrants.

GENERAL & ADMINISTRATIVE AND STOCK-BASED COMPENSATION

General and administrative (“G&A”) expenses were \$6.4 million and \$6.3 million for the nine months ended September 30, 2009 and September 30, 2008, respectively. These costs primarily consist of management and administrative salaries, legal and professional fees, insurance, travel and other administrative expenses. G&A expenses of \$3.6 million and \$3.8 million were also capitalized in the nine months ended September 30, 2009 and 2008, respectively, primarily related to further exploration and evaluation of the prospects in Colombia, Peru and Argentina.

On a per boe basis, G&A was \$4.28 per boe of sales for the first nine months of 2009 compared to \$2.92 per boe for the first nine months of 2008. The increase in G&A per boe for the year, relative to 2009, was primarily due to lower sales volumes.

During the nine months ended September 30, 2009, a non-cash expense of \$2.9 million (2008 – \$4.3 million) was recorded as stock-based compensation, reflecting the amortization of the fair value of stock options over the vesting period. The decrease in stock-based compensation was mainly attributable to a lower fair value of options granted during the first nine months of 2009 compared to the fair value of options granted during the same period in 2008. For the three months ended September 30, 2009, relative to the same period in 2008, the stock-based compensation increase is attributable to the amortization of the fair value of 4.3 million options granted during the third quarter of 2009 with a weighted average grant price of \$1.00 per stock option. Additionally, during 2009 certain employees, officers and non-managerial directors of the company voluntarily surrendered 1.8 million options with a weighted average exercise price of \$13.79 per option. In accordance with Canadian GAAP, any unvested options that were voluntarily surrendered were deemed to have become vested, resulting in the recognition of an additional non-cash stock-based compensation expense of \$1.1 million.

FINANCE CHARGES

Included in the finance charges of \$4.1 million and \$3.6 million for the nine months ended September 30, 2009 and September 30, 2008, respectively, were interest paid and accrued on the company’s outstanding current and long-term bank debt and deferred financing charges that are being allocated over the life of the reserve-backed credit facility. The effective interest rate on the company’s facilities was 3.0 and 4.4 percent for the three months and nine months ended September 30, 2009, compared to 3.6 and 6.0 percent for the same periods during 2008, respectively. The increase in finance charges during the nine months ended September 30, 2009, compared to the same period in 2008, reflected higher loan amounts outstanding on the facilities. The decrease in finance charges during the three months ended September 30, 2009, compared to the same period in 2008, reflected lower interest rates on the operating line-of-credit facility.

FOREIGN EXCHANGE

The effect during 2009 of the weakening US dollar relative to the Canadian dollar, on a portion of the company’s debt which is US dollar denominated, was mostly offset by the effect of the weakening of the Argentinean peso, relative to the US dollar, on the Argentinean working capital. This resulted in a net foreign exchange gain of \$0.1 million for the nine months ended September 30, 2009. The company’s main exposure to foreign currency risk in Argentina relates to the pricing of crude oil sales, operating costs and capital expenditures, which are mainly denominated in US dollars and Argentinean pesos, partially mitigated by draws on the reserve-backed credit facility, which is denominated in US dollars.

DEPLETION, DEPRECIATION & ACCRETION (“DD&A”)

DD&A is calculated using the unit-of-production method based on total estimated proved reserves. In accordance with Canadian GAAP, depletion and depreciation was not recognized on the company’s Argentinean interests that were previously held as discontinued operations during the time these interests were for sale. As a result of management’s decision to no longer pursue a sale, the company’s Argentinean interests were again classified as “held for use”, resulting in the recognition of depletion and depreciation expense from the date that management had initially ceased recognition, which was March 2, 2009. This resulted in the company’s depletion and depreciation expense for the period from March 2, 2009 through to June 30, 2009, being included in DD&A for the three months ended September 30, 2009, in addition



to the appropriate expense for the third quarter of 2009. As a result of this recognition of depletion and depreciation expense from previous periods in the financial results for the three months ended September 30, 2009, DD&A for the third quarter is not comparable to prior quarters. Had the company not recognized DD&A from prior periods, as included in the expense for the three months ended September 30, 2009, the normalized DD&A would have approximated \$9.2 million, which would have resulted in a normalized net loss of approximately \$3.8 million. The DD&A for the nine months ending September 30, 2009 was not affected by the classification of the company's Argentinean interests from discontinued operations to "held for use" as it is fully provided for during this reporting period.

DD&A in the nine months ended September 30, 2009 totaled \$24.6 million or \$16.54 per boe sold, compared to \$17.7 million or \$8.14 per boe in the same period in 2008. The increase in DD&A for the nine months ended September 30, 2009, relative to the same period in 2008, was mainly due to the higher estimated cost of production additions, the cost of infrastructure related to the Argentina production, a December 31, 2008 downward reserve adjustment and the inclusion of Gobernador Ayala II exploration costs subject to depletion, relative to an estimate of total proved reserves associated with this concession. Capital costs of \$9.1 million (Dec. 31, 2008 – \$14.5 million) incurred for unevaluated properties in Argentina have been excluded from the cost pool subject to depletion and depreciation.

Accretion expense, which is included in DD&A expense, was \$0.1 million and \$0.4 million for the three months and nine months ended September 30, 2009, compared to \$0.1 million and \$0.3 million during the same periods for 2008, respectively. Accretion expense will continue at appropriate levels in the future to accrete the discounted liability of \$9.5 million (Dec. 31, 2008 – \$10.1 million) over the estimated remaining economic life of the company's oil and gas properties.

TAXES

The current income tax provision of \$2.9 million and \$9.1 million for the nine months ended September 30, 2009 and September 30, 2008, respectively, related mostly to income taxes payable in Argentina. Additionally, a future income tax provision of \$0.3 million and \$3.4 million in the first nine months of 2009 and 2008, respectively, was recorded at the statutory rate to recognize the differences between the remaining tax pools and accounting carrying values. The implied effective tax rates of the Argentinean tax expense relative to the before tax net loss resulting from Argentinean net earnings, less general corporate deductions, is not indicative of the company's jurisdictional tax rates for the three months and nine months ended September 30, 2009. Taxes other than income taxes of \$1.6 million and \$1.8 million for the first nine months of 2009 and 2008, respectively, represent taxes charged on all banking transactions in Argentina.

CAPITAL RESOURCES, CAPITAL EXPENDITURES AND LIQUIDITY

During 2008, the company adopted a conservative approach to its anticipated 2009 capital expenditure programs in South America, until it could determine with greater confidence a sense of direction for worldwide stock, credit and crude oil markets. Accordingly, the company determined it would, if necessary, curtail, defer, or sell down, through joint venture or farm-out arrangements, its participation in various higher risk projects. Consistent with the company's strategy of achieving positive leverage for its shareholders and stakeholders from a high level of ownership in the significant value-added impact of its early stage geological and geophysical activity, management anticipates attempting to identify industry participants and negotiate transactions, whereby other enterprises join with Petrolifera to conduct joint venture activity. Current capital market conditions make this process more challenging and time consuming than under more buoyant economic circumstances, resulting in Petrolifera possibly having to bring participants into its acreage holdings and planned activities on less attractive terms than might otherwise have been negotiated. There can be no assurances as to the timing or completion of related terms of the possible farm-in or joint venture arrangements. Completion of one or more farm-ins or joint ventures arrangements are required to fund the company's long-term exploration activities in Colombia and Peru. See "Commitments, Guarantees and Contractual Obligations". Additionally, the company anticipates refinancing its existing reserve-backed indebtedness to extend the current term beyond the current expiry of September 5, 2010.

CASH FLOW

Cash flow and cash flow per share do not have standardized meanings prescribed by GAAP and therefore may not be comparable to similar measures used by other companies. Cash flow includes all cash flow from operating activities and is calculated before changes in non-cash working capital. The most comparable measure calculated in accordance with GAAP would be net earnings (loss). Cash flow is reconciled with net earnings (loss) below. Cash flow per share is calculated by dividing cash flow by the weighted average shares outstanding. Management uses these non-GAAP measurements for its own performance measures and to provide its shareholders and investors with a measurement of the company's efficiency and its ability to fund a portion of its future growth expenditures.



Reconciliation of net earnings to cash flow:

(\$000)	Three Months Ended Sept. 30		Nine Months Ended Sept. 30	
	2009	2008	2009	2008
Net earnings (loss)	\$ (11,359)	\$ 3,564	\$ (6,744)	\$ 8,892
Add non-cash charges:				
Depletion, depreciation and accretion	17,568	6,599	24,610	17,656
Fair value impairment	2,104	1,885	2,104	5,377
Future income tax provision (recovery)	(3,944)	2,573	344	3,360
Stock-based compensation	1,561	1,123	3,999	4,252
Amortization of deferred finance charges	213	221	656	607
Unrealized foreign exchange loss (gain)	(640)	(239)	1,571	969
Cash flow	\$ 5,503	\$ 15,726	\$ 26,540	\$ 41,113
Per share, basic	0.07	0.29	0.41	0.79
Per share, diluted	0.07	0.28	0.40	0.78

Cash flow in the first nine months of 2009 was \$26.5 million or \$0.41 per weighted average basic and \$0.40 per weighted average diluted share, compared to \$41.1 million or \$0.79 per weighted average basic and \$0.78 per weighted average diluted share for the same period in 2008. The 35 percent decrease in total cash flow during the first nine months of 2009, relative to the same period in 2008, primarily resulted from a reduction in sales volumes, partially offset by an increase in commodities pricing and a decrease in the current tax provision. Cash flow in the third quarter of 2009 was \$5.5 million or \$0.07 per weighted average basic and diluted share, compared to \$15.7 million or \$0.29 per weighted average basic and \$0.28 per weighted average diluted share for the third quarter of 2008. The 65 percent decrease in total cash flow during the third quarter of 2009, relative to the same period in 2008, primarily resulted from reductions in sales volumes and realized commodity prices, partially offset by a decrease in the current tax provision. Cash flow in the third quarter of 2009 was affected by the attempted process to sell the Argentinean interest, as the company only made a minimal capital investment during the period of the sales process. During the fourth quarter of 2009, the company has embarked on an infill development well program and invested capital to increase the water treatment capacity of its facilities, in an attempt to enhance production and cash flow. Cash flow per share for the three months and nine months ended September 30, 2009 decreased relative to the same periods in 2008 for the aforementioned reasons, respectively, and from the impact of an increase in the number of shares outstanding.

EQUITY FINANCING & PRIVATE PLACEMENT

In August 2009, the company announced that it entered into a financing agreement with a syndicate of underwriters to issue 56,820,000 units (each, a "Unit") at a price of \$0.88 per Unit, with each Unit consisting of one common share in the capital of the company (each, a "Common Share") and one-half of one Common Share purchase warrant of the company (each whole Common Share purchase warrant, a "Warrant"), on a "marketed" underwritten basis, for gross proceeds of approximately \$50.0 million (the "Public Offering"). The underwriters were granted an over-allotment option (the "Over-Allotment Option"), which included the right to purchase up to an additional 15 percent of the Units, exercisable in whole or in part up to 30 days following closing on August 28, 2009. The Over-Allotment Option was exercised in whole by the underwriters, closing on September 4, 2009, and resulted in a total issuance of 65,343,000 Units, raising gross proceeds to approximately \$57.5 million.

In September 2009 the company announced that it had closed a non-brokered private placement of 1,137,500 Units at a price of \$0.88 per Unit, with each Unit consisting of a Common Share and one-half of one Warrant, with directors and officers of the Corporation for gross proceeds of approximately \$1.0 million (the "Private Placement"). The Units offered pursuant to the Private Placement were issued on the same terms as those offered pursuant to the company's Public Offering, without commission payable.

There were 33.2 million Warrants issued pursuant to the Public Offering and Private Placement. Each Warrant entitles the holder thereof to purchase one Common Share (each a "Warrant Share") at an exercise price of \$1.20 per Warrant Share for two years from the date of closing of the respective issuance. In the event that the 20-day volume weighted average price of Petrolifera's common shares on the Toronto Stock Exchange exceeds \$2.50, the company may, within five business days after such an event, provide notice to the holders of the Warrants ("Warrantholders") of early expiry and thereafter, the holders of the Warrants are obligated to exercise the Warrants or they will expire on the date which is 30 days after the date of the notice to the Warrantholders.

The net proceeds of the Public Offering and Private Placement will be used to fund a portion of the company's exploration capital expenditure program, primarily in Colombia, to reduce indebtedness relating to the company's reserve-backed credit facility and to augment working capital. As at September 30, 2009, the net proceeds of the Public Offering and Private Placement were used to repay US\$5.0 million of the company's reserve-backed credit facility and to fund approximately \$2.0 million of capital expenditures in Colombia and a US\$4.1 million trust account for the company's Colombia work commitments, with the remainder of the funds held as cash, pending further expenditures, primarily in Colombia.



Proceeds of the Public Offering and Over-Allotment Option are summarized as follows:

(\$000)	
Gross Proceeds of Public Offering and Over-Allotment Option:	\$ 57,502
Underwriter's commissions and issue costs	(3,155)
Net funds available to reduce indebtedness, capital expenditures and working capital	\$ 54,347

The proposed use of net proceeds per the Public Offering and Over-Allotment Option relative to actual use of net proceeds as at September 30, 2009, are as follows:

(\$000)	Use of Net Proceeds Per Public Offering	Use of Net Proceeds as at Sept. 30, 2009
Capital expenditure program, primarily in Colombia	\$ 31,647	\$ 1,970
Reduction of reserve-backed credit facility	up to 16,000	5,409
Working capital	6,700	4,359
Cash to be deployed	-	42,609
	\$ 54,347	\$ 54,347

CAPITAL EXPENDITURES

(\$000)	Three Months Ended Sept. 30		Nine Months Ended Sept. 30	
	2009	2008	2009	2008
Argentina	\$ 4,863	\$ 14,628	\$ 19,989	\$ 59,831
Peru	309	4,623	6,977	18,838
Colombia	8,203	1,765	32,478	2,512
Corporate	14	31	34	31
Capital expenditures	\$ 13,389	\$ 21,046	\$ 59,478	\$ 81,212

Capital expenditures for the nine months ended September 30, 2009 were \$59.5 million, compared to \$81.2 million for the same period of 2008. Capital expenditures for the third quarter of 2009 were \$13.4 million, compared to \$21.0 million for the third quarter of 2008. Capital spending throughout 2009 was financed from available cash, cash flow, borrowings and proceeds of the Public Offering and the Private Placement.

Expenditures were incurred on Block 107 in Peru for preparation of the drilling base camp. On April 16, 2009 Petrolifera was awarded a license over Block 133, which is comprised of approximately one million acres and is contiguous with Block 107. This license represents important acreage in relation to the company's anticipated activities on Block 107. The company has completed its first round of discussions with respect to farming-out Blocks 107 and 133 in the Ucayali Basin, Peru in an attempt to secure recovery of a portion of its sunk costs incurred on these blocks and to secure work commitments for new activity. Several large international companies have examined the company's technical analysis and management continues the process of discussing the terms of proposed joint operating agreements with a view to farming-out interests in these licenses.

On Block 106, in the Marañon Basin, Peru, a 476 km 2D seismic acquisition program was completed and the data is being reprocessed and reinterpreted. Once these results have been finalized, further discussions are anticipated with a number of qualified and interested third parties, with a view to farming-out an interest in this license.

In Colombia, significant outlays were incurred, primarily for the 100-percent owned La Pinta #1 exploration well, which spudded on January 23, 2009 on the company's Sierra Nevada License onshore the Lower Magdalena Basin. The well was drilled to a final depth of approximately 11,250 feet. Petrolifera was encouraged by results encountered during the drilling of the La Pinta #1 well, based on hydrocarbon shows and logs. The well costs were over original budget, as the company experienced certain problems running intermediate casing in the upper section of the wellbore and subsequently encountered challenges arising from instability in the lower section of the well from overpressured subsurface conditions. Both problems were eventually resolved. Log analysis and shows provided the basis for initiating an extensive testing program, which commenced in May, 2009. The testing program also encountered certain challenges, including multiple hydraulic packer failures. A packer seal able to withstand very high pressures was needed to guard against the risk of blowout, due to the overpressured conditions in the wellbore. The company has now suspended the La Pinta #1 well, after testing light gravity 45° API crude oil at instantaneous measured rates of up to 776 bbl/day with limited associated natural gas and no water from the upper portion of the CDO formation. The well was suspended following evidence of an apparent casing split which precluded further testing without additional information. The company is evaluating its preferred option in respect of securing equipment and services to reenter and further



test the La Pinta #1 well. This may include mobilization of a snubbing unit to the wellsite from the United States or other alternative remediation methods. While a final decision is anticipated shortly, issues to be resolved include timing, pricing and the suitability of alternative proposals, given the complicated and challenging nature of the La Pinta # 1 wellbore, including overpressured downhole conditions and the apparent casing split which occurred during recent testing efforts.

Readers are cautioned that instantaneous rates are not reflective of sustainable production rates and if the La Pinta #1 well is remediated such that commercial production is established, these production rates may differ materially from the recorded instantaneous flow rate reflected above.

Petrolifera has also completed 2D and 3D seismic programs over its Turpial License in the Middle Magdalena Basin, onshore Colombia and has recently completed the interpretation of the seismic data. In 2009 the company reached a preliminary agreement with an independent American company whereby Petrolifera will recover approximately US\$2.5 million of its sunk costs for seismic on the Turpial License and will, as operator, be carried through the next US\$1.9 million of work on this license, retaining a 50 percent interest therein. The company is currently finalizing the agreement and associated documents.

On October 7, 2009 the company announced that it had executed the Magdalena exploration contract with the Agencia Nacional De Hidrocarburos, the Colombian governmental authority, for the conversion of the Sierra Nevada II technical evaluation agreement ("TEA") into the Magdalena License, covering lands adjacent to the company's Sierra Nevada License in the Lower Magdalena Valley, onshore Colombia. The Magdalena License comprises approximately 595,000 acres that is considered to be mainly prospective for natural gas and natural gas liquids.

In Argentina, during 2009 the company conducted a multi-well drilling program to meet its contractual obligations on its 100-percent owned Gobernador Ayala II block in the Province of La Pampa. The company has identified two heavy oil accumulations at shallow depths. Several wells have now been completed as heavier oil (21° – 23° API gravity crude oil) producers at modest rates. The company continues to assess the overall commerciality of these accumulations.

Argentinean crude oil production was down, reflecting the minimal investment undertaken in the period leading up to and during the Argentina sales process, which did not ultimately result in any acceptable bids. The company is currently drilling several infill wells, installing high volume lift pumps and conducting a modest capital program in anticipation of enhanced crude oil production.

CREDIT FACILITIES

During April 2009, the company negotiated an expansion of its line of credit ("ABCP line-of-credit"), primarily secured by the longer term notes exchanged for the Asset Backed Commercial Paper ("ABCP") to a maximum of \$28.2 million, with a Canadian chartered bank. Any borrowings from the expanded ABCP line-of-credit are categorized as long-term, as the facility's initial term to maturity is April, 2011 and the company can make up to five extension requests, with each extension for an additional one-year period. At December 31, 2008 the prevailing terms of the ABCP line-of-credit had a maximum draw of \$18.0 million and was due on demand, resulting in the company categorizing as current its borrowings under the line of credit. The line of credit bears interest at a floating rate.

As at September 30, 2009, the company had a US\$100.0 million reserve-backed revolving credit facility with an established availability of US\$60.0 million. During July 2009 the availability of the reserve-backed facility was reduced from US\$70.0 million to US\$60.0 million, based on producing crude oil and natural gas reserves as at December 31, 2008. The reduction in the availability of the reserve-backed facility resulted in the company making a repayment against this facility for US\$5.0 million from proceeds of the recently completed Public Offering. The revised reserve-backed facility availability did not attribute any value to the company's non-producing assets. Any borrowings from the reserve-backed credit facility are categorized as current, as the facility is scheduled to expire on September 5, 2010. Management anticipates it will renew and extend the term of this facility prior to expiry. This facility bears interest at LIBOR plus a margin, is secured by the pledge of the shares of Petrolifera's subsidiaries and parent company guarantees and has a provision for a borrowing base adjustment every six months, with the next adjustment to be calculated based on information as at June 30, 2009. From time-to-time changes in the availability of the reserve-backed credit facility are anticipated to occur through significant reserve additions, disposals or revisions. Reductions in current availability under the reserve-backed credit facility would require additional repayments based on amounts currently drawn.

As at September 30, 2009, the reserve-backed facility had \$64.3 million (US\$60.0 million) outstanding (2008 – US\$63.0 million) and the ABCP line-of-credit facility had \$27.5 million outstanding (2008 – \$16.6 million).

The company is subject to external restrictions on its reserve-backed revolving credit facility. Under this facility, bank debt and long-term bank debt cannot exceed two times the 12 month trailing EBITDA. EBITDA is a non-GAAP measure and is defined by the credit facility agreement as net earnings (loss) prior to deduction of finance charges, income taxes, depletion, depreciation and accretion expense, stock-based compensation and unrealized foreign exchange losses. As at September 30, 2009, bank debt and long-term bank debt outstanding was \$91.8 million and the maximum amount allowed as calculated by the credit facility (two times EBITDA) was \$109.9 million, which indicates that Petrolifera is in compliance with this covenant. With existing realized commodity pricing, the company's cost structure and a planned debt reduction program for the ensuing year, Petrolifera anticipates that it will continue to be in compliance with the financial debt to EBITDA ratio covenant.



Reconciliation of net earnings to EBITDA is as follows:

(\$000)	Three Months Ended				12 Months Ended
	Dec. 31, 2008	Mar. 31, 2009	June 30, 2009	Sept. 30, 2009	Sept. 30, 2009
Net earnings (loss)	\$ 2,662	\$ 1,188	\$ 3,427	\$ (11,359)	\$ (4,082)
Add Interest, income taxes, depletion, depreciation and accretion expense and other non-cash expenses:					
Depletion, depreciation, and accretion	11,328	6,904	138	17,568	35,938
Finance Charges	1,833	1,577	1,348	1,132	5,890
Fair value impairment	3,505	-	-	2,104	5,609
Stock-based compensation	1,595	1,592	846	1,561	5,594
Income tax provision (recovery)	1,947	1,044	5,634	(3,428)	5,197
Unrealized foreign exchange loss (gain)	(789)	815	1,396	(640)	782
EBITDA	\$ 22,081	\$ 13,120	\$ 12,789	\$ 6,938	\$ 54,928

RESTRICTED CASH AND LONG-TERM INVESTMENTS

As at September 30, 2009, long-term investments included notes received in exchange for ABCP with a face value of \$34.6 million and a carrying value of \$18.8 million and collateral to support issued letters of credit of \$1.1 million, while restricted cash included collateral to support issued letters of credit of \$2.5 million, with terms to maturity of less than one year. As at December 31, 2008, ABCP with a face value of \$37.7 million and a carrying value of \$22.5 million and collateral to support issued letters of credit of \$2.9 million were included in long-term investments. The decrease in the face and carrying values of the investments formerly known as ABCP is explained herein. These investments were classified as held for trading and were carried at fair value, which is assessed each reporting date.

In January, 2009, the Pan-Canadian Investors Committee for Third-Party Structured Asset-Backed Commercial Paper announced that the Superior Court of Ontario granted the Plan Implementation Order and that, accordingly, the plan for restructuring ABCP had been fully implemented. In exchange for the shorter-term ABCP, the company has now received the longer term notes with maturities that generally approximate those of the assets previously contained in the underlying conduits. Assuming these replacement notes become liquid and could be sold for cash, the company would be able to substantially reduce its net indebtedness incurred from lack of access to these amounts.

During the third quarter of 2009, the company was advised that its investment in the ineligible asset tracking note Class 2 ("IA – Class 2") had total pledged collateral of \$400.0 million. Several credit events have occurred in the IA - Class 2 portfolio resulting in losses greater than the pledged collateral, thereby reducing the outstanding principal amount of this investment to nil (the company had an original face value of \$2.9 million in the IA – Class 2 notes). Further, the company's investment in the ineligible asset tracking note Class 1 ("IA – Class 1") has total pledged collateral of \$500.0 million and a third party portfolio investment manager expects no principal returns given the likelihood of multiple credit events (the company has an investment with a face value of \$3.7 million in the IA – Class 1 notes). On August 11, 2009 a third party credit rating agency downgraded the Class A-2 notes to "BBB" from "A" and maintained the rating under review with negative implications due to a series of credit events.

For the nine months ended September 30, 2009, the company received \$1.5 million in payments, representing interest that had accrued on the previous holdings of ABCP during the period from mid-August 2007 until January 21, 2009, net of its pro-rata portion of expenses, including legal costs associated with the resolution agreed and approved under the Canada Business Corporations Act and the Companies Creditors' Arrangement Act. It is expected that substantially all of the restructuring costs and reserves were deducted from these payments and are not expected to have any further impact on future payments to the company, although there may be other deductions related to alternative banking, legal or administrative fees. For the three months and nine months ended September 30, 2009, the company received \$0.1 million of interest and return of capital payments that had accrued on the investments formerly known as ABCP during the period from January 21, 2009 until September 30, 2009. For the three months and nine months ended September 30, 2009, the company has recognized a \$2.1 million impairment in the carrying value of its longer-term notes received in exchange for ABCP primarily due to the loss in its IA – Class 1 and IA – Class 2 notes resulting from a series of third party credit defaults or expected defaults, respectively, and a lowered rating from a third party credit rating agency on the company's A-2 class of investment notes.

As no active market for the longer term notes has developed, management has estimated the fair value of the company's investment in the longer term notes at September 30, 2009, based on a probabilistic recovery of principal and interest, after taking into account all available information. Under this valuation method, several different outcomes of the recovery of the principal and interest are estimated, considering the information available as at September 30, 2009. A weighted average recovery is then calculated. This weighted average recovery is used to determine the discounted cash flows that are expected from these investments. The discount rate used to discount the expected cash flows from the longer term notes was an approximation of the risk-free rate for the expected life of the longer term



notes to be received. As the rate used for discounting was an approximation of the risk-free rate, all other risks have been incorporated in the estimated probability-adjusted expected outcomes. This methodology applied all risking information into the various scenarios and discounted the fully-risked cash flow stream only for the time value of money. The recovery factors used were as follows:

Class of Note	Face Value of Notes (\$000s)	Risk-adjusted Capital Recovery Range	Risk-adjusted Interest Recovery Range	Capital Weighted Average Recovery	Interest Weighted Average Recovery	Term (years)	Risk-free Discount Rate
A-1	\$ 13,978	0 – 80%	0 – 60%	75%	54%	4 – 8	3%
A-2	13,543	0 – 70%	0 – 30%	64%	27%	8	3%
B	2,459	0 – 30%	0%	27%	0%	8	3%
C	928	0%	0%	0%	0%	8	3%
IA Tracking	3,674	0%	0%	0%	0%	8	3%
Total	\$ 34,582						

Based on the above approach the fair value of the investment in the longer term notes was \$18.8 million as at September 30, 2009 compared to \$22.5 million as at December 31, 2008. The reduction reflected the receipt of interest and return of principal totaling \$1.6 million in 2009 but incorporated in the determination of fair value as at December 31, 2008 and the recognition of impairment in the fair value of the investments formerly known as ABCP for \$2.1 million, as described herein. To date, the total impairment is approximately 45 percent of the original cost of the investment recognized on the longer term notes, including impairments recognized on the ABCP, which is an increase compared to the 40 percent of impairment relative to the original cost of the ABCP recognized at December 31, 2008.

The theoretical fair value of the company's longer-term notes could range from \$14.1 million to \$25.2 million using the valuation methodology described above with reasonably possible alternative assumptions. The outcome of the actual timing and amount ultimately recoverable from these notes may differ materially from this estimate, which would impact the company's earnings.

RELATED PARTY TRANSACTIONS

Connacher Oil and Gas Limited ("Connacher") purchased 13,556,000 Units for gross proceeds of \$11.9 million as offered pursuant to the Public Offering that resulted in the issuance of 56,820,000 Units raising gross proceeds of approximately \$50.0 million. Connacher did not participate in the Over-Allotment Option. The issuance of Units to Connacher pursuant to the Public Offering was measured on the same terms as the Public Offering closed on August 21, 2009.

Under the terms of an Administrative Agreement with Connacher, in effect from January 1, 2008, Connacher provided certain administrative services necessary or appropriate upon the direction of the company. The fee for this services was \$0.1 million for the nine months ended September 30, 2009 (2008 – \$0.1 million). From time to time Connacher also paid bills on behalf of the company, for which it is reimbursed. Connacher also provided certain support and services to the company in its pursuit of exploration opportunities in Colombia, for which it will be indemnified and reimbursed without further economic interest in the secured opportunities. Connacher is a significant shareholder of the company with a 22 percent interest as at September 30, 2009 and the Executive Chairman of the company is the President and Chief Executive Officer of Connacher.

Directors and officers of the company purchased 1,137,500 Units for gross proceeds of \$1.0 million as offered pursuant to the Private Placement. The issuance of Units to the directors and officers of the company pursuant to the Private Placement was measured on the same terms as the Public Offering.

During 2009 the company paid professional legal fees and common share issue costs for the three months and nine months ended September 30, 2009 of \$0.2 million and \$0.4 million, respectively (2008 – \$0.2 million and \$0.8 million, respectively), to a law firm in which an officer of the company is a related party. Transactions with the related party occurred within the normal course of business and have been measured at the exchange amount on normal business terms. The exchange amount is the amount of consideration established and agreed with the related party.

IMPACT OF NEW AND PROPOSED ACCOUNTING PRONOUNCEMENTS

During August, 2009, the CICA issued amendments to Section 3855, Financial Instruments – Recognition and Measurement. The amendments included the definitions of a financial asset or financial liability held for trading and loans and receivables, provided guidance concerning the assessment of embedded derivatives upon reclassification of a financial asset out of the held-for-trading category and requires that Section 3025, Impaired Loans, be applied to assess whether held-to-maturity investments are impaired and to account for any such impairment. The amendment concerning the embedded derivatives was adopted for any reclassification made on or after July 1, 2009 and did not have any impact on the company's financial statements. The remaining amendments to Section 3855 apply to the company's annual financial statements ended December 31, 2009. The adoption of the amendments to Section 3855 is not anticipated to have an impact on the company's financial statements.



During June, 2009, the CICA issued amendments to Section 3855, Financial Instruments – Recognition and Measurement, and Section 3862, Financial Instruments – Disclosures. The amendment to Section 3855 clarifies when an embedded prepayment option is separated from its host debt instrument for accounting purposes. The company prospectively adopted the CICA amendment to Section 3855 which did not have an impact on the company's financial statements. The amendments to Section 3862 enhance financial instrument disclosure requirements about liquidity risk and provide new disclosure requirements for fair value measurements. The amendments to Section 3862 apply to the company's annual financial statements ended December 31, 2009. Upon adoption of the Section 3862 amendments, the company need not provide comparative information for the disclosures required by the amendments. The adoption of the amendments to Section 3862 is not anticipated to have an impact on the company's financial statements.

Effective January 1, 2009 the company adopted CICA Handbook section 3064, Goodwill and Intangible Assets, which replaced section 3062, Goodwill and Other Intangible Assets and section 3450, Research and Development Costs. Various changes have been made to other sections of the CICA Handbook for consistency purposes. Section 3064 establishes new standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous section 3062. As the company does not carry goodwill or intangible assets, as defined by section 3064, this new standard had no impact on the presentation and disclosures of the company.

In January 2009, the CICA issued EIC-173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. The abstract provides guidance on how to take into account credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments. This abstract is effective for the company's interim and annual Consolidated Financial Statements for periods ending on or after March 31, 2009 with retrospect application without reinstatement of prior periods. The application of this did not have a material effect on the company's Consolidated Financial Statements.

In December 2008, the CICA issued Section 1582, Business Combinations, which will replace CICA Section 1581 of the same name. Section 1582 establishes principles and requirements of the acquisition method for business combinations and related disclosures. This statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 2011 with earlier application permitted. The company is currently evaluating the impact of this changeover on its Consolidated Financial Statements.

In December 2008, the CICA issued Sections 1601, Consolidated Financial Statements, and 1602, Non-Controlling Interests, which replaces existing Section 1600. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are effective on or after the beginning of the first annual reporting period beginning on or after January 2011 with earlier application permitted. These standards currently do not impact the company as it has full controlling interest of all of its subsidiaries.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

In February 2008, the Canadian Accounting Standards Board confirmed that publicly accountable enterprises will be required to adopt International Financial Reporting Standards ("IFRS") in place of GAAP for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011.

Management has commenced its IFRS conversion project which consists of several phases commencing with a review of the company's significant accounting policies relative to current and proposed IFRS. During this preliminary phase, management determined that the differences most likely to have the greatest impact on the company's consolidated financial statements are the accounting for exploration and development activities, assessment of impairment of property and equipment, calculation of asset retirement obligations and the foreign currency translation method of the company's foreign operations. At the present time, the financial impacts of these preliminarily identified accounting policy differences on the company's current financial position and results of operations have yet to be quantified. The impact on the company's disclosure controls, internal controls over financial reporting, contracts and lending agreements will also be determined but have not yet been quantified.

In July 2009, the International Accounting Standards Board approved additional exemptions from the retrospective application of IFRS for first time adopters. Included in this is an exemption that allows full cost oil and gas companies to elect, at the date of transition to IFRS, to measure exploration and evaluation assets at the amount determined under GAAP and to measure oil and gas assets in the development or production phases by allocating the amount determined under GAAP to the underlying assets pro-rata using reserve volumes or reserve values as of that date. Management will consider if this exemption should be applied as it continues to monitor the IFRS adoption efforts of the company's peers.



COMMITMENTS, GUARANTEES AND CONTRACTUAL OBLIGATIONS

WORK COMMITMENTS

In 2005, Petrolifera acquired two significant oil and gas exploration licenses onshore Peru for Blocks 106 and 107, respectively located in the Marañon and Ucayali Basins. During April 2009, Petrolifera was awarded a license over Block 133, offsetting and contiguous with Block 107 and relinquished approximately one half of Block 107 during May 2009. Based on its interpretation of the 950 km 2D seismic program acquired over the acreage by the company in 2007 and 2008, Petrolifera believes it has retained the most prospective acreage under Block 107.

The Peruvian licenses have negotiated work programs through 2016, unless extended. Each work program has a specified minimum financial commitment that must be met for the company to maintain its rights to these licenses. Specifically, the immediate work commitments for Block 133 are primarily comprised of geological field studies and as such are not capital intensive. The company has met, or surpassed, all of its current work commitments for Blocks 106 and 107 in a timely manner. The company has the right to withdraw from the licenses at the end of each period associated with the term of the licenses. The first well is required to be drilled per the work programs and as approved by the local Peruvian authorities by mid-2014, which positions the company to defer the more significant of its work programs while still maintaining these properties in good standing.

In 2007, the company was granted three Colombian concessions comprised of one license and two TEAs. Petrolifera has converted the Turpial and Sierra Nevada II TEAs into exploration licenses, the latter was renamed Magdalena. Petrolifera drilled the La Pinta #1 well on the Sierra Nevada I License, which completed this license's first phase of work commitments and the company is now in the second phase of the work program, which requires the drilling of one exploratory well and acquiring seismic by June, 2010. On the company's Turpial License, the company has completed its seismic acquisition, processing and interpretation program and entered into the second phase of the exploration contract. The second phase of the work program for the Turpial License requires the drilling of one exploratory well prior to September, 2010. The company is in the first phase of its Magdalena License which requires 3D seismic acquisition, processing and interpretation of 150 km² of the seismic data to be completed prior to December, 2010.

In Argentina, the company has estimated total gross remaining work commitments of US\$4.0 million, related to the Vaca Mahuida and Puesto Guevara Concessions, that are to be completed during 2010. During the nine months ended September 30, 2009, the company completed its work commitments related to the Gobernador Ayala II block and is currently discussing the development of this block with the Province of La Pampa, Argentina. A portion of the Argentinean work commitments related to the Vaca Mahuida Block has been farmed out to a third party.

CONTRACTUAL OBLIGATIONS

The company's contractual obligations for drilling, leases for office premises and other equipment and an administrative services agreement for the three months ended December 31, 2009 and annually thereafter are as follows:

	2009	2010	2011	Subsequent to 2011	Total
(\$000)					
Drilling service contracts and other leases	\$ 5,685	\$ 16,266	\$ 429	\$ 322	\$ 22,702

GUARANTEES

The company has issued letters of credit in the total amount of US\$1.6 million to secure the capital expenditure requirements associated with two exploration licenses in Peru and US\$1.7 million in support of the Colombian work commitments, as well as depositing US\$4.1 million in a trust account in Colombia to meet certain of the company's Magdalena work obligations as they occur.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

Disclosure controls and procedures have been designed to ensure that information required to be disclosed by the company is accumulated, recorded, processed, summarized and reported to the company's management as appropriate to allow timely decisions regarding required disclosure. Based on their evaluation as of the end of the nine months covered by this MD&A, the company's Executive Chairman, President and Chief Operating Officer and Chief Financial Officer have concluded that the company's disclosure controls and procedures as of the end of such period are designed to provide reasonable assurance that material information related to the company, including its consolidated subsidiaries, is communicated to them as appropriate to allow timely decisions regarding required disclosure.



Management of the company is also responsible for designing adequate internal controls over the company's financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. There have been no changes in the company's systems of internal controls over financial reporting that would materially affect, or is reasonably likely to materially affect, the company's internal controls over financial reporting.

BUSINESS RISKS

Petrolifera is exposed to certain risks and uncertainties inherent in the oil and gas business. Furthermore, being a smaller independent company, it is exposed to financing and other risks which may impair its ability to realize on its assets or to capitalize on opportunities which might become available to it. Additionally, Petrolifera operates in various foreign jurisdictions and is exposed to other risks including currency fluctuations, political risk, price controls and varying forms of fiscal regimes or changes thereto which may impair Petrolifera's ability to conduct profitable operations.

The risks arising in the oil and gas industry include price fluctuations for both crude oil and natural gas over which the company has limited control; risks arising from exploration and development activities; production risks associated with the depletion of reservoirs and the ability to market production. Additional risks include environmental and health and safety concerns.

Farm-out (and joint venture) efforts continue with respect to much of the company's prospect inventory. Current capital market conditions may make this process more challenging and time consuming than under more buoyant economic conditions, resulting in the company having to bring participants into its acreage holdings and planned activities on less attractive terms than might otherwise have been negotiated. There can be no assurances as to the timing or completion of possible farm-out (and/or joint venture) arrangements.

The success of the company's capital programs as embodied in its productivity and reserve base, could also impact its prospective liquidity and pace of future activities. Control of finding, development, operating and overhead costs per boe is an important long-term criterion in determining company growth, success and access to new capital sources.

To date, the company has utilized debt and equity financing and has had a bias towards conservatively financing its operations under normal industry conditions to offset the inherent risks of international oil and gas exploration, development and production activities. The company may be required to raise additional capital to fund its activities in light of overall industry conditions, the high cost of the La Pinta well, the termination of the Argentina sale process and the slow pace at which farm-out negotiations are preceding. Capital markets may not be receptive to offerings of new equity from treasury, whether by way of private placement or public offerings.

Access to financing has been impacted by sub-prime mortgage defaults, the liquidity crisis affecting the ABCP and collateralized debt obligation markets and a deterioration in the global economy. Banks have been adversely affected by the worldwide economic crisis and have severely curtailed existing liquidity lines, increased pricing and introduced new and tighter borrowing restrictions to corporate borrowers, with extremely limited access to new facilities or for new borrowers. These factors may impact Petrolifera's ability to obtain equity, debt or bank financing on terms that are commercially reasonable, or at all, and could negatively impact its ability to access liquidity needed for its operations in the longer term. This may be further complicated by the limited market liquidity for shares of smaller companies, restricting access to some institutional investors.

Periodic fluctuations in energy prices may also affect lending policies of the company's banker for new borrowings in addition to the semi-annual review of existing availability of indebtedness. This in turn could limit growth prospects over the short run or may even require the company to dedicate cash flow, dispose of properties or raise new equity to reduce bank borrowings under circumstances of declining energy prices or disappointing drilling results.

While hedging activities may have opportunity costs when realized prices exceed hedged pricing, such transactions are not meant to be speculative and are considered within the broader framework of financial stability and flexibility. Management continuously reviews the need to utilize such financing techniques.

The company attempts to mitigate its business and operational risk exposures by maintaining comprehensive insurance coverage on its assets and operations, by employing or contracting competent technicians and professionals, by instituting and maintaining operational health, safety and environmental standards and procedures and by maintaining a prudent approach to exploration and development activities. The company also addresses and regularly reports on the impact of risks to its shareholders, writing down the carrying values of assets that may not be recoverable.

OUTLOOK

Petrolifera's outlook has improved with the successful completion of our \$58.5 million equity financing in August 2009. Our strengthened financial condition will allow us the ability to continue our high potential exploration program in Colombia, to enhance production in Argentina and to pay down our reserve-backed debt while we renegotiate terms of our borrowings and extend the term, as intended. We will also be better positioned in our negotiations of farmout terms in both Colombia and Peru.



We intend to husband our resources and continue our commitment to attracting third party funding of higher risk activity which we can pursue because of the vast potential associated with our projects in both Colombia and Peru. We will also aggressively pursue farmouts in Argentina to eliminate residual work commitments incurred during more buoyant market conditions and before the harsh imposition of price controls on crude oil sales.

We will conduct an exciting yet prudent capital program in 2010, supplemented by third party funding through farmouts. With healthy cash balances, a satisfactory level of cash generation from Argentina and the anticipated successful conclusion of the renegotiation of our reserve-backed loan facility, we will have sufficient financial wherewithal to conduct a value added program for our shareholders during 2010.

For 2010, a gross capital budget of approximately \$53.0 million is envisioned, contingent upon successful renegotiation of terms related to the company's reserve-backed loan and reasonably stable crude oil prices, with no improvement in the Argentina fiscal regime. The company's budget also assumes that certain sunk costs will be recovered through farmouts in Colombia and Peru and that certain work programs will be financed by third parties. This would result in a net capital outlay by Petrolifera of approximately \$20.0 million and may result in La Pinta #1 testing, up to three new wells in Colombia, one new exploratory well in Argentina and third party fulfillment of remaining Argentine commitments of US\$4.0 million. A well on Block 107 in Peru may also be drilled in 2010 if a third party farmout can be completed in the early portion of the new year, otherwise Peru drilling may not occur until 2011.

FORWARD LOOKING INFORMATION

This Interim Report, including the Letter to Shareholders, contains forward-looking information including, but not limited to the company's plans to renegotiate its existing reserve-backed credit facility, anticipated remediation and further testing of the La Pinta #1 well in Colombia, future exploration and development opportunities in Argentina, Colombia and Peru, anticipated results from the La Pinta #1 well in Colombia, future drilling plans in Argentina, Colombia and Peru, and the anticipated timing associated therewith, anticipated improvements in commodity prices, planned capital expenditures (including sources of funding and timing thereof), strategies for reducing the company's financial exposure to high cost exploration and drilling activities and eliminate residual commitments in Argentina including, planned farm-out and/or joint ventures arrangements and reimbursement of sunk costs, recovery of the company's investment in ABCP, the anticipated impact of the proposed conversion to IFRS on the company's consolidated financial statements, payments to be made against the company's reserve-backed credit facility and the timing thereof and the company's ability to continue to comply with financial covenants imposed pursuant to its reserve-backed credit facility. Forward looking information is not based on historical facts but rather on Management's expectations regarding the company's future growth, results of operations, production, future capital and other expenditures (including the amount, nature and sources of funding thereof), competitive advantages, plans for and results of drilling activity, environmental matters, business prospects and opportunities and expectations with respect to general economic conditions. Such forward looking information reflects Management's current beliefs and assumptions and is based on information currently available to Management. Forward looking information involves significant known and unknown risks and uncertainties. A number of factors could cause actual results to differ materially from the results discussed in the forward looking information, including but not limited to, risks associated with the oil and gas industry (e.g. operational risks in development, exploration and production, delays or changes to plans with respect to exploration or development projects or capital expenditures; the uncertainty of reserve estimates; the uncertainty of estimates and projections in relation to production, costs and expenses and health, safety and environment risks), the risk of commodity price and foreign exchange rate fluctuations, the uncertainty associated with negotiating with foreign governments and third parties located in foreign jurisdictions and the risk associated with international activity. There can be no assurance that remediation efforts and subsequent testing of the La Pinta #1 well drilled on the Sierra Nevada I License will yield commercial results. The company's ability to complete its capital program and repay outstanding indebtedness is dependant upon completion of planned farm-out arrangements and recovery of sunk costs, restoration of production in Argentina and stabilized or improved commodity prices. In addition, the current financial crisis has resulted in severe economic uncertainty and resulting illiquidity and volatility in credit and capital markets which increases the risk that actual results will vary from forward looking expectations in this report and these variations may be material. Petrolifera may have to bring participants into its acreage holdings and planned evaluation activities on less attractive terms than might otherwise have been the case due to the combination of tighter economic conditions and the influence of contractual commitments and deadlines on the terms of trade. There can be no assurance that the company will be successful in its efforts to secure planned farm-outs and/or joint venture arrangements. Additionally, the company's discussions regarding the renegotiation of its reserve-backed credit facility are at a preliminary stage and there can be no assurance that these discussions will result in terms acceptable to Petrolifera or at all. Additional risks and uncertainties associated with Petrolifera's future plans are described elsewhere in this Interim Report and in Petrolifera's Annual Information Form for the year ended December 31, 2008. Although the forward looking information contained herein is based upon assumptions which Management believes to be reasonable, the company cannot assure investors that actual results will be consistent with this forward looking information. This forward looking information is made as of the date hereof and the company assumes no obligation to update or revise this information to reflect new events or circumstances, except as required by law. Because of the risks, uncertainties and assumptions inherent in forward looking information, prospective investors in the company's securities should not place undue reliance on this forward looking information. Additionally, readers are reminded that cash flow from operations and EBITDA do not have standardized meanings prescribed by GAAP and therefore may not be comparable to similar measures used by other companies. Cash flow from operations and EBITDA are reconciled to net earnings in the MD&A.



QUARTERLY RESULTS ⁽⁴⁾

For the Three Months Ended	2007			2008			2009	
	Dec 31	Mar 31	June 30	Sept 30	Dec 31	Mar 31	June 30	Sept 30
FINANCIAL RESULTS (\$000, EXCEPT PER SHARE AMOUNTS) - UNAUDITED								
Total revenue	27,266	27,167	33,622	32,126	37,411	26,407	22,255	17,229
Cash flow ⁽¹⁾	10,707	11,902	13,485	15,726	21,689	10,804	10,233	5,503
Basic, per share ⁽¹⁾	0.21	0.24	0.27	0.29	0.39	0.20	0.19	0.07
Diluted, per share ⁽¹⁾	0.21	0.23	0.26	0.28	0.39	0.20	0.18	0.07
Net earnings (loss)	4,863	1,738	3,590	3,564	2,662	1,188	3,427	(11,359)
Basic, per share	0.10	0.04	0.07	0.06	0.05	0.02	0.06	(0.14)
Diluted, per share ⁽⁵⁾	0.09	0.03	0.07	0.06	0.05	0.02	0.06	(0.14)
Capital expenditures	57,608	31,056	29,110	21,046	35,539	25,612	20,477	13,389
Cash or cash equivalents	13,052	11	41,039	14,865	30,701	30,994	14,803	55,953
Working capital	(31,779)	(51,546)	13,295	8,148	19,956	33,768	22,895	724
Long-term bank debt	-	-	43,800	45,576	77,150	104,649	102,104	27,464
Shareholders' equity	120,303	127,225	168,735	178,069	202,347	209,240	201,749	238,475
Total assets	204,227	231,278	292,882	279,174	355,658	371,054	353,424	368,288
OPERATING RESULTS								
Sales volumes:								
Crude oil and natural gas liquids - bbl/d	6,565	6,726	7,111	6,850	6,877	5,245	4,625	3,653
Natural gas - mcf/d	2,860	7,044	5,922	5,363	5,451	6,500	6,232	4,252
Equivalent - boe/d ⁽²⁾	7,042	7,900	8,098	7,744	7,786	6,328	5,691	4,362
Pricing:								
Crude oil and natural gas liquids - \$/bbl	44.36	41.99	49.90	48.93	56.76	52.17	48.72	48.07
Natural gas - \$/mcf	1.76	2.20	2.38	2.58	2.88	2.98	2.87	2.74
Selected highlights - \$/boe ⁽²⁾ :								
Weighted average selling price - \$/boe	42.07	37.72	45.56	45.07	52.15	46.30	42.97	42.93
Interest and other income	0.01	0.07	0.07	0.02	0.08	0.06	-	-
Royalties	5.76	4.71	6.33	6.80	7.66	6.02	6.74	6.09
Operating costs	8.20	8.24	8.60	9.00	10.28	10.33	11.04	14.36
Corporate netback ⁽³⁾	28.12	24.84	30.69	29.29	34.29	30.01	25.20	22.48
COMMON SHARE INFORMATION (000, EXCEPT SHARE PRICE)								
Shares outstanding at end of period	50,127	50,353	54,798	54,948	54,948	54,948	54,948	121,759
Weighted average shares outstanding for the period:								
Basic	50,123	50,212	50,500	54,884	54,948	54,948	94,948	82,418
Diluted ⁽⁵⁾	51,689	51,562	51,735	55,897	55,043	55,195	55,600	82,539
Volume traded during quarter	12,223	7,721	4,590	7,884	8,826	10,053	13,268	55,032
Common share price (\$):								
High	17.10	11.96	11.25	8.72	3.99	1.60	3.47	2.85
Low	9.14	6.61	8.25	3.16	0.75	0.80	1.49	0.76
Close (end of period)	9.87	9.10	8.69	3.37	1.05	1.60	2.85	1.08

(1) Cash flow from operations before non-cash working capital changes ("cash flow") and cash flow per share do not have standardized meanings prescribed by Canadian generally accepted accounting principles ("GAAP") and therefore may not be comparable to similar measures used by other companies. Cash flow includes all cash flow from operating activities and is calculated before changes in non-cash working capital. The most comparable measure calculated in accordance with GAAP would be net earnings (loss). Cash flow is reconciled with net earnings (loss) in this Management's Discussion & Analysis ("MD&A"). Management uses these non-GAAP measurements for its own performance measures and to provide its shareholders and investors with a measurement of the company's efficiency and its ability to fund a portion of its future growth expenditures.

(2) All references to barrels of oil equivalent (boe) are calculated on the basis of 6 Mcf : 1 bbl. Boe may be misleading particularly if used in isolation. This conversion is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

(3) Corporate netback is a non-GAAP measure used by management as a measure of operating efficiency and profitability. It is calculated as petroleum and natural gas revenue and other income less royalties and operating costs. For a reconciliation of netbacks to net earnings (loss) see "MD&A".

(4) Fluctuations in results over the previous quarters are due principally to variations in oil and gas prices and production volumes. In addition, the net loss for the quarter ended September 30, 2009 was adversely affected by the inclusion of depletion and depreciation from March 2, 2009 to June 30, 2009. Depletion and depreciation was initially not recognized after March 2, 2009 due to the decision, at that time, to sell the company's Argentinean interests. Attributing to fluctuations in working capital is the classification of debt as either current or long-term.

(5) As the company has net losses during the three months ended September 30, 2009, the dilutive effect of stock options and stock purchase warrants became anti-dilutive causing the basic weighted average common shares outstanding to be used as the denominator in the dilutive per share net loss calculation.



CONSOLIDATED BALANCE SHEETS

PETROLIFERA PETROLEUM LIMITED (UNAUDITED)

As at (\$000)	Sept. 30, 2009	Dec. 31, 2008
ASSETS		
Current		
Cash	\$ 55,953	\$ 30,701
Accounts receivable	18,067	37,331
Restricted cash (Note 4)	2,513	-
Income taxes receivable	4,720	4,736
Inventory (Note 5)	632	658
Prepaid expenses	308	535
Deferred financing costs (Note 6)	924	-
	83,117	73,961
Long-term investments (Note 4)	19,873	25,428
Property and equipment	265,298	254,644
Deferred financing costs (Note 6)	-	1,625
	\$ 368,288	\$ 355,658
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 17,203	\$ 35,882
Income taxes payable	810	1,444
Bank debt (Note 6)	64,332	16,637
Due to a related company (Note 7)	48	42
	82,393	54,005
Long-term bank debt (Note 6)	27,464	77,150
Asset retirement obligations (Note 8)	9,534	10,106
Future income taxes	10,422	12,050
	129,813	153,311
SHAREHOLDERS' EQUITY		
Share capital, warrants and contributed surplus (Note 9(a))	167,950	108,254
Accumulated other comprehensive income (loss)	(718)	16,106
Retained earnings	71,243	77,987
	238,475	202,347
	\$ 368,288	\$ 355,658

Commitments and guarantees (Note 13)



CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

PETROLIFERA PETROLEUM LIMITED (UNAUDITED)

\$000 (except per share amounts)	Three Months Ended Sept.30		Nine Months Ended Sept. 30	
	2009	2008	2009	2008
REVENUE				
Petroleum and natural gas sales	\$ 17,229	\$ 32,110	\$ 65,854	\$ 92,793
Interest income	-	16	37	122
	17,229	32,126	65,891	92,915
Royalties	(2,445)	(4,842)	(9,362)	(12,892)
	14,784	27,284	56,529	80,023
EXPENSES				
Operating	5,763	6,410	17,362	18,675
General and administrative	2,278	2,240	6,370	6,326
Finance charges (Note 6)	1,132	1,361	4,057	3,584
Taxes other than income taxes	267	486	1,631	1,808
Foreign exchange loss (gain)	(1,102)	(239)	(110)	969
Depletion, depreciation and accretion	17,568	6,599	24,610	17,656
Stock-based compensation (Note 9(e))	1,561	1,123	3,999	4,252
Fair value impairment (Note 4)	2,104	1,885	2,104	5,377
	29,571	19,865	60,023	58,647
Earnings (loss) before income taxes	(14,787)	7,419	(3,494)	21,376
Current income tax provision	516	1,282	2,906	9,124
Future income tax provision (recovery)	(3,944)	2,573	344	3,360
	(3,428)	3,855	3,250	12,484
NET EARNINGS (LOSS)	(11,359)	3,564	(6,744)	8,892
RETAINED EARNINGS, BEGINNING OF PERIOD	82,602	71,761	77,987	66,433
RETAINED EARNINGS, END OF PERIOD	\$ 71,243	\$ 75,325	\$ 71,243	\$ 75,325
NET EARNINGS (LOSS) PER SHARE (Note 12(a))				
Basic	\$ (0.14)	\$ 0.06	\$ (0.11)	\$ 0.17
Diluted	\$ (0.14)	\$ 0.06	\$ (0.11)	\$ 0.17



CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

PETROLIFERA PETROLEUM LIMITED (UNAUDITED)

(\$000)	Three Months Ended Sept.30		Nine Months Ended Sept. 30	
	2009	2008	2009	2008
Net earnings (loss)	\$ (11,359)	\$ 3,564	\$ (6,744)	\$ 8,892
Foreign currency translation adjustment	(9,173)	4,574	(16,824)	6,632
Comprehensive income (loss)	\$ (20,532)	\$ 8,138	\$ (23,568)	\$ 15,524

CONSOLIDATED STATEMENTS OF ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

PETROLIFERA PETROLEUM LIMITED (UNAUDITED)

(\$000)	Three Months Ended Sept.30		Nine Months Ended Sept. 30	
	2009	2008	2009	2008
Balance, beginning of period	\$ 8,455	\$ (8,616)	\$ 16,106	\$ (10,674)
Foreign currency translation adjustment	(9,173)	4,574	(16,824)	6,632
Balance, end of period	\$ (718)	\$ (4,042)	\$ (718)	\$ (4,042)



CONSOLIDATED STATEMENTS OF CASH FLOWS

PETROLIFERA PETROLEUM LIMITED (UNAUDITED)

	Three Months Ended Sept.30		Nine Months Ended Sept. 30	
(\$000)	2009	2008	2009	2008
Cash provided by (used in) the following activities:				
OPERATING				
Net earnings (loss)	\$ (11,359)	\$ 3,564	\$ (6,744)	\$ 8,892
Items not involving cash:				
Depletion, depreciation and accretion	17,568	6,599	24,610	17,656
Stock-based compensation (Note 9(e))	1,561	1,123	3,999	4,252
Fair value impairment (Note 4)	2,104	1,885	2,104	5,377
Unrealized foreign exchange loss (gain)	(640)	(239)	1,571	969
Amortization of deferred charges	213	221	656	607
Future income tax provision (recovery)	(3,944)	2,573	344	3,360
Cash flow from operations before non-cash working capital changes	5,503	15,726	26,540	41,113
Changes in non-cash working capital (Note 12(b))	2,859	(505)	14,414	(8,677)
	8,362	15,221	40,954	32,436
FINANCING				
Proceeds of bank debt or long-term bank debt	924	-	19,896	44,214
Repayment of bank debt or long-term bank debt	(4,973)	(15,825)	(11,394)	(15,825)
Issue of common shares and common share purchase warrants (Note 9(a))	58,768	73	58,768	40,230
Share issue costs (Note 9(a))	(3,155)	-	(3,155)	(2,240)
Deferred financing costs and other	(218)	(153)	-	(153)
	51,346	(15,905)	64,115	66,226
INVESTING				
Development of oil and gas properties	(13,389)	(21,046)	(59,478)	(81,212)
Receipt of interest on long-term investment (Note 4)	97	-	1,623	-
Investment in restricted cash	(1,482)	-	(1,188)	-
Changes in non-cash working capital (Note 12(b))	(2,577)	(5,441)	(14,839)	(15,825)
	(17,351)	(26,487)	(73,882)	(97,037)
INCREASE (DECREASE) IN CASH	42,357	(27,171)	31,187	1,625
Impact of foreign exchange on foreign currency denominated cash balances	(1,207)	997	(5,935)	188
CASH, BEGINNING OF PERIOD	14,803	41,039	30,701	13,052
CASH, END OF PERIOD	\$ 55,953	\$ 14,865	\$ 55,953	\$ 14,865

Supplementary cash flow information (Note 12(c))



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

PETROLIFERA PETROLEUM LIMITED (UNAUDITED) PERIOD ENDED SEPTEMBER 30, 2009

1. FINANCIAL STATEMENT PRESENTATION AND ACCOUNTING POLICIES

The interim Consolidated Financial Statements include the accounts of Petrolifera Petroleum Limited and its wholly-owned subsidiaries and foreign branches (collectively, "Petrolifera" or the "company") and are presented in Canadian dollars and in accordance with Canadian generally accepted accounting principles. Petrolifera is engaged in petroleum and natural gas exploration, development and production activities in South America.

The interim Consolidated Financial Statements have been prepared following the same accounting policies and methods of computation as the annual audited Consolidated Financial Statements for the year ended December 31, 2008 except as provided in Note 2. The disclosures provided below do not conform in all respects to those included with the annual audited Consolidated Financial Statements. The interim Consolidated Financial Statements should be read in conjunction with the annual audited Consolidated Financial Statements and the notes thereto.

2. NEW ACCOUNTING PRONOUNCEMENTS AND STANDARDS

During August, 2009, the CICA issued amendments to Section 3855, Financial Instruments – Recognition and Measurement. The amendments included the definitions of a financial asset or financial liability held for trading and loans and receivables, provided guidance concerning the assessment of embedded derivatives upon reclassification of a financial asset out of the held-for-trading category and requires that Section 3025, Impaired Loans, be applied to assess whether held-to-maturity investments are impaired and to account for any such impairment. The amendment concerning the embedded derivatives was adopted for any reclassification made on or after July 1, 2009 and did not have any impact on the company's financial statements. The remaining amendments to Section 3855 apply to the company's annual financial statements ended December 31, 2009. The adoption of the amendments to Section 3855 is not anticipated to have an impact on the company's financial statements.

During June, 2009, the CICA issued amendments to Section 3855, Financial Instruments – Recognition and Measurement, and Section 3862, Financial Instruments – Disclosures. The amendment to Section 3855 clarifies when an embedded prepayment option is separated from its host debt instrument for accounting purposes. The company prospectively adopted the CICA amendment to Section 3855 which did not have an impact on the company's financial statements. The amendments to Section 3862 enhance financial instrument disclosure requirements about liquidity risk and provide new disclosure requirements for fair value measurements. The amendments to Section 3862 apply to the company's annual financial statements ended December 31, 2009. Upon adoption of the Section 3862 amendments, the company need not provide comparative information for the disclosures required by the amendments. The adoption of the amendments to Section 3862 is not anticipated to have an impact on the company's financial statements.

Effective January 1, 2009 the company adopted CICA Handbook section 3064, Goodwill and Intangible Assets, which replaced section 3062, Goodwill and Other Intangible Assets and section 3450, Research and Development Costs. Various changes have been made to other sections of the CICA Handbook for consistency purposes. Section 3064 establishes new standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous section 3062. As the company does not carry goodwill or intangible assets, as defined by section 3064, this new standard had no impact on the presentation and disclosures of the company.

In January 2009, the CICA issued EIC-173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. The abstract provides guidance on how to take into account credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments. This abstract is effective for the company's interim and annual Consolidated Financial Statements for periods ending on or after March 31, 2009 with retrospective application without reinstatement of prior periods. The application of this abstract did not have a material effect on the company's Consolidated Financial Statements.

In December 2008, the CICA issued Section 1582, Business Combinations, which will replace CICA Section 1581 of the same name. Section 1582 establishes principles and requirements of the acquisition method for business combinations and related disclosures. This statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 2011 with earlier application permitted. The company is currently evaluating the impact of this changeover on its Consolidated Financial Statements.



In December 2008, the CICA issued Sections 1601, Consolidated Financial Statements, and 1602, Non-Controlling Interests, which replaces existing Section 1600. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are effective on or after the beginning of the first annual reporting period beginning on or after January 2011 with earlier application permitted. Section 1602 currently does not impact the company as it has full controlling interest of all of its subsidiaries. The company is currently evaluating the impact of Section 1601 on its Consolidated Financial Statements.

3. ARGENTINEAN OPERATIONS

The company announced on March 2, 2009 that its Board of Directors had authorized the company to initiate a process to dispose of its Argentinean interests. During early July, 2009, several bids for the company's Argentinean interests were received from third parties and, after careful consideration, on July 15, 2009 the company announced that the process to dispose of its interests did not result in any acceptable bids. Accordingly, the company's Argentinean interests are reported within the unaudited consolidated financial statements from the beginning of each period for the three months and nine months ended September 30, 2009 as though the operations were part of continuing operations, resulting in the recognition of depletion and depreciation expense from the date that management had initially ceased recognition, which was March 2, 2009. This resulted in the company's depletion and depreciation expense for the period from March 2, 2009 through to June 30, 2009, being included in depletion and depreciation expense recognized for the three months ended September 30, 2009.

4. RESTRICTED CASH AND LONG-TERM INVESTMENTS

As at September 30, 2009, long-term investments included notes received in exchange for Asset Backed Commercial Paper ("ABCP") with a face value of \$34.6 million and a carrying value of \$18.8 million and collateral to support issued letters of credit of \$1.1 million, while restricted cash included collateral to support issued letters of credit of \$2.5 million, with terms to maturity of less than one year. As at December 31, 2008, ABCP with a face value of \$37.7 million and a carrying value of \$22.5 million and collateral to support issued letters of credit of \$2.9 million were included in long-term investments. The decrease in the face and carrying values of the investments formerly known as ABCP is explained herein. These investments were classified as held for trading and were carried at fair value, which is assessed each reporting date.

In January, 2009, the Pan-Canadian Investors Committee for Third-Party Structured Asset-Backed Commercial Paper announced that the Superior Court of Ontario granted the Plan Implementation Order and that, accordingly, the plan for restructuring ABCP had been fully implemented. In exchange for the shorter-term ABCP, the company has now received the longer term notes with maturities that generally approximate those of the assets previously contained in the underlying conduits. Assuming these replacement notes become liquid and could be sold for cash, the company would be able to substantially reduce its net indebtedness incurred from lack of access to these amounts.

During the third quarter of 2009, the company was advised that its investment in the ineligible asset tracking note Class 2 ("IA – Class 2") had total pledged collateral of \$400.0 million. Several credit events have occurred in the IA - Class 2 portfolio resulting in losses greater than the pledged collateral, thereby reducing the outstanding principal amount of this investment to nil (the company had an original face value of \$2.9 million in the IA – Class 2 notes). Further, the company's investment in the ineligible asset tracking note Class 1 ("IA – Class 1") has total pledged collateral of \$500.0 million and a third party portfolio investment manager expects no principal returns given the likelihood of multiple credit events (the company has an investment with a face value of \$3.7 million in the IA – Class 1 notes). On August 11, 2009 a third party credit rating agency downgraded the Class A-2 notes to "BBB" from "A" and maintained the rating under review with negative implications due to a series of credit events.

For the nine months ended September 30, 2009, the company received \$1.5 million in payments, representing interest that had accrued on the previous holdings of ABCP during the period from mid-August 2007 until January 21, 2009, net of its pro-rata portion of expenses, including legal costs associated with the resolution agreed and approved under the Canada Business Corporations Act and the Companies Creditors' Arrangement Act. It is expected that substantially all of the restructuring costs and reserves were deducted from these payments and are not expected to have any further impact on future payments to the company, although there may be other deductions related to alternative banking, legal or administrative fees. For the three months and nine months ended September 30, 2009, the company received \$0.1 million of interest and return of capital payments that had accrued on the investments formerly known as ABCP during the period from January 21, 2009 until September 30, 2009. For the three months and nine months ended September 30, 2009, the company has recognized a \$2.1 million impairment in the carrying value of its longer-term notes received in exchange for ABCP primarily due to the loss in its IA – Class 1 and IA – Class 2 notes resulting from a series of third party credit defaults or expected defaults, respectively, and a lowered rating from a third party credit rating agency on the company's A-2 class of investment notes.



As no active market for the longer term notes has developed, management has estimated the fair value of the company's investment in the longer term notes at September 30, 2009, based on a probabilistic recovery of principal and interest, after taking into account all available information. Under this valuation method, several different outcomes of the recovery of the principal and interest are estimated, considering the information available as at September 30, 2009. A weighted average recovery is then calculated. This weighted average recovery is used to determine the discounted cash flows that are expected from these investments. The discount rate used to discount the expected cash flows from the longer term notes was an approximation of the risk-free rate for the expected life of the longer term notes to be received. As the rate used for discounting was an approximation of the risk-free rate, all other risks have been incorporated in the estimated probability-adjusted expected outcomes. This methodology applied all risking information into the various scenarios and discounted the fully-risked cash flow stream only for the time value of money. The recovery factors used were as follows:

Class of Note	Face Value of Notes (\$000s)	Risk-adjusted Capital Recovery Range	Risk-adjusted Interest Recovery Range	Capital Weighted Average Recovery	Interest Weighted Average Recovery	Term (years)	Risk-free Discount Rate
A-1	\$13,978	0 – 80%	0 – 60%	75%	54%	4 – 8	3%
A-2	13,543	0 – 70%	0 – 30%	64%	27%	8	3%
B	2,459	0 – 30%	0%	27%	0%	8	3%
C	928	0%	0%	0%	0%	8	3%
IA Tracking	3,674	0%	0%	0%	0%	8	3%
Total	\$34,582						

Based on the above approach the fair value of the investment in the longer term notes was \$18.8 million as at September 30, 2009 compared to \$22.5 million as at December 31, 2008. The reduction reflected the receipt of interest and return of principal totaling \$1.6 million in 2009 but incorporated in the determination of fair value as at December 31, 2008 and the recognition of impairment in the fair value of the investments formerly known as ABCP for \$2.1 million, as described herein. To date, the total impairment is approximately 45 percent of the original cost of the investment recognized on the longer term notes, including impairments recognized on the ABCP, which is an increase compared to the 40 percent of impairment relative to the original cost of the ABCP recognized at December 31, 2008.

The theoretical fair value of the company's longer-term notes could range from \$14.1 million to \$25.2 million using the valuation methodology described above with reasonably possible alternative assumptions. The outcome of the actual timing and amount ultimately recoverable from these notes may differ materially from this estimate, which would impact the company's earnings.

5. INVENTORY

As at	Sept. 30, 2009	Dec. 31, 2008
(\$000)		
Crude oil	\$ 632	\$ 658

The company maintains inventory as a consequence of the sales process for crude oil which has been produced and not delivered to customers for periods of up to several days, during which time it must be stored. Crude oil inventory was measured at September 30, 2009 and December 31, 2008 using a weighted average cost basis.

As at September 30, 2009 and December 31, 2008, inventory is composed of crude oil held in storage at the company's facilities and in transportation pipelines. Crude oil is carried at the lower of cost and net realizable value.

6. BANK DEBT AND LONG-TERM BANK DEBT

In 2007 the company entered into a US\$100.0 million reserve-backed revolving credit facility with availability as at September 30, 2009 of US\$60.0 million. During July, 2009, the availability of the reserve-backed facility was reduced from US\$70.0 million to US\$60.0 million based on producing crude oil and natural gas reserves as at December 31, 2008. This facility expires on September 5, 2010, bears interest at LIBOR plus a margin, is secured by the pledge of the shares of Petrolifera's subsidiaries and has a provision for a borrowing base adjustment every six months, with the next adjustment to be calculated based on information as at June 30, 2009. As at September 30, 2009 the outstanding reserve-backed facility was \$64.3 million (US\$60.0 million) classified as bank debt. As at December 31, 2008 the outstanding reserve-backed facility was \$77.2 million (US\$63.0 million) classified as long-term debt. Deferred financing costs of \$0.9 million related to this facility are being amortized up to September 5, 2010, the expiration of the facility, and, accordingly, is classified as a current asset (2008 – \$1.6 million was being amortized over the remaining term of this facility and, accordingly, was classified as a long-term asset). For the three months and nine months ended September 30, 2009, the company recognized amortization of deferred charges of \$0.2 and \$0.7 million, respectively (2008 – \$0.2 and \$0.6 million, respectively).



During April, 2009, the company negotiated an expansion of its line of credit ("ABCP line-of-credit") to a maximum of \$28.2 million with a Canadian chartered bank. The ABCP line-of-credit was primarily secured by the longer term notes exchanged for the ABCP. Any borrowings from the expanded ABCP line-of-credit are categorized as long-term, as the facility's initial term to maturity is April, 2011 and the company can make up to five extension requests with each extension representing an additional one-year period. As at December 31, 2008, the prevailing terms of the line of credit were a maximum draw of \$18.0 million and due on demand, resulting in the company then categorizing its borrowings as current. The ABCP line of credit bears interest at a floating rate. As at September 30, 2009 the outstanding ABCP line-of-credit facility was \$27.5 million whereas as at December 31, 2008, the outstanding prior facility was \$16.6 million.

Interest expense on the facilities for the three months and nine months ended September 30, 2009 was \$0.9 million and \$3.4 million, respectively (2008 – \$1.1 million and \$3.0 million, respectively), as disclosed on the Consolidated Statement of Operations and Retained Earnings as finance charges which also includes the amortization of deferred finance charges (see Note 6). The effective interest rate on the company's facilities was 3.0 and 4.4 percent for the three months and nine months ended September 30, 2009, respectively (2008 – 3.6 and 6.0 percent, respectively). The unused credit on the facilities were \$0.7 million as at September 30, 2009 (2008 – \$9.9 million).

7. RELATED PARTY TRANSACTIONS

Connacher Oil and Gas Limited ("Connacher") purchased 13,556,000 units for gross proceeds of \$11.9 million as offered pursuant to the equity financing that resulted in the issuance of 56,820,000 units raising gross proceeds of approximately \$50.0 million (See Note 9(b)). Connacher did not participate in the over-allotment option. The issuance of units to Connacher pursuant to the equity financing was measured on the same terms as the public offering closed on August 21, 2009.

Under the terms of an Administrative Agreement with Connacher, in effect from January 1, 2008, Connacher provided certain administrative services necessary or appropriate upon the direction of the company. The fee for this services was \$0.1 million for the nine months ended September 30, 2009 (2008 - \$0.1 million). From time to time Connacher also paid bills on behalf of the company, for which it is reimbursed. Connacher also provided certain support and services to the company in its pursuit of exploration opportunities in Colombia, for which it will be indemnified and reimbursed without further economic interest in the secured opportunities. Connacher is a significant shareholder of the company with a 22 percent interest as at September 30, 2009 and the Executive Chairman of the company is the President and Chief Executive Officer of Connacher.

Directors and officers of the company purchased 1,137,500 units for gross proceeds of \$1.0 million as offered pursuant to the private placement (see Note 9(c)). The issuance of units to the directors and officers of the company pursuant to the private placement was measured on the same terms as the public offering closed on August 21, 2009.

During 2009 the company paid professional legal fees and common share issue costs for the three months and nine months ended September 30, 2009 of \$0.2 million and \$0.4 million, respectively (2008 – \$0.2 million, and \$0.8 million, respectively), to a law firm in which an officer of the company is a related party. Transactions with the related party occurred within the normal course of business and have been measured at the exchange amount on normal business terms. The exchange amount is the amount of consideration established and agreed with the related party.

8. ASSET RETIREMENT OBLIGATIONS

At September 30, 2009 the estimated total undiscounted amount required to settle the asset retirement obligations was \$17.4 million (December 31, 2008 – \$19.2 million). These obligations are expected to be settled over the useful lives of the underlying assets, which currently extend up to 19 years into the future. This amount has been discounted using a credit-adjusted risk-free interest rate of six percent and an annual inflation rate of two percent. Changes to asset retirement obligations were as follows:

(\$000)	2009
Asset retirement obligations, December 31, 2008	\$ 10,106
Liabilities incurred	296
Cumulative translation adjustment	(1,300)
Accretion expense	432
Asset retirement obligations, September 30, 2009	\$ 9,534



9. SHARE CAPITAL, WARRANTS AND CONTRIBUTED SURPLUS

(A) AUTHORIZED:

The authorized share capital is comprised of an unlimited number of common shares.

ISSUED:

	Number of Securities		Amount (\$000)
Share capital:			
Balances, share capital, Dec. 31, 2008	54,948,010	\$	92,408
Issuance of common shares through public offering (b)	65,343,000		52,928
Issuance of common shares through private placement (c)	1,137,500		921
Issued common shares upon exercise of options (e)	330,000		265
Assigned value of options exercised			67
Issue costs net of tax-effect (b)			(3,071)
Balances, share capital, Sept. 30, 2009	121,758,510	\$	143,518
Warrants:			
Balances, warrants, Dec. 31, 2008	-	\$	-
Issuance of warrants through public offering (b) (d)	32,671,500		4,574
Issuance of warrants through private placement (c) (d)	568,750		80
Balances, warrants, Sept. 30, 2009	33,240,250	\$	4,654
Contributed surplus:			
Balance, contributed surplus, Dec. 31, 2008			15,846
Stock-based compensation (e)			3,999
Assigned value of options exercised			(67)
Balance, contributed surplus, Sept. 30, 2009		\$	19,778
Share capital, warrants and contributed surplus:			
Balance, share capital, warrants and contributed surplus, Dec. 31, 2008		\$	108,254
Balance, share capital, warrants and contributed surplus, Sept. 30, 2009		\$	167,950

(B) EQUITY FINANCING:

On August 21, 2009, the company announced that it entered into a financing agreement with a syndicate of underwriters to issue 56,820,000 units (each, a "Unit") at a price of \$0.88 per Unit, with each Unit consisting of one common share in the capital of the company (each, a "Common Share") and one-half of one Common Share purchase warrant of the company (each whole Common Share purchase warrant, a "Warrant"), on a "marketed" basis, for gross proceeds of approximately \$50.0 million. The price of \$0.88 per Unit is comprised of \$0.81 per Common Share and \$0.07 per one-half Warrant. The underwriters were granted an over-allotment option (the "Over-Allotment Option"), which included the right to purchase up to an additional 15 percent of the Units, exercisable in whole or in part up to 30 days following closing on August 28, 2009. The Over-Allotment Option was exercised in whole by the underwriters, closing on September 4, 2009, and resulted in a total issuance of 65,343,000 Units raising gross proceeds of approximately \$57.5 million. Issue costs of \$3.2 million were incurred with respect to the equity financing less a tax-effect of \$0.1 million.

(C) PRIVATE PLACEMENT:

On September 15, 2009 the company announced that it has closed a non-brokered private placement of 1,137,500 Units at a price of \$0.88 per Unit, with each Unit consisting of a Common Share and one-half of one Warrant, with directors and officers of the Corporation for gross proceeds of approximately \$1.0 million.



(D) WARRANTS:

Each Warrant, comprised of two one-half Common Share purchase warrants, issued pursuant to the equity financing or private placement entitles the holder thereof to purchase one Common Share (each a "Warrant Share") at an exercise price of \$1.20 per Warrant Share for two years from the date of closing of the respective issuance. In the event that the 20-day volume weighted average price of the Common Shares on the Toronto Stock Exchange exceeds \$2.50, the company may, within five business days after such an event, provide notice to the holders of the Warrants ("Warrant holders") of early expiry and thereafter the Warrants can either be exercised or they will expire on the date which is 30 days after the date of the notice to the Warrant holders.

The fair value of each Warrant issued for the nine months ended September 30, 2009 was estimated on the date of issuance using the Black-Scholes option-pricing model with assumptions for Warrants as follows:

	Dividend yield	Risk-free interest rate	Expected life	Expected volatility
2009	-%	1.5%	2 years	90%

The weighted average fair value of all Warrants issued for the three months and nine months ended September 30, 2009 was \$0.14 per Warrant.

(E) STOCK OPTIONS:

As at September 30, 2009 and 2008, the company had stock options outstanding to acquire common shares, as follows:

As at Sept. 30	2009			2008
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of period	4,576,327	\$ 6.85	3,228,867	\$ 8.71
Granted	5,280,900	1.31	830,000	9.24
Exercised	(330,000)	(0.80)	(226,500)	(0.73)
Forfeited	(1,891,160)	13.14	(115,500)	(13.89)
Outstanding, end of period	7,636,067	1.72	3,716,867	9.27
Exercisable, end of period	3,101,467	\$ 1.86	2,698,184	\$ 8.07

Options granted under the plan are generally fully exercisable after two or three years and expire five years after the date granted. The table below summarizes unexercised stock options and the weighted average recurring contractual life, in years, by ranges of exercise prices as at September 30, 2009 and 2008:

As at Sept. 30	2009			2008
	Number Outstanding	Weighted Average Remaining Contractual Life (yrs)	Number Outstanding	Weighted Average Remaining Contractual Life (yrs)
\$0.50 - \$1.00	4,791,067	4.5	787,667	1.7
\$1.09 - \$1.75	381,500	1.3	419,000	2.1
\$2.00 - \$2.64	1,991,000	4.4	-	-
\$3.37 - \$19.20	472,500	3.0	2,510,200	3.5
Total	7,636,067	4.2	3,716,867	2.9

During the three months and nine months ended September 30, 2009, a non-cash expense of \$1.6 million and \$2.9 million, respectively, (2008 – \$1.1 million and \$4.3 million, respectively) was recorded as stock-based compensation, reflecting the amortization of the fair value of stock options over the vesting period. Additionally, during 2009 certain employees, Officers and non-managerial Directors of the company voluntarily surrendered 1,786,660 options with a weighted average exercise price of \$13.79 per option. In accordance with Canadian GAAP, any unvested options that were voluntarily surrendered were deemed to have become vested, resulting in the recognition of an additional non-cash stock-based compensation expense of \$1.1 million.



The fair value of each option granted for the nine months ended September 30, 2009 and 2008 is estimated on the date of grant using the Black-Scholes option-pricing model with assumptions for grants as follows:

	Dividend yield	Risk-free interest rate	Expected life	Expected volatility
2009	-%	2.0% - 2.7%	4 years	89% - 90%
2008	-%	2.9% - 3.4%	4 years	89% - 94%

The weighted average fair value at the date of grant of all options granted for the three months and nine months ended September 30, 2009 was \$0.65 and \$0.84 per option, respectively (2008 - \$3.64 and \$5.93 per option, respectively).

10. FINANCIAL INSTRUMENTS

CAPITAL MANAGEMENT

The company is subject to external restrictions on its reserve-based revolving credit facility. As at September 30, 2009, the facility had an overall limit of US\$100.0 million, with an availability of US\$60.0 million (2008 – US\$70.0 million), based on producing crude oil and natural gas reserves as at December 31, 2008. This facility has a provision for a borrowing base adjustment every six months, with the next adjustment to be calculated based on information as at June 30, 2009. Bank debt and long-term bank debt outstanding cannot exceed two times the 12 month trailing EBITDA. EBITDA is defined by the credit facility agreement as net earnings (loss) prior to deduction of interest, income taxes, depletion, depreciation and accretion expense and other non-cash expenses and is reconciled to net earnings (loss) as follows:

(\$000)	Three Months Ended				12 Months Ended
	Dec. 31, 2008	Mar. 31, 2009	June 30, 2009	Sept. 30, 2009	Sept 30, 2009
Net earnings (loss)	\$ 2,662	\$ 1,188	\$ 3,427	\$ (11,359)	\$ (4,082)
Add interest, income taxes, depletion, depreciation and accretion expense and other non-cash expenses:					
Depletion, depreciation, and accretion	11,328	6,904	138	17,568	35,938
Finance charges	1,833	1,577	1,348	1,132	5,890
Fair value impairment	3,505	-	-	2,104	5,609
Stock-based compensation	1,595	1,592	846	1,561	5,594
Income tax provision (recovery)	1,947	1,044	5,634	(3,428)	5,197
Unrealized foreign exchange loss (gain)	(789)	815	1,396	(640)	782
EBITDA	\$ 22,081	\$ 13,120	\$ 12,789	\$ 6,938	\$ 54,928

As at September 30, 2009, bank debt and long-term bank debt outstanding was \$91.8 million and two times EBITDA was \$109.9 million, for a ratio of 0.84:1.00, which is below the imposed limit.

CREDIT RISK

The company is exposed to credit risk in relation to its cash, accounts receivable, restricted cash and long-term investments:

Cash and restricted cash are held with highly rated international banks and therefore the company considers these assets to have negligible credit risk.

The company's accounts receivable are primarily with multinational purchasers, oil and gas marketers and local government agencies. The company conducts a small minority of its business through joint ventures, so its overall exposure to credit risk from joint venture partners is considered to be low. The company's production base is entirely located in Argentina, and is heavily weighted to oil. The company has a concentration of credit risk as it sold US\$51.9 million of crude oil production to one multinational purchaser for the nine months ended September 30, 2009. Gas production is sold to a reputable local gas marketing company. Receivables with local government agencies mainly pertain to input taxes paid on certain expenditures. The company has not experienced any collection problems with its counterparties and does not currently have any overdue amounts.

Refer to Note 4 for further discussion regarding the credit risk of long-term investments.

The carrying amounts of cash, accounts receivable, restricted cash and long-term investments represent the company's maximum credit exposure. The company does not have an allowance for doubtful accounts and did not write off any receivables for the three months and nine months ended September 30, 2009.



LIQUIDITY RISK

The company manages the risk of not meeting its financial obligations through management of its capital structure, annual budgeting of its revenues, expenditures and cash flows, cash flow forecasting and maintaining an unused credit facility where practicable.

Accounts payable, as disclosed on the Consolidated Balance Sheet, falls due within the next year and is anticipated to be funded through the company's cash, collections of accounts receivable and the unused credit facility. The revolving reserve-backed debt facility has a current available limit of US\$60.0 million, of which \$64.3 million is drawn at September 30, 2009. Changes in the availability of the reserve-backed credit facility are anticipated to occur, from time-to-time, through significant reserve additions, disposals or revisions. This facility expires on September 5, 2010. The company holds a \$28.2 million ABCP line-of-credit, of which \$27.5 million is drawn at September 30, 2009, that is primarily secured by the longer term notes received in exchange for the ABCP. The line of credit bears interest at a floating rate.

MARKET RISK

Changes in commodity prices, interest rates and foreign currency exchange rates can expose the company to fluctuations in its net earnings (loss) and in the fair value of its financial assets and liabilities.

Commodity Price Risk

Price fluctuations for crude oil, natural gas liquids and natural gas are a risk to the company over which the company has little influence. Due to pricing controls present in Argentina and a domestic crude oil sales agreement with a multinational purchaser, crude oil selling prices reflect both current market conditions in Argentina and the movement of crude oil prices in international markets. Natural gas prices are impacted by the Argentine government and local demand with historic prices at low levels compared to world prices.

Interest Rate Risk

Floating rate debt exposes the company to fluctuations in cash flows and net earnings (loss) due to changes in market interest rates. Based on the existing debt balance, a one percent increase (decrease) in the underlying market interest rates would have decreased (increased) net earnings by approximately \$0.7 million on an annual basis.

Foreign Currency Exchange Rate Risk

Substantially all of the company's operations are conducted in foreign jurisdictions, so the company is exposed to foreign currency exchange rate risk on most of its activities as reported in Canadian Dollars (CAD). Oil and natural gas sales contracts are denominated in US Dollars (USD) and settled in Argentine Pesos (ARS). Operating and capital expenditures are incurred in USD and ARS, and to a lesser extent in Peruvian Nuevos Soles (PEN) and Colombian Pesos (COP). The revolving credit facility is denominated in USD, which partially limits the company's exposure in terms of cash outflows (interest expense) being inversely correlated to cash inflows (oil and gas revenues). The table below details the company's financial instruments exposure to foreign currencies:

(\$000)	Per Balance Sheet	CAD \$ equivalent amounts					
		CAD	USD	ARS	PEN	COP	
Cash	\$ 55,953	\$ 23,294	\$ 22,186	\$ 5,587	\$ 86	\$ 4,800	
Accounts receivable	18,067	135	3,627	8,487	1,207	4,611	
Restricted cash	2,513	-	2,513	-	-	-	
Long-term investments	19,873	18,854	1,019	-	-	-	
Accounts payable and accrued liabilities	(17,203)	(1,023)	(2,742)	(8,120)	(11)	(5,307)	
Bank debt	(64,332)	-	(64,332)	-	-	-	
Long term bank debt	(27,464)	(27,464)	-	-	-	-	
Net financial assets (liabilities)	\$ (12,593)	\$ 13,796	\$ (37,729)	\$ 5,954	\$ 1,282	\$ 4,104	



The company estimates a 20 percent change in the Canadian Dollar against the above listed foreign currencies could be reasonably possible over a twelve month period. A 20 percent strengthening in the CAD would result in a change to earnings (loss) before taxes and other comprehensive income (loss) as follows (an equal but opposite impact to earnings (loss) before taxes and other comprehensive income (loss) would result if the CAD weakened by 20 percent):

(\$000)	CAD \$ equivalent amounts			
	USD	ARS	PEN	COP
Decrease in earnings before taxes	\$ (1,219)	\$ -	\$ (214)	\$ (684)
Increase in other comprehensive income	\$ 6,515	\$ -	\$ -	\$ -

11. SEGMENTED INFORMATION

The company has corporate offices in Canada, the US and Barbados (combined to comprise the corporate segment), petroleum and natural gas operations in Argentina and exploration activities in Peru and Colombia. Financial information pertaining to these operating segments is presented below.

(\$000)	Corporate	Argentina	Peru	Colombia	Total
Three Months Ended Sept. 30, 2009					
Revenue, gross	\$ -	\$ 17,229	\$ -	\$ -	\$ 17,229
Net loss	(4,738)	(6,488)	(110)	(23)	(11,359)
Property and equipment	302	164,521	55,655	44,820	265,298
Capital expenditures	14	4,863	309	8,203	13,389
Total assets	\$ 63,227	\$ 190,488	\$ 60,314	\$ 54,259	\$ 368,288
Three Months Ended Sept. 30, 2008					
Revenue, gross	\$ 7	\$ 32,119	\$ -	\$ -	\$ 32,126
Net earnings (loss)	(3,102)	6,534	(41)	173	3,564
Property and equipment	335	161,810	34,245	4,306	200,696
Capital expenditures	31	14,628	4,622	1,765	21,046
Total assets	\$ 36,544	\$ 193,819	\$ 38,161	\$ 10,650	\$ 279,174
Nine Months Ended Sept. 30, 2009					
Revenue, gross	\$ 9	\$ 65,860	\$ 22	\$ -	\$ 65,891
Net earnings (loss)	(10,564)	3,877	(13)	(44)	(6,744)
Property and equipment	302	164,521	55,655	44,820	265,298
Capital expenditures	34	19,989	6,977	32,478	59,478
Total assets	\$ 63,227	\$ 190,488	\$ 60,314	\$ 54,259	\$ 368,288
Nine Months Ended Sept. 30, 2008					
Revenue, gross	\$ 54	\$ 92,861	\$ -	\$ -	\$ 92,915
Net earnings (loss)	(12,923)	21,617	19	179	8,892
Property and equipment	335	161,810	34,245	4,306	200,696
Capital expenditures	31	59,831	18,838	2,512	81,212
Total assets	\$ 36,544	\$ 193,819	\$ 38,161	\$ 10,650	\$ 279,174

Crude oil sales totaling US\$14.6 million and US\$51.9 million was made to one large international oil company during the three months and nine months ended September 30, 2009, respectively (2008 – US\$29.3 million and US\$86.9 million, respectively).

12. SUPPLEMENTARY INFORMATION

(A) PER SHARE AMOUNTS

The following table summarizes the calculation of basic and diluted common shares:

	Three Months Ended Sept. 30		Nine Months Ended Sept. 30	
	2009	2008	2009	2008
Weighted average common shares outstanding	82,417,689	54,884,423	64,205,191	51,876,382
Dilutive effect of stock options and stock purchase warrants	121,139	1,013,443	1,414,008	1,178,292
Weighted average common shares outstanding – diluted	82,538,828	55,897,866	65,619,199	53,054,674



As the company has net losses, the dilutive effect of stock options and stock purchase warrants became anti-dilutive causing 82,417,689 and 64,205,191 weighted average dilutive common shares outstanding to be used as the denominator in the diluted per share net loss calculation for the three months and nine months ended September 30, 2009, respectively.

(B) NET CHANGE IN NON-CASH WORKING CAPITAL

(\$000)	Three Months Ended Sept. 30		Nine Months Ended Sept. 30	
	2009	2008	2009	2008
Accounts receivable	\$ 5,259	\$ 7,400	\$ 17,588	\$ (3,687)
Income taxes receivable	(332)	-	(640)	-
Prepaid expenses	284	(218)	211	(127)
Inventory	10	(190)	(13)	(698)
Accounts payable and accrued liabilities	(5,184)	(7,043)	(17,112)	(15,389)
Income taxes payable	(272)	(5,951)	(465)	(4,621)
Due to a related company	(27)	56	6	20
	\$ 282	\$ (5,946)	\$ (425)	\$ (24,502)
Operating	\$ 2,859	\$ (505)	\$ 14,414	\$ (8,677)
Investing	\$ (2,577)	(5,411)	\$ (14,839)	(15,825)
	\$ 282	\$ (5,946)	\$ (425)	\$ (24,502)

(C) SUPPLEMENTARY CASH FLOW INFORMATION

(\$000)	Three Months Ended Sept. 30		Nine Months Ended Sept. 30	
	2009	2008	2009	2008
Interest paid	\$ 886	\$ 991	\$ 3,341	\$ 2,489
Income taxes paid	\$ 748	\$ 6,592	\$ 3,051	\$ 9,704

13. COMMITMENTS AND GUARANTEES

WORK COMMITMENTS

Each of the Peruvian licenses have negotiated work programs for a period of seven years and the company has the right to withdraw from the licenses at the end of each work program. In 2005 Petrolifera acquired Blocks 106 and 107, two significant oil and gas exploration licenses in Peru. In April, 2009 the company was awarded a third license with Block 133, a block that is contiguous with Block 107.

On Block 106, the company has recently completed the second phase work program and anticipates making an application with the Peruvian authority for completion of the third phase work program by December 31, 2009. The fourth phase work program of Block 106 has a commitment to invest a minimum of US\$1.6 million in at least 60 km of 2D seismic prior to April, 2011. On Block 107, the company has completed the first two phases of work programs and is in the process of applying for completion of the third phase. Upon completion of an Environmental Impact Assessment, the company will be able to proceed with the fourth phase of the work program on Block 107 with a commitment to invest a minimum of US\$10.0 million through the drilling of one well prior to May, 2014. The company is in the first phase of its Block 133 license which requires a minimum investment of US\$0.3 million through the acquisition of 20 km of seismic, field geology and satellite mapping prior to February, 2011.

In 2007, the company was granted three concessions comprised of one license and two technical evaluation agreements ("TEA") in Colombia. Petrolifera has converted the Turpial and Sierra Nevada II TEAs into exploration licenses where the latter was renamed Magdalena. Each of the Colombian licenses have negotiated work programs for a period of six years and the company has the right to withdraw from the licenses at the end of each work program. Petrolifera has drilled the La Pinta #1 well on the Sierra Nevada I License which has completed the first phase work program on this license. The second phase work program of the Sierra Nevada License requires either the drilling of one exploratory well or seismic acquisition and processing of 100 km prior to June, 2010. On the company's Turpial License, the company has completed its 3D seismic acquisition, processing and interpretation program. The second phase of the work program for the Turpial License requires the drilling of one exploratory well prior to September, 2010. The company is in the first phase of its Magdalena license which requires 3D seismic acquisition, processing and interpretation of 150 km² of seismic data to be completed prior to December, 2010.



In Argentina the company has gross work commitments of US\$4.0 million, related to the Vaca Mahuida and Puesto Guevara blocks, that are to be completed during 2010. During the nine months ended September 30, 2009, the company completed its licensed work commitments related to the Gobernador Ayala II block and is currently discussing the development plans of this block with the province of La Pampa, Argentina. A portion of the Argentinean work commitments related to the Vaca Mahuida block has been farmed out to a third party.

CONTRACTUAL COMMITMENTS

The company's contractual commitments under service contracts for drilling, leases for office premises and other equipment and an administrative services agreement for the three months ended December 31, 2009 and annually thereafter are as follows:

	2009	2010	2011	Subsequent to 2011	Total
(\$000)					
Drilling service contracts and other leases	\$ 5,685	\$ 16,266	\$ 429	\$ 322	\$ 22,702

GUARANTEES

The company has issued letters of credit in the total amount of US\$1.6 million to secure the capital expenditure requirements associated with two exploration licenses in Peru and US\$1.7 million in support of the Colombian work commitments, as well as depositing US\$4.1 million in a trust account in Colombia to meet certain of the work obligations as they occur.



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Robert N. Erlich
Vice President, Exploration
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Partner, Macleod Dixon LLP

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Petrolifera Petroleum (Peru) Limited (Barbados)

Petrolifera Petroleum (Americas) Limited (Barbados)

Petrolifera Petroleum (Colombia) Limited (Barbados)

Petrolifera Petroleum del Peruana S.A.C. (Peru)

Petrolifera Petroleum (US) Limited (Delaware)

TSX LISTING

Common shares: **PDP**

Warrants: **PDP.WT**

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