

### LETTER TO SHAREHOLDERS

Petrolifera's focus during the second quarter and first half of 2009 was on the drilling and testing of the La Pinta well in Colombia, the possible sale of its Argentinean operations and continuing efforts to attract industry partners for certain of its high potential properties in Peru and Colombia. Production in Argentina was down, reflecting limited investment undertaken during the sale process period. New heavier oil accumulations were discovered on the company's Gobernador Ayala II block in Argentina.

Subsequent to the reporting period, the sale process in Argentina was terminated as there were no acceptable bids, despite a high level of interest in the company's operations. The La Pinta well, located on Petrolifera's 100 percent owned Sierra Nevada License in the Lower Magdalena Basin onshore northern Colombia, was suspended after testing light crude oil and experiencing a suspected casing split and it is anticipated it will be reentered at a later date to remediate the well, further evaluate the oil-productive zone and to test uphole zones. Discussions continue on the possible farm-out of both Blocks 107 and 133 in the Ucayali Basin, Peru and an agreement has been reached in principle on the Turpial Block in Colombia.

### HIGHLIGHTS OF THE SECOND QUARTER 2009 WERE AS FOLLOWS:

- La Pinta well an indicated crude oil discovery
- New heavy oil accumulations identified in Argentina; evaluation continues
- Continued record of profitability
- Farm-out discussions advancing, emphasizing Peru

### SUMMARY RESULTS

	Three months ended June 30			Six months ended June 30		
	2009	2008	% Change	2009	2008	% Change
<b>FINANCIAL (\$000, except per share amounts)</b>						
Total revenue including discontinued operations <sup>(1)</sup>	\$ 22,255	\$ 33,622	(34)	\$ 48,662	\$ 60,789	(20)
Cash flow from operations before non-cash working capital <sup>(1)</sup>	10,233	13,485	(24)	21,037	25,387	(17)
Per share, basic	0.19	0.27	(30)	0.38	0.50	(24)
Per share, diluted	0.18	0.26	(31)	0.38	0.49	(22)
Net earnings	3,427	3,590	(5)	4,615	5,328	(13)
Per share, basic	0.06	0.07	(14)	0.08	0.11	(27)
Per share, diluted	0.06	0.07	(14)	0.08	0.10	(20)
Capital expenditures including discontinued operations <sup>(1)</sup>	20,477	29,110	(30)	46,089	60,166	(23)
Cash	14,803	41,039	(64)	14,803	41,039	(64)
Working capital	22,895	13,295	72	22,895	13,295	72
Long-term debt including discontinued operations <sup>(1)</sup>	102,104	43,800	133	102,104	43,800	133
Shareholders' equity	201,749	168,735	20	201,749	168,735	20
Total assets	\$ 353,424	\$ 292,882	21	\$ 353,424	\$ 292,882	21
<b>DISCONTINUED OPERATIONS</b>						
<b>Daily sales volumes</b>						
Crude oil and natural gas liquids - bbl/d	4,652	7,111	(35)	4,947	6,918	(28)
Natural gas - mcf/d	6,232	5,922	5	6,365	6,483	(2)
Barrels of oil equivalent - boe/d <sup>(2)</sup>	5,691	8,098	(30)	6,008	7,999	(25)
<b>Average selling prices</b>						
Crude oil and natural gas liquids - \$/bbl	\$ 48.72	\$ 49.90	(2)	\$ 50.54	\$ 46.05	10
Natural gas - \$/mcf	\$ 2.87	\$ 2.38	21	\$ 2.93	\$ 2.28	29
Barrels of oil equivalent - \$/boe	\$ 42.97	\$ 45.55	(6)	\$ 44.72	\$ 41.68	7
<b>COMMON SHARES OUTSTANDING (000s)</b>						
Weighted average						
Basic	54,948	50,500	9	54,948	50,356	9
Diluted	55,600	51,735	7	55,443	51,619	7
End of period	54,948	54,798	-	54,948	54,798	-

- (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 from operations before non-cash working capital changes includes all cash flow from operating and discontinued 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. Cash flow from operations before working capital changes 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. Total revenue, capital expenditures and long-term debt including discontinued operations also do not have standardized meanings as prescribed by GAAP. Total revenue, capital expenditures and long-term debt including discontinued operations includes all revenue, capital expenditures or long-term debt of continuing and discontinued operations. The most comparable measure calculated in accordance with GAAP would be revenue, capital expenditures and long-term debt. Total revenue, capital expenditures and long-term debt including discontinued operations is reconciled with each of the most comparable measures in the accompanying MD&A. Management uses these non-GAAP measures to provide a basis of the company's liquidity resulting from all of its operations.
- (2) All references to barrels of oil equivalent (boe) are calculated on the basis of 6 mcf : 1bbl. 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.

Petrolifera's second quarter and first half of 2009 were dominated by the drilling and testing of the La Pinta well on the company's 100%-owned Sierra Nevada License in Colombia and by the sale process with respect to the company's Argentinean operations.

## COLOMBIA

As has already been reported, drilling of the La Pinta #1 well in Colombia was challenging due to overpressured subsurface conditions, which resulted in unstable downhole conditions in the lower portion of the well. During drilling, heavy mud weights were necessary to control the numerous gas kicks encountered throughout the section to prevent a blowout. Fortunately, we were able to log and then case the well, although there was a minor casing misalignment while running the seven inch casing. This reflected the very challenging drilling conditions which characterize this particular portion of the basin in which the well is located. Fortunately, in other sectors of the Block drilling is anticipated to be shallower and less complicated. In the La Pinta well we were most encouraged by logs and the subsequent analysis thereof and commenced a testing program approximately three months ago. Testing has also been challenging, again arising from the need to guard against the risk of blowout due to the overpressured conditions.

We used state of the art equipment and procedures to enable us to test La Pinta's prospective formations in an underbalanced mode, with special high powered perforation equipment to enable us to penetrate past any damage to the prospective producing formations which might have arisen from the heavy mud weights used during the drilling process. As La Pinta was a deep test and any testing required certainty of packer seals, pressured up to approximately 10,000 pounds, we did encounter misruns, each of which utilized approximately seven to ten days of testing time to run in the testing assembly, attempt to secure stable conditions and then test or pull out for reassembly if a suitable seal was not secured.

We continue to evaluate the results of the testing program from La Pinta, which has been suspended, after testing light oil, due to a suspected casing split. We did encounter significant oil and gas shows in one thick sand package spanning over 410 feet at the base of the well. Log analysis and shows provided the basis for the extensive testing program. Follow up drilling will be assessed after we complete our evaluation of the well results and assess the financial commitment and drilling and completion risk against the well's outcome and alternative priorities. We will be applying to extend the license for one more exploration term.

Elsewhere, we have elected to proceed with the Magdalena License and will create a US \$4.1 million trust, as required by the Colombian authorities, in effect prepaying the costs of our obligatory work program on the Block.

At Turpial, we have reached an agreement in principle with an American independent company whereby Petrolifera expects to recover US\$2.5 million of its sunk costs for seismic on the Block and will be carried, as operator, through the next US\$1.9 million of work on this license, retaining a 50 percent interest therein.

## PERU

In Peru, we have completed our first round of discussions with respect to adjoining Blocks 107 and 133 in the Ucayali Basin, Peru. Several large international companies have examined our technical analysis, under confidentiality agreement and we are anticipating several formal proposals in the near future from among the participants. Again, we are attempting to secure recovery of a portion of our sunk costs of approximately US\$28 million for seismic and a drilling commitment to earn an interest. Petrolifera also anticipates retention of operatorship during the exploratory phase. We do not have any urgency with respect to drilling deadlines, as no wells are required until 2012 at the earliest.



Our seismic program over Block 106 in the Marañon Basin was completed earlier this year and the data has now been processed and interpreted. Once these results have been finalized further farm-out discussions are anticipated with respect to this oil-prone block, which surrounds Peru's largest oil field and in turn is surrounded by a number of oil fields which are filled to spill point. The block is bisected by an underutilized pipeline which positions us favorably for early production once a new discovery is made.

## **ARGENTINA**

During the reporting period, we were engaged in an effort to sell our Argentinean operations as a going concern. Had we secured sufficiently attractive proposals and concluded a sale, it was our intention to deploy proceeds in a debt reduction exercise at our discretion and to invest remaining proceeds in new ventures in Colombia, Peru and possibly other jurisdictions where we had identified attractive new opportunities.

The process did not result in any acceptable bids. Accordingly, we decided to retain our Argentinean properties and we are now developing a new capital budget to enable us to restore production growth and capitalize on the upside of the properties as identified by us and our engineering advisors.

During the past several months, we have conducted a multi-well drilling program to meet our contractual obligations on our 100 percent owned Gobernador Ayala II block in La Pampa province, Argentina. We have identified two heavier oil accumulations at extremely shallow depths in unconsolidated sandstone reservoirs. Several of the drilled wells have been completed as heavier oil (21° -23° API gravity crude oil) producers at modest rates and we are continuing our assessment of completion techniques, in order to ascertain the overall commerciality of these accumulations. Reasonably thick oil columns have been encountered, indicating considerable potential for decent reserve accumulations and well productivity with the application of applicable drilling and completion technology.

Limited activity is contemplated for our other Argentinean holdings during the balance of this year. We do, however, anticipate drilling several infill wells, installing high volume lift pumps and conducting some modest capital programs at the Puesto Morales Norte Field, in order to capitalize on identified productive capacity in this field.

There have recently been some suggestions that Argentina may move to reduce the level of price controls for crude oil and natural gas in the country, in light of declining productivity, lack of suitable levels of reinvestment and the risk of shortages, especially for natural gas, during colder winter months. The country is approaching levels of production which may result in the need to import crude oil to meet internal requirements. Also, there is growing pressure on authorities from industry unions in view of layoffs and the absence of aggressive new investment in seismic and drilling activity. Any moves in this direction may help achieve better economic returns, both for the industry and the government through the taxation and royalty process.

## **OTHER**

Our Management Discussion and Analysis attached hereto contains details about our financial results and financial condition. As a result of the termination of the sale process, we will again be booking our production and operating results in our financial statements from the third quarter during which the decision was made to retain our Argentinean operations. It will take some time for normalized results to be available on a comparative basis, after having to treat Argentina as a discontinued operation during the early part of 2009. It is somewhat confusing so readers are encouraged to read more about the presentation requirements of Canadian generally accepted accounting principles in this regard. See "Discontinued Operations" below.

We are mindful of our overall capital requirements and liquidity and may be required to raise additional capital for our activities.

Exploration, appraisal and development of reserves is speculative and involves a significant degree of risk. There is no guarantee that exploration and appraisal of the Petrolifera's properties will lead to a commercial discovery or, if there is a commercial discovery, that Petrolifera will be able to realize such reserves as intended.

We have reduced our revolving reserve-backed indebtedness and anticipate continuing on this track for the ensuing year. This will limit our surplus funds for new ventures until a balance sheet reconstruction program is completed. We will invoke suitable fiscal constraint and spending discipline until these matters are resolved.

Respectfully submitted,

"Signed"

Richard A. Gusella  
Executive Chairman

"Signed"

Gary D. Wine  
President and Chief Operating Officer



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

The following is dated as of August 6, 2009 and should be read in conjunction with the unaudited consolidated financial statements of Petrolifera Petroleum Limited ("Petrolifera" or the "company") for the six months ended June 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](http://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 future exploration and development opportunities in Argentina, Colombia and Peru, current drilling, testing and completion plans in Colombia, anticipated results from the La Pinta #1 well in Colombia and the wells on the Gobernador Ayala II Concession in Argentina, future drilling plans in Argentina, Colombia and Peru, and the anticipated timing associated therewith, anticipated remediation on the efforts and timing of the full impact of the company's waterflood program, planned 2009 capital expenditures (including sources of funding and timing thereof), strategies for reducing the company's financial exposure to high cost exploration and drilling activities including planned farm-out and/or joint ventures arrangements, anticipated award of the Magdalena License in Colombia, recovery of the company's investment in Asset-Backed Commercial Paper ("ABCP") and anticipated financial condition and liquidity throughout 2009, 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-based credit facility and the timing thereof, the company's ability to continue to comply with financial covenants imposed pursuant to its reserve-based credit facility and the timing of resuming to report the Argentinean operations as continuing operations. See "Forward – Looking Information" for a discussion of the forward-looking information contained in this MD&A and the risks and uncertainties associated therewith. 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.

### **DISCONTINUED 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. Subsequent to June 30, 2009, several bids for the company's Argentinean interests were received from reputable companies. 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 is currently developing a new capital budget to restore production growth.

As required by Canadian GAAP, because the decision to retain the Argentinean operations was made subsequent to June 30, 2009 and did not relate to conditions that existed as at June 30, 2009, the Argentinean operations must be presented as discontinued in the unaudited consolidated financial statements and MD&A (combined together as the "Interim Report"). It is anticipated that the Argentinean operations will be reported as continuing for the 2009 third quarter's Interim Report and thereafter, given the decision made on July 15, 2009 to retain these operations.

### **FINANCIAL AND OPERATING REVIEW OF DISCONTINUED OPERATIONS**

Despite the company's announcement to retain its Argentinean interests as announced on July 15, 2009, these interests are considered discontinued as the decision to terminate the sale process did not relate to conditions that existed at June 30, 2009. As a result, the financial and operating review of the Argentinean operations has been presented separately from the financial review for the company's continuing operations.



## SALES VOLUMES, PRICING AND REVENUE FROM DISCONTINUED OPERATIONS

	Three months ended June 30			Six months ended June 30		
	2009	2008	%	2009	2008	%
Daily sales volumes:						
Crude oil and natural gas liquids – bbl/d	<b>4,652</b>	7,111	(35)	<b>4,947</b>	6,918	(28)
Natural gas – mcf/d	<b>6,232</b>	5,922	5	<b>6,365</b>	6,483	(2)
Equivalent – boe/d	<b>5,691</b>	8,098	(30)	<b>6,008</b>	7,999	(25)
Average selling prices:						
Crude oil and natural gas liquids – \$/bbl	<b>\$ 48.72</b>	\$ 49.90	(2)	<b>\$ 50.54</b>	\$ 46.05	10
Natural gas – \$/mcf	<b>2.87</b>	2.38	21	<b>2.93</b>	2.28	29
Weighted average selling price – \$/boe	<b>\$ 42.97</b>	\$ 45.55	(6)	<b>\$ 44.72</b>	\$ 41.68	7
Petroleum and natural gas sales (\$000)	<b>\$ 22,254</b>	\$ 33,569	(34)	<b>\$ 48,625</b>	\$ 60,683	(20)
Interest income (\$000)	<b>1</b>	53	(98)	<b>6</b>	58	(90)
Total revenue (\$000)	<b>\$ 22,255</b>	\$ 33,622	(34)	<b>\$ 48,631</b>	\$ 60,741	(20)

Petroleum and natural gas revenues for the six months ended June 30, 2009 were \$48.6 million on sales volumes of 6,008 boe/d, compared to \$60.7 million on sales of 7,999 boe/d during the same period in 2008, a decrease of 20 percent for revenue and 25 percent for sales volumes. Petroleum and natural gas revenues for the second quarter of 2009 were \$22.3 million on sales volumes of 5,691 boe/d, compared to \$33.6 million on sales of 8,098 boe/d during the second quarter of 2008, a decrease of 34 percent for revenue and 30 percent for sales volumes. For the three and six months ended June 30, 2009, sales of crude oil and natural gas liquids represented 82 percent of the company's sales volumes, which is comparable to the 88 and 86 percent for the three and six months ended June 30, 2008, respectively. All of Petrolifera's sales during the three and six months ended June 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 and six months ended June 30, 2009, compared to the same periods in 2008, reflects lower sales volumes resulting from minimal investment undertaken during the sale process. These were natural production declines and downtime at several wells. Contributing to the sales volume reductions in the three and six months ended June 30, 2009 relative to the comparable periods in 2008 was scheduled maintenance of a key producing well, PMN – 1061 and shut-ins caused by equipment failures at PMN – 1043 and, to a lesser extent, PMN - 1029. The declines in sales volumes were partially offset by the impact of production from new 2008 discoveries at PME and from the new pool PME-1082 discovery under the Rio Colorado Embalse. Also, the company experienced certain challenges with the PMN waterflood program initiated during 2008, including rising water cuts. These challenges appear to be related to the heterogeneity of the reservoir, including the presence of highly permeable conglomerate zones which act as a conduit, so water flows preferentially. Remedial measures are being evaluated. The company believes that the full positive effect of its waterflood program to repressurize the reservoir and optimize the ultimate recovery of crude oil reserves from the PMN Field remains to be realized.

The company's realized crude oil price rose 10 percent to average \$50.54/bbl for the six months ended June 30, 2009, compared to \$46.05/bbl realized in the same period in 2008. As the US dollar, relative to the Canadian dollar, has strengthened approximately 20 percent during the six months ended June 30, 2009, compared to the same period in 2008, Petrolifera's realized price has increased. The company's realized crude oil price fell two percent to average \$48.72/bbl for the second quarter of 2009, compared to \$49.90/bbl realized in the second quarter of 2008. The realized crude oil price in the second quarter of 2008 was exaggerated by a retroactive receipt from production during mid-November 2007 to April 30, 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 and six months ended June 30, 2009, the crude oil price realized by Petrolifera averaged approximately 77 and 89 percent of the WTI average of US\$54.47/bbl and US\$47.57/bbl, respectively.

Relative to the first quarter of 2009, when petroleum and natural gas revenues were \$26.4 million on sales volumes of 6,328 boe/d, lower revenues (down 16 percent) and sales volumes (down 10 percent) were experienced during the second quarter of 2009. The reduction of crude oil and natural gas liquids production during the second quarter of 2009 relative to the first quarter of 2009 reflects the minimal investment undertaken during the period of the sales process of the company's Argentinean interests. A seven percent decrease also occurred in realized crude oil and natural gas liquids pricing during the second quarter of 2009, relative to the \$52.17/bbl realized during the first quarter of 2009. The fall in the realized crude oil price compared to the first quarter of 2009 is mainly attributable to a sequential six percent strengthening of the Canadian dollar relative to the US dollar, resulting in the reduction in Petrolifera's realized price.

In the three and six months ended June 30, 2009, natural gas prices respectively increased 21 and 29 percent over the level realized during the same periods in 2008 to average \$2.87/mcf and \$2.93/mcf. This reflected some relaxation of regulated Argentinean natural gas prices in industrial markets. These prices were still below prices prevalent in some North American markets. The company successfully negotiated a price increase for Argentinean winter sales volumes to US\$2.40/mcf. This was a 10 percent improvement relative to the US\$2.19/mcf realized during the 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 FROM DISCONTINUED OPERATIONS

Corporate Netbacks<sup>(1)</sup>

(\$000, except per unit amounts)	Three months ended June 30				Six months ended June 30			
	2009		2008		2009		2008	
	Total	Per boe	Total	Per boe	Total	Per boe	Total	Per boe
Average daily sales (boe/d)	5,691		8,098		6,008		7,999	
Petroleum and natural gas sales	\$ 22,254	\$ 42.97	\$ 33,569	\$ 45.55	\$ 48,625	\$ 44.72	\$ 60,683	\$ 41.68
Interest income	1	-	53	0.07	6	0.01	58	0.04
Royalties	(3,488)	(6.74)	(4,666)	(6.33)	(6,917)	(6.36)	(8,050)	(5.53)
Net revenue	18,767	36.24	28,956	39.29	41,714	38.36	52,691	36.19
Operating costs	(5,717)	(11.04)	(6,340)	(8.60)	(11,599)	(10.67)	(12,265)	(8.42)
Corporate netback	\$ 13,050	\$ 25.20	\$ 22,616	\$ 30.69	\$ 30,115	\$ 27.69	\$ 40,426	\$ 27.77

(1) Calculated by dividing related revenue and costs by total boe sold, resulting in a corporate netback from discontinued operations. Netbacks do 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 from discontinued operations. 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 from discontinued operations can be found in the Net Earnings from Discontinued Operations table.

Petrolifera's corporate netback per boe remained relatively unchanged during the six months ended June 30, 2009 compared to that recorded in the same period in 2008. Higher realized commodity pricing during the six months ended June 30, 2009, compared to the same period in 2008 offset higher operating costs per boe resulting in a relatively unchanged corporate netback. The corporate netback per boe decreased 18 percent during the second quarter of 2009 relative to the second quarter in 2008. Lower realized commodity pricing and higher operating costs per boe mainly attributed to the reduction in the second quarter's 2009 corporate netback relative to the second quarter of 2008. Petrolifera's calculated unit netbacks of \$25.20/boe and \$27.69/boe remained a healthy 59 and 62 percent of the selling price per boe during the three and six months ended June 30, 2009, respectively, both slight reductions from the 67 percent corporate netbacks relative to the selling prices per boe during the same periods in 2008.

### OPERATING COSTS – DISCONTINUED OPERATIONS

Total operating costs during the three and six months ended June 30, 2009 respectively decreased by approximately 10 percent and five percent compared to the same periods in 2008, largely due to lower production volumes. On a per boe basis, operating costs increased 28 percent and 27 percent for the three and six months ended June 30, 2009 compared to the same periods for 2008. Lower crude oil and natural gas liquids production volumes, well servicing costs and the challenges related to the company's waterflood program during the three and six months ended June 30, 2009 resulted in the increases on a per boe basis. Additional fluid handling costs associated with the waterflood program, 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 also contributed to higher operating costs per boe during the three and six months ended June 30, 2009 compared to the same periods in 2008.

### ROYALTIES – DISCONTINUED OPERATIONS

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 six months ended June 30, 2009 were \$6.9 million (\$6.36 per boe) or 14 percent of oil and natural gas revenue, compared to \$8.1 million (\$5.53 per boe), or 13 percent of oil 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 six months of 2009 compared to the same period of 2008. Royalties in the second quarter of 2009 were \$3.5 million (\$6.74 per boe) or 16 percent of oil and natural gas revenue, compared to \$4.7 million (\$6.33 per boe) or 14 percent of oil and natural gas revenue in the same period in 2008. The increase during the second quarter of 2009 on a boe basis, relative to the second quarter of 2008, is primarily attributable to the relative higher contribution from the company's PME Field, which has a slightly higher royalty rate than production from the company's PMN Field.



## NET EARNINGS FROM DISCONTINUED OPERATIONS

	Three months ended June 30				Six months ended June 30			
	2009		2008		2009		2008	
(\$000, except per unit amounts)	Total	Per boe	Total	Per boe	Total	Per boe	Total	Per boe
Corporate netback	\$ 13,050	\$ 25.20	\$ 22,616	\$ 30.69	\$ 30,115	\$ 27.69	\$ 40,426	\$ 27.77
General and administrative	(809)	(1.56)	(978)	(1.33)	(1,750)	(1.61)	(1,901)	(1.31)
Finance charges	(1,220)	(2.36)	(1,004)	(1.36)	(2,691)	(2.47)	(1,563)	(1.07)
Foreign exchange gain (loss)	1,420	2.74	(859)	(1.17)	(624)	(0.57)	(883)	(0.61)
Depletion, depreciation and accretion	(138)	(0.27)	(6,388)	(8.67)	(7,042)	(6.48)	(11,057)	(7.60)
Income tax provision	(5,292)	(10.22)	(4,632)	(6.29)	(6,279)	(5.77)	(8,617)	(5.92)
Taxes other than income taxes	(955)	(1.84)	(816)	(1.11)	(1,364)	(1.25)	(1,322)	(0.91)
Net earnings from discontinued operations	\$ 6,056	\$ 11.69	\$ 7,939	\$ 10.77	\$ 10,365	\$ 9.53	\$ 15,083	\$ 10.36

For the six months ended June 30, 2009, the company reported net earnings from discontinued operations of \$10.4 million, which equated to \$0.19 per weighted average basic and diluted share, compared to net earnings from discontinued operations of \$15.1 million, which equated to \$0.30 per weighted average basic and \$0.29 per weighted average diluted share for the same period in 2008. For the second quarter of 2009, the company reported net earnings from discontinued operations of \$6.1 million, which equated to \$0.11 per weighted average basic and diluted share, compared to net earnings from discontinued operations of \$7.9 million, which equated to \$0.16 per weighted average basic and \$0.15 per weighted average diluted share for the same period in 2008.

Net earnings from discontinued operations were lower during the six months ended 2009 compared to the same period in 2008, mainly due to lower crude oil and natural gas liquids sales volumes and higher finance costs partially offset by a lower depletion and depreciation expense. Net earnings from discontinued operations were lower during the second quarter of 2009 relative to the same quarter in 2008 mostly as a result of lower crude oil and natural gas liquids volumes and realized prices partially offset by a lower depletion and depreciation expense. Due to the sales process relating to the company's Argentinean interests, depletion, depreciation and accretion is not comparable on a quarter over quarter and year over year basis. See "Depletion, Depreciation and Accretion-Discontinued Operations".

### GENERAL & ADMINISTRATIVE – DISCONTINUED OPERATIONS

General and administrative ("G&A") expenses were \$1.8 million and \$1.9 million for the six months ended June 30, 2009 and June 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 \$1.1 million and \$1.2 million were also capitalized in the six months ended June 30, 2009 and June 30, 2008, respectively, primarily related to drilling and exploration activity in Argentina.

### FINANCE CHARGES – DISCONTINUED OPERATIONS

Included in the finance charges of \$2.7 million and \$1.6 million for the six months ended June 30, 2009 and June 30, 2008, respectively, was interest paid and accrued on the company's outstanding long-term bank debt and deferred financing charges that are being allocated over the life of the reserve-based credit facility. The effective interest rate on the company's reserve-based facility was 4.9 and 5.6 percent for the three and six months ended June 30, 2009 compared to 8.0 and 7.6 percent for the same periods during 2008, respectively. The increase in finance charges during the six months ended June 30, 2009 compared to the same period in 2008 reflected higher loan amounts outstanding on the reserve based credit facility.

### FOREIGN EXCHANGE – DISCONTINUED OPERATIONS

The impact of the weakening of the Argentinean peso relative to the US dollar on the Argentinean working capital contributed to a foreign exchange charge of \$0.6 million in the six months ended June 30, 2009. The foreign currency translation adjustments that arise from translating the self-sustaining Argentinean operations from US dollars into the company's Canadian dollar reporting currency and as detailed on the Consolidated Statements of Comprehensive Income (Loss) and Consolidated Statements of Accumulated Other Comprehensive Income (Loss), decreased for the three and six months ended June 30, 2009 by \$11.8 million and \$7.7 million, respectively (a decrease of \$0.6 million and an increase of \$2.1 million for the three and six months ended June 30, 2008, respectively), mainly due to a weakening in the US dollar's spot rates, relative to the Canadian dollar, of approximately 11 and nine percent for the three and six months ended June 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-based credit facility, which is denominated in US dollars.



## DEPLETION, DEPRECIATION AND ACCRETION (“DD&A”) – DISCONTINUED OPERATIONS

DD&A is calculated using the unit-of-production method based on total estimated proved reserves. In accordance with Canadian GAAP, depletion and depreciation has not been recognized for the period subsequent to March 2, 2009 as this was the date of the decision to classify the Argentina operations as discontinued. Due to the sales process relating to the company’s Argentinean interests, depletion and depreciation is not comparable to prior periods.

DD&A in the six months ended June 30, 2009 totaled \$7.0 million or \$6.48 per boe sold compared to \$11.1 million or \$7.60 per boe in the same period in 2008. Accretion expense, which is included in DD&A expense, was \$0.1 million and \$0.3 million for the three and six months ended June 30, 2009, compared to \$0.1 million and \$0.2 million during the same periods for 2008, respectively. Accretion expense will continue at appropriate levels in the future to accrete the currently booked discounted liability of \$10.1 million (Dec. 31, 2008 – \$10.1 million) over the estimated remaining economic life of the company’s oil and gas properties. Capital costs of \$16.0 million (Dec. 31, 2008 – \$14.5 million) incurred for unevaluated properties in Argentina have been excluded from the depletion and depreciation expense.

## TAXES – DISCONTINUED OPERATIONS

The current income tax provision of \$2.0 million and \$7.8 million for the six months ended June 30, 2009 and 2008, respectively, related to income taxes payable in Argentina. Additionally, a future income tax provision of \$4.3 million and \$0.8 million in the first six months of 2009 and 2008, respectively, was recorded to recognize the differences, at the statutory rate, between the remaining tax pools and accounting carrying values. The implied effective tax rate from discontinued operations was 38 percent and 36 percent on earnings from discontinued operations before taxes of \$16.6 million and \$23.7 million in the first six months of 2009 and 2008, respectively. Taxes other than income taxes of \$1.4 million and \$1.3 million for the first six months of 2009 and 2008, respectively, represent taxes charged on all banking transactions in Argentina.

## CONTINUING OPERATIONS

### FINANCIAL REVIEW

As previously discussed, Petrolifera’s Argentina operations, which represents all of the company’s current production and related revenues, have been reclassified as discontinued operations in the unaudited consolidated financial statements despite the subsequent period’s decision to hold for use. It is anticipated that the Argentinean operations will be reported as continuing operations for the 2009 third quarter’s Interim Report and thereafter, given the decision to retain these operations. The continuing operations in Colombia and Peru, supported by offices in Canada, Barbados and the U.S., constitute Petrolifera’s disclosed continuing operations. The disclosed continuing operations of Petrolifera are currently in the exploratory phase. There is no current production or related revenues from reserves in these jurisdictions.

### NET EARNINGS AND SHARES OUTSTANDING

(\$000)	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Interest income	\$ -	\$ -	\$ 31	\$ 48
Expenses				
General and administrative	(1,346)	(1,046)	(2,342)	(2,185)
Fair value impairment	-	(2,002)	-	(3,492)
Stock-based compensation	(846)	(731)	(2,438)	(3,129)
Finance charges	(128)	(299)	(234)	(660)
Foreign exchange gain (loss)	33	(259)	(368)	(325)
Income tax provision	(342)	(12)	(399)	(12)
Net loss from continuing operations	(2,629)	(4,349)	(5,750)	(9,755)
Net earnings from discontinued operations	6,056	7,939	10,365	15,083
Net earnings	\$ 3,427	\$ 3,590	\$ 4,615	\$ 5,328
NET EARNINGS PER SHARE:				
Basic	\$ 0.06	\$ 0.07	\$ 0.08	\$ 0.11
Diluted	\$ 0.06	\$ 0.07	\$ 0.08	\$ 0.10

The company reported a net loss from continuing operations of \$5.8 million for the six months ended June 30, 2009, compared to a net loss of \$9.8 million in the same period of 2008. When combined with discontinued operations, the company reported net earnings of \$4.6 million for the first six months of 2009, compared to net earnings of \$5.3 million in the same period of 2008. This equated to \$0.08 per weighted average basic and diluted share compared to \$0.11 per weighted



average basic and \$0.10 per weighted average diluted share for the same period in 2008. Net earnings from continued and discontinued operations ("net earnings") were slightly lower in the first six months of 2009 relative to the same period in 2008, primarily due to lower net earnings from discontinued operations and partially offset by a lower net loss from continuing operations, due to reduced charges for stock-based compensation and no further provision for impairment of the company's investment in Asset Backed Commercial Paper ("ABCP").

The company reported a net loss from continuing operations of \$2.6 million for the second quarter of 2009, compared to a net loss of \$4.3 million in the same period of 2008. When combined with discontinued operations, the company reported net earnings of \$3.4 million for the second quarter of 2009 compared to net earnings of \$3.6 million in the same period of 2008. This equated to \$0.06 per weighted average basic and diluted share during the second quarter of 2009 compared to \$0.07 per weighted average basic and diluted share for the same period in 2008. Net earnings were relatively unchanged in the second quarter of 2009 relative to the second quarter of 2008, primarily as lower net earnings from discontinued operations were offset by a reduced net loss from continuing operations due to no further provision for impairment of the company's investment in ABCP.

During the first three and six months of 2009, the weighted average number of common shares outstanding was 54.9 million, compared to 50.5 million and 50.4 million during the same periods in 2008. The increase in the weighted average number of common shares reflected the June 27, 2008 equity financing for gross proceeds of \$40.0 million, which resulted in the issuance of 4.4 million shares at \$9.00 per common share. Also 150,000 warrants were exercised during the third quarter of 2008. In the first three months and six months of 2009, there were 0.7 million and 0.5 million additional shares included in the diluted earnings per share calculations related to the weighted average dilutive effect of "in-the-money" options whereas in the same periods in 2008, 1.2 million and 1.3 million additional shares were respectively included.

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

- 55,078,010 common shares; and
- 3,539,167 stock options.

## **INTEREST INCOME – CONTINUING OPERATIONS**

During the first six months of 2009, Petrolifera received two interest payments totaling \$1.5 million on its original ABCP holdings. This amount had been included in the determination of the fair value of the long-term investment in ABCP at December 31, 2008 and therefore has already been recognized and does not have an effect on the Statement of Operations during the six months ended June 30, 2009. See "Restricted Cash and Long-Term Investments" for additional details including estimates of valuation.

## **GENERAL & ADMINISTRATIVE AND STOCK-BASED COMPENSATION EXPENSES – CONTINUING OPERATIONS**

G&A expenses were \$2.3 million and \$2.2 million in the first six months of 2009 and 2008, respectively. These costs primarily consist of management and administrative salaries, legal and professional fees, insurance, travel and other administrative expenses. G&A of \$1.1 million was capitalized in the first six months of 2009 compared to \$1.2 million during the same period in 2008, primarily related to further exploration and evaluation of the prospects in Colombia and Peru.

During the six months ended June 30, 2009, a non-cash expense of \$1.3 million (2008 – \$3.1 million) was recorded as stock-based compensation, reflecting the amortization of the fair value of stock options over the vesting period. The decreased stock-based compensation charge compared to the same period in 2008 was mainly attributable to a reduction in stock option grants during the first six months of 2009. 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.

## **FINANCE CHARGES – CONTINUING OPERATIONS**

Included in the finance charges of \$0.2 million for the first six months of 2009 (2008 – \$0.7 million) was interest paid and accrued on the company's outstanding ABCP line-of-credit ("ABCP line-of-credit"). The effective interest rate on the company's ABCP line-of-credit was 2.7 and 2.6 percent for the three and six months ended June 30, 2009 compared to 3.9 and 5.4 percent for the same periods during 2008, respectively. Reductions in the prime rate have resulted in lower finance charges during the first six months of 2009 relative to the same period in 2008.



## **FOREIGN EXCHANGE – CONTINUING OPERATIONS**

The impact of fluctuations in the US dollar relative to the Canadian dollar, arising from settling foreign-denominated transactions and from translating foreign denominated financial statements and operating results of its integrated foreign operations, resulted in a foreign exchange charge of \$0.4 million for the first six months of 2009 (2008 – \$0.3 million). The company's main exposure to foreign currency risk relates to general and administration costs and capital expenditures which are mainly denominated in US dollars and, to a lesser extent, Colombian Pesos and Peruvian New Soles.

## **FAIR VALUE IMPAIRMENT – CONTINUING OPERATIONS**

During the first six months of 2009, a court-approved plan for restructuring the ABCP was implemented and the company has received longer-term notes in exchange for its ABCP holdings. The maturities of the new notes generally match those of the assets previously contained in the underlying conduits. If these replacement notes were to become liquid, the company may be able to substantially reduce the net indebtedness incurred due to lack of access to these amounts. The basis for the fair value attributable to these investments is explained under "Restricted Cash and Long-Term Investments."

In the first six months of 2008, in recognition of the loss of liquidity in the company's investment in longer term notes, a non-cash fair value impairment charge of \$3.5 million was recognized. The company did not recognize any impairment in the first six months of 2009. The cumulative effect of prior period impairments represents approximately 40 percent of the face value of the investment at the time of the loss of liquidity in the Canadian commercial paper market.

## **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, as 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 the significant value-added impact of its early stage geological and geophysical activity, management is attempting to identify industry participants and negotiate transactions, whereby other enterprises join with Petrolifera to conduct joint venture activity. Current capital market conditions may make this process more challenging and time consuming than under more buoyant economic circumstances, resulting in Petrolifera 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 of completion of related terms of the possible farm-in or joint venture arrangements.

Achieving a successful arrangement with third parties through joint ventures or farm-outs was adopted as a strategy in conjunction with the planned divestiture of the company's Argentina operations, where the combined proceeds would have provided sufficient liquidity to complete the company's 2009 capital expenditure programs. As the sales process has now concluded and did not result in any acceptable bids, management has decided to retain its Argentinean properties and develop a new capital budget to enable the company to restore production growth. Farm-out efforts continue with respect to much of the company's prospect inventory.

## **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 and discontinued 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. Cash flow is reconciled with net earnings 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 FROM CONTINUING AND DISCONTINUED OPERATIONS

(\$000)	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Net earnings	\$ 3,427	\$ 3,590	\$ 4,615	\$ 5,328
Add non-cash charges:				
Depletion, depreciation and accretion	138	6,388	7,042	11,057
Fair value adjustments	-	2,002	-	3,492
Future income tax provision	4,208	(538)	4,288	787
Stock-based compensation	846	731	2,438	3,129
Amortization of deferred finance charges	218	194	443	386
Unrealized foreign exchange loss	1,396	1,118	2,211	1,208
Cash flow	\$ 10,233	\$ 13,485	\$ 21,037	\$ 25,387
Per share, basic	\$ 0.19	\$ 0.27	\$ 0.38	\$ 0.50
Per share, diluted	\$ 0.18	\$ 0.26	\$ 0.38	\$ 0.49

Cash flow from continuing and discontinued operations in the first six months of 2009 was \$21.0 million or \$0.38 per weighted average basic and diluted share, compared to \$25.4 million or \$0.50 per weighted average basic and \$0.49 per weighted average diluted share for the same period in 2008. The 17 percent decrease in total cash flow during the first six 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 favorable current tax provision. Cash flow from continuing and discontinued operations in the second quarter of 2009 was \$10.2 million or \$0.19 per weighted average basic and \$0.18 per weighted average diluted share, compared to \$13.5 million or \$0.27 per weighted average basic and \$0.26 per weighted average diluted share for the second quarter of 2008. The 24 percent decrease in total cash flow during the second quarter of 2009, relative to the same period in 2008, primarily resulted from a reduction in sales volumes and realized commodity prices, partially offset by a favorable current tax provision. Cash flow per share for the three and six months ended June 30, 2009 decreased relative to the same periods in 2008 for the aforementioned reasons, respectively and an increase in the number of shares outstanding. At current realized commodity pricing and sales levels, the company's Argentinean cash flows are anticipated to be adequate to finance its debt repayment program and the new Argentinean capital expenditure program, with any excess funds being made available to supplement other funding sources available for exploration activities in Colombia and Peru.

## CAPITAL EXPENDITURES ON CONTINUING AND DISCONTINUED OPERATIONS

(\$000)	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Peru	\$ 708	\$ 6,625	\$ 6,668	\$ 14,216
Colombia	9,270	522	24,275	747
Corporate	11	-	20	-
Capital expenditures on continuing operations	\$ 9,989	\$ 7,147	\$ 30,963	\$ 14,963
Discontinued operations capital expenditures	10,488	21,963	15,126	45,203
Capital expenditures, including discontinued operations	\$ 20,477	\$ 29,110	\$ 46,089	\$ 60,166

Capital expenditures on continuing operations for the six months ended June 30, 2009 were \$31.0 million, compared to \$15.0 million for the same period of 2008. Capital expenditures on continuing operations for the second quarter of 2009 were \$10.0 million, compared to \$7.1 million for the second quarter of 2008. Capital spending throughout 2009 was financed through available cash and cash flow.

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 represented important acreage in relation to the company's anticipated activities on Block 107. The company has completed its first round of discussion with respect to farming-out Blocks 107 and 133 in the Ucayali Basin, Peru. Several large international companies have examined the company's technical analysis and management anticipates formal proposals will be received for evaluation with a view to farming-out interests in these licenses. The company is attempting to secure recovery of a portion of its sunk costs incurred on these blocks.

On Block 106, in the Maranon Basin, Peru, a 476 km 2D seismic acquisition program was completed and the data has now been processed and interpreted. 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 exploration well, which spudded on January 23, 2009 on the company's Sierra Nevada License onshore the Lower Magdalena Basin. The well has been 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 an extensive testing program which commenced in May, 2009. The testing program has exhibited certain challenges, including multiple hydraulic packer failures. A packer seat 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 suspended the La Pinta #1 well after testing light gravity 44° API crude oil and instantaneous measured rates of up to 776 bbl/day with limited associated natural gas and no water at the top of the Cienaga de Oro Formation. The well was suspended pending remediation of what is believed to be a casing split, or separation, that occurred below the perforated producing interval. Petrolifera will continue to evaluate the results of the La Pinta #1 well to determine its preferred course of action. 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 an agreement with an independent American company whereby Petrolifera will recover US\$2.5 million of its sunk costs for seismic on the Turpial License and will, as the operator, be carried through the next US\$1.9 million of work on this license, retaining a 50 percent interest therein.

In Argentina, during the second quarter of 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 of these wells have now been completed as heavy oil producers (21° – 23° API gravity crude oil) at modest rates. The company continues to assess the overall commerciality of these accumulations.

Argentinean production was down, reflecting the minimal investment undertaken during the period of the Argentina sales process, which did not result in any acceptable bids. The company has developed a new capital budget, including the drilling of several infill wells, installing high volume lift pumps and conducting modest capital programs to enable it to restore production growth.

## **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 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 June 30, 2009, the company had a US\$100.0 million reserve-based revolving credit facility with an established availability of US\$70.0 million, based on its crude oil and natural gas reserves as at December 31, 2007. During July, 2009 the availability of the reserve-based facility was reduced to US\$60 million, based on producing crude oil and natural gas reserves as at December 31, 2008. The revised reserve-based facility availability did not attribute any value to the company's non-producing assets. As the Argentina operations are classified as discontinued operations, the reserve-based debt has also been classified as a component of the long-term liabilities of discontinued operations. This facility is scheduled to expire on September 5, 2010, 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-based credit facility are anticipated to occur through significant reserve additions, disposals or revisions.

As at June 30, 2009, the reserve-based facility had \$75.6 million (US\$65.0 million) outstanding (2008 – US\$63.0 million) and the ABCP line of credit facility had \$26.5 million outstanding (2008 – \$16.6 million). The company intends to repay in a timely manner an additional US\$5 million against its reserve-based credit facility, to reduce the total draws against this facility to the revised availability of US\$60 million.

The company is subject to external restrictions on its reserve-based revolving credit facility. Under this facility, long-term bank debt cannot exceed two times the 12 month trailing EBITDA. Long-term bank debt is a non-GAAP measure and is defined as long-term bank debt from continuing and discontinued operations. EBITDA is a non-GAAP measure and is defined by the credit facility agreement as net earnings prior to deduction of finance charges, income taxes, depletion, depreciation



and accretion expense, stock-based compensation and unrealized foreign exchange losses including all such charges classified as net income from discontinued operations. As at June 30, 2009, long-term bank debt outstanding was \$102.1 million and two times EBITDA was \$132.2 million, for a ratio of 0.77:1.00, which is below the imposed limit. With existing realized commodity pricing, the company's low-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.

The calculation of long-term bank debt is as follows:

<b>As at June 30, 2009</b>			
	<b>Per Balance Sheet</b>	<b>Per Discontinued Operations</b>	<b>Total</b>
<b>(\$000)</b>			
Long-term bank debt	<b>\$ 26,541</b>	<b>\$ 75,563</b>	<b>\$ 102,104</b>

Reconciliation of net earnings to EBITDA is as follows:

<b>(\$000)</b>	<b>Three Months Ended</b>			<b>12 Months Ended</b>
	Sept. 30, 2008	Dec. 31, 2008	Mar. 31, 2009	<b>June 30, 2009</b>
Net earnings	\$ 3,564	\$ 2,662	\$ 1,188	<b>\$ 3,427</b>
Add interest, income taxes, depletion, depreciation and accretion expense and other non-cash expenses:				
Stock-based compensation	1,123	1,595	1,592	<b>846</b>
Depletion, depreciation, and accretion	6,599	11,328	6,904	<b>138</b>
Income tax provisions	3,855	1,947	1,044	<b>5,634</b>
Fair value adjustments	1,885	3,505	-	<b>-</b>
Unrealized foreign exchange loss (gain)	(239)	(789)	815	<b>1,396</b>
Finance charges	1,361	1,833	1,577	<b>1,348</b>
<b>EBITDA</b>	<b>\$ 18,148</b>	<b>\$ 22,081</b>	<b>\$ 13,120</b>	<b>\$ 12,789</b>
				<b>\$ 66,138</b>

## **RESTRICTED CASH AND LONG-TERM INVESTMENTS**

As at June 30, 2009, long-term investments included notes received in exchange for ABCP with a face value of \$37.6 million and a carrying value of \$21.0 million and collateral to support issued letters of credit of \$0.2 million, while restricted cash included collateral to support issued letters of credit of \$2.1 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. 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.

For the six months ending June 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. For the three months ending June 30, 2009, the company received a \$0.5 million payment, representing interest that had accrued on the previous holdings of ABCP during the period from September 1, 2008 until January 21, 2009. It is expected that substantially all of the restructuring costs and reserves were deducted from the payments received and they 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.

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 June 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 June 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:

<b>Class of Note</b>	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	\$ 14,014	0 – 80%	0 – 60%	75%	54%	4 – 8	2.40%
A-2	13,543	0 – 70%	0 – 40%	65%	36%	8	2.40%
B	2,459	0 – 30%	0 %	27%	0%	8	2.40%
C	928	0%	0 %	0%	0%	8	2.40%
IA Tracking	6,613	0 – 40%	0%	36%	0%	8	2.40%
<b>Total</b>	<b>\$ 37,557</b>						

Based on the above approach the fair value of the investment in the longer term notes was \$21.0 million as at June 30, 2009, compared to \$22.5 million as at December 31, 2008. The reduction reflected the receipt of interest totaling \$1.5 million in 2009 but incorporated in the determination of fair value as at December 31, 2008. To date, the total impairment at approximately 40 percent of the original cost of the investment recognized on the longer term notes, including impairments recognized on the ABCP, remains unchanged compared to the amount of impairment recognized at December 31, 2008.

The theoretical fair value of the company's longer-term notes could range from \$17.1 million to \$29.8 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.

## **IMPACT OF NEW AND PROPOSED ACCOUNTING PRONOUNCEMENTS**

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 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. 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 September 2008, the International Accounting Standards Board issued an exposure draft that provides first-time adopters with additional exemptions from the retrospective application of IFRS. This exposure draft, if adopted, would allow 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 if the exposure draft is adopted as it continues to monitor the IFRS adoption efforts of the company’s peers.

## **COMMITMENTS, CONTINGENCIES, 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. 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 can be drilled per the work programs and as approved by the local Peruvian authorities during 2012, at the earliest, 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 technical evaluation agreements (“TEA”). Petrolifera has converted the Turpial TEA into a license and is in the process of converting the Sierra Nevada II TEA into a license, to be renamed Magdalena. Petrolifera has drilled the La Pinta #1 well on the Sierra Nevada I License, which completes this license’s first phase of work commitments and is in the process of evaluating its option to extend the license for another exploration term.

In Argentina, the company has estimated total gross remaining work commitments of US\$5.2 million over the next two years related to the Vaca Mahuida, Puesto Guevara and Gobernador Ayala II concessions. A portion of the Argentinean work commitments related to the Vaca Mahuida block has been farmed out to a third party. A portion of the Gobernador Ayala II work commitments are currently being met through the exploratory drilling program presently underway and the prior completion of 210 km<sup>2</sup> of 3D seismic.



## CONTRACTUAL COMMITMENTS

The company's annual commitments under service contracts for drilling, leases for office premises and other equipment and an administrative services agreement are as follows:

	2009	2010	2011	Subsequent to 2011	Total
(\$000)					
Drilling service contracts and other leases	\$ 12,897	\$ 17,729	\$ 465	\$ 349	\$ 31,440

## 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. The company's Executive Chairman, President and Chief Operating Officer and Chief Financial Officer have concluded, based on their evaluation as of the end of the six months covered by this MD&A, 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 of 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 proceeding. 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 is stabilized by the decision to retain the company's Argentinean operations when it did not receive any acceptable bids. This decision will result in the retention of properties with production, which upon sale will provide a continuing source of revenue, cash flow and earnings. However, it is likely the company will require additional permanent capital to reduce its balance sheet leverage arising from its reserve-backed term loan. This may be secured through the recovery of sunk costs from farm-out agreements with third parties, or may require the sale of additional equity from treasury in order to ensure the company cannot only fulfill its outstanding obligations, but also be positioned to conduct evaluatory drilling programs and seek out new opportunities in its jurisdictions of choice in South America.

Management of the company believes that Petrolifera owns very attractive exploratory acreage and prospects with significant reserve and resource potential. This ultimately can only be evaluated through drilling programs and Petrolifera's exposure is often in regions which have high costs associated with evaluation activity. Accordingly, Petrolifera will increasingly use farm-out initiatives as a means of financing its activity, even though it may be required to reduce its level of ownership in its properties in exchange for third party funding of seismic, drilling and facility capital programs. This in part is as a result of the severe weakening in capital markets and in the level of investor interest in exploration oriented companies active in South America.

While a reasonably reliable source of revenue and cash flow remains within Petrolifera's inventory of properties, their relative maturity and the likelihood that surrounding properties cannot offset natural declines in Argentina will mean that a certain portion of Petrolifera's cash flow will be diverted to a debt reduction program, thus reducing funds available to finance new growth opportunities absent the injection of additional equity or the successful conclusion of farm-out negotiations, including recovery of significant sunk costs in properties in Peru and Colombia.

The company experienced some minor downtime of production in Argentina during the month of July due to labour unions strikes that required all operators to shut in production for periods of 24 - 48 hours. This will impact average production for the third quarter of 2009.

For the balance of 2009, the company envisages a gross capital spending program of up to \$23.0 million, compared to expenditures in the first half of the year of \$46.1 million. This reduction reflects the more challenging industry environment, the desire to reduce financial leverage and the focus on securing successful farm-in participation by major companies to reduce the risks associated with the company's current property inventory, despite the recognized potential thereof.



## FORWARD-LOOKING INFORMATION

This Interim Report contains forward-looking information including, but not limited to, future exploration and development opportunities in Argentina, Colombia and Peru, current drilling, testing and completion plans in Colombia, anticipated results from the La Pinta #1 well in Colombia and the wells on the Gobernador Ayala II Concession in Argentina, future drilling plans in Argentina, Colombia and Peru, and the anticipated timing associated therewith, anticipated remediation on the efforts and timing of the full impact of the company's waterflood program, planned 2009 capital expenditures (including sources of funding and timing thereof), strategies for reducing the company's financial exposure to high cost exploration and drilling activities including planned farm-out and/or joint ventures arrangements, anticipated award of the Magdalena License in Colombia, recovery of the company's investment in ABCP and anticipated financial condition and liquidity throughout 2009, 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-based credit facility and the timing thereof, the company's ability to continue to comply with financial covenants imposed pursuant to its reserve-based credit facility and the timing of resuming to report the Argentinean operations as continuing operations. 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 finding 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 testing of the wells drilled on the Sierra Nevada I License or the Gobernador Ayala II Concession will yield commercial results. The company's ability to complete its capital program is dependant upon completion of planned farm-out arrangements, access to required credit and capital and access to services, drilling rigs and equipment. In addition, the current financial crisis has resulted in severe economic uncertainty and resulting illiquidity 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. 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 Canadian generally accepted accounting principles ("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 when provided by the company.



## QUARTERLY RESULTS <sup>(4)</sup>

### For the Three Months Ended

	2007		2008				2009	
	Sept 30	Dec 31	Mar 31	June 30	Sept 30	Dec 31	Mar 31	June 30
<b>FINANCIAL RESULTS (\$000, EXCEPT PER SHARE AMOUNTS) - UNAUDITED</b>								
Total revenue, including discontinued operations <sup>(1)</sup>	31,730	27,266	27,167	33,622	32,126	37,411	26,407	<b>22,255</b>
Cash flow from continued and discontinued operations before non-cash working capital changes <sup>(1)</sup>	18,619	10,707	11,902	13,485	15,726	21,689	10,804	<b>10,233</b>
Basic, per share <sup>(1)</sup>	0.37	0.21	0.24	0.27	0.29	0.39	0.20	<b>0.19</b>
Diluted, per share <sup>(1)</sup>	0.36	0.21	0.23	0.26	0.28	0.39	0.20	<b>0.18</b>
Net loss from continuing operations	(4,531)	(7,729)	(5,406)	(4,349)	(2,970)	(4,719)	(3,121)	<b>(2,629)</b>
Basic or diluted, per share	(0.09)	(0.15)	(0.11)	(0.09)	(0.05)	(0.09)	(0.06)	<b>(0.05)</b>
Net earnings	4,919	4,863	1,738	3,590	3,564	2,662	1,188	<b>3,427</b>
Basic, per share	0.10	0.10	0.04	0.07	0.06	0.05	0.02	<b>0.06</b>
Diluted, per share	0.10	0.09	0.03	0.07	0.06	0.05	0.02	<b>0.06</b>
Capital expenditures including discontinued operations <sup>(1)</sup>	26,061	57,608	31,056	29,110	21,046	35,539	25,612	<b>20,477</b>
Cash or cash equivalents	11,368	13,052	11	41,039	14,865	30,701	30,994	<b>14,803</b>
Working capital	22,742	(31,779)	(51,546)	13,295	8,148	19,956	33,768	<b>22,895</b>
Long-term bank debt including discontinued operations <sup>(1)</sup>	-	-	-	43,800	45,576	77,150	104,649	<b>102,104</b>
Shareholders' equity	121,727	120,303	127,225	168,735	178,069	202,347	209,240	<b>201,749</b>
Total assets	144,016	204,227	231,278	292,882	279,174	355,658	371,054	<b>353,424</b>

### OPERATING RESULTS FROM DISCONTINUED OPERATIONS

Sales volumes								
Crude oil and natural gas liquids - bbl/d	7,195	6,565	6,726	7,111	6,850	6,877	5,245	<b>4,652</b>
Natural gas - mcf/d	2,169	2,860	7,044	5,922	5,363	5,451	6,500	<b>6,232</b>
Equivalent - boe/d <sup>(2)</sup>	7,557	7,042	7,900	8,098	7,744	7,786	6,328	<b>5,691</b>
Pricing:								
Crude oil and natural gas liquids - \$/bbl	46.99	44.36	41.99	49.90	48.93	56.76	52.17	<b>48.72</b>
Natural gas - \$/mcf	1.41	1.76	2.20	2.38	2.58	2.88	2.98	<b>2.87</b>
Selected highlights - \$/boe <sup>(2)</sup> :								
Weighted average selling price - \$/boe	45.15	42.07	37.72	45.55	45.07	52.15	46.30	<b>42.97</b>
Interest and other income	0.22	-	0.01	0.07	0.01	0.02	0.01	<b>-</b>
Royalties	5.77	5.76	4.71	6.33	6.80	7.66	6.02	<b>6.74</b>
Operating costs	6.96	8.20	8.24	8.60	9.00	10.28	10.33	<b>11.04</b>
Corporate netback <sup>(3)</sup>	32.64	28.11	24.78	30.69	29.28	34.23	29.96	<b>25.20</b>

### COMMON SHARE INFORMATION (000, EXCEPT SHARE PRICE)

Shares outstanding at end of period	50,119	50,127	50,353	54,798	54,948	54,948	54,948	<b>54,948</b>
Weighted average shares outstanding for the period:								
Basic	50,107	50,123	50,212	50,500	54,884	54,948	54,948	<b>54,948</b>
Diluted	51,800	51,689	51,562	51,735	55,897	55,043	55,195	<b>55,600</b>
Volume traded during quarter	10,921	12,223	7,721	4,590	7,884	8,826	10,053	<b>13,268</b>
Common share price (\$):								
High	22.35	17.10	11.96	11.25	8.72	3.99	1.60	<b>3.47</b>
Low	13.18	9.14	6.61	8.25	3.16	0.75	0.80	<b>1.49</b>
Close (end of period)	15.20	9.87	9.10	8.69	3.37	1.05	1.60	<b>2.85</b>



- (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 from operations before non-cash working capital changes includes all cash flow from operating and discontinued 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. Cash flow from operations before working capital changes is reconciled with net earnings 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. Total revenue, capital expenditures and long-term debt including discontinued operations also do not have standardized meanings as prescribed by GAAP. Total revenue, capital expenditures and long-term debt including discontinued operations includes all revenue, capital expenditures or long-term debt of continuing and discontinued operations. The most comparable measure calculated in accordance with GAAP would be revenue, capital expenditures and long-term debt. Total revenue, capital expenditures and long-term debt including discontinued operations is reconciled with each of the most comparable measures in this MD&A. Management uses these non-GAAP measures to provide a basis of the company's liquidity resulting from all of its operations.
- (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 equivalent 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 from discontinued operations. For a reconciliation of net backs to net earnings from discontinued operations, see "MD&A".
- (4) Fluctuations in results over the previous eight quarters are due principally to variations in oil and gas prices and production volumes. Attributing to fluctuations in working capital is the classification of debt as either current or long-term. Additionally, the decision to initiate a process to dispose of the company's Argentinean interests resulted in the company's Argentinean segment being reclassified as discontinued operations.



# CONSOLIDATED BALANCE SHEETS

## PETROLIFERA PETROLEUM LIMITED (UNAUDITED)

As at (\$000)	June 30, 2009	Dec. 31, 2008
<b>ASSETS</b>		
Current		
Cash	\$ 14,803	\$ 30,701
Accounts receivable	8,298	8,145
Restricted cash (Note 3)	2,120	-
Income taxes receivable	-	54
Prepaid expenses	330	257
Discontinued operations (Note 4)	21,323	34,804
	<b>46,874</b>	<b>73,961</b>
Long-term investments (Note 3)	21,172	25,428
Property and equipment	93,225	62,829
Discontinued operations (Note 4)	192,153	193,440
	<b>\$ 353,424</b>	<b>\$ 355,658</b>
<b>LIABILITIES</b>		
Current		
Accounts payable and accrued liabilities	\$ 8,491	\$ 19,578
Income taxes payable	290	5
Bank debt (Note 5)	-	16,637
Due to a related company	75	42
Discontinued operations (Note 4)	15,123	17,743
	<b>23,979</b>	<b>54,005</b>
Long-term bank debt (Note 5)	26,541	-
Discontinued operations (Note 4)	101,155	99,306
	<b>151,675</b>	<b>153,311</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital and contributed surplus (Note 6(a))	110,692	108,254
Accumulated other comprehensive income	8,455	16,106
Retained earnings	82,602	77,987
	<b>201,749</b>	<b>202,347</b>
	<b>\$ 353,424</b>	<b>\$ 355,658</b>

Subsequent event (Note 4)

Commitments (Note 10)



# CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

## PETROLIFERA PETROLEUM LIMITED (UNAUDITED)

\$000 (except per share amounts)	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
<b>REVENUE</b>				
Interest income	\$ -	\$ -	\$ 31	\$ 48
<b>EXPENSES</b>				
General and administrative	1,346	1,046	2,342	2,185
Fair value impairment (Note 3)	-	2,002	-	3,492
Stock-based compensation (Note 6(b))	846	731	2,438	3,129
Finance charges (Note 5)	128	299	234	660
Foreign exchange loss (gain) and other	(33)	259	368	325
	<b>2,287</b>	4,337	<b>5,382</b>	9,791
Loss before income taxes and discontinued operations	<b>(2,287)</b>	(4,337)	<b>(5,351)</b>	(9,743)
Current income tax provision	399	12	399	12
Future income tax recovery	(57)	-	-	-
	<b>342</b>	12	<b>399</b>	12
Net loss from continuing operations	<b>(2,629)</b>	(4,349)	<b>(5,750)</b>	(9,755)
Net earnings from discontinued operations (Note 4)	<b>6,056</b>	7,939	<b>10,365</b>	15,083
<b>NET EARNINGS</b>	<b>3,427</b>	3,590	<b>4,615</b>	5,328
<b>RETAINED EARNINGS, BEGINNING OF PERIOD</b>	<b>79,175</b>	68,171	<b>77,987</b>	66,433
<b>RETAINED EARNINGS, END OF PERIOD</b>	<b>\$ 82,602</b>	\$ 71,761	<b>\$ 82,602</b>	\$ 71,761
Net loss from continuing operations per Share (Note 9(a))				
Basic and diluted	\$ (0.05)	\$ (0.09)	\$ (0.10)	\$ (0.19)
<b>NET EARNINGS PER SHARE (Note 4 and 9(a))</b>				
Basic	\$ 0.06	\$ 0.07	\$ 0.08	\$ 0.11
Diluted	\$ 0.06	\$ 0.07	\$ 0.08	\$ 0.10



## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

### PETROLIFERA PETROLEUM LIMITED (UNAUDITED)

(\$000)	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Net earnings	\$ 3,427	\$ 3,590	\$ 4,615	\$ 5,328
Foreign currency translation adjustment	(11,764)	(562)	(7,651)	2,058
Comprehensive income (loss)	\$ (8,337)	\$ 3,028	\$ (3,036)	\$ 7,386

## CONSOLIDATED STATEMENTS OF ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

### PETROLIFERA PETROLEUM LIMITED (UNAUDITED)

(\$000)	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Balance, beginning of period	\$ 20,219	\$ (8,054)	\$ 16,106	\$ (10,674)
Foreign currency translation adjustment	(11,764)	(562)	(7,651)	2,058
Balance, end of period	\$ 8,455	\$ (8,616)	\$ 8,455	\$ (8,616)



# CONSOLIDATED STATEMENTS OF CASH FLOWS

## PETROLIFERA PETROLEUM LIMITED (UNAUDITED)

(\$000)	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Cash provided by (used in) the following activities:				
<b>OPERATING</b>				
Net earnings	\$ 3,427	\$ 3,590	\$ 4,615	\$ 5,328
Less:				
Net earnings from discontinued operations	(6,056)	(7,939)	(10,365)	(15,083)
Net loss from continuing operations	(2,629)	(4,349)	(5,750)	(9,755)
Items not involving cash:				
Stock-based compensation (Note 6(b))	846	731	2,438	3,129
Fair value impairment (Note 3)	-	2,002	-	3,492
Future income tax recovery	(57)	-	-	-
Unrealized foreign exchange loss and other	4,389	427	3,885	813
Changes in non-cash working capital (Note 9(b))	(1,738)	(332)	(842)	(2,185)
	811	(1,521)	(269)	(4,506)
Cash provided by operating activities from discontinued operations	11,324	18,874	32,862	21,721
	12,135	17,353	32,593	17,215
<b>FINANCING</b>				
Proceeds (repayment) of bank debt or long-term bank debt	10,106	(1,063)	9,904	6,150
Issue of common shares, net of share issue costs	-	37,752	-	37,917
	10,106	36,689	9,904	44,067
Cash provided by (used in) financing activities from discontinued operations	(5,851)	21,850	2,865	38,064
	4,255	58,539	12,769	82,131
<b>INVESTING</b>				
Development of oil and gas properties	(9,989)	(7,147)	(30,963)	(14,963)
Receipt of interest on long-term investment (Note 3)	445	-	1,526	-
Release of guaranteed letters of credit	294		294	
Changes in non-cash working capital (Note 9(b))	(11,670)	208	(10,099)	1,900
	(20,920)	(6,939)	(39,242)	(13,063)
Cash used in investing activities from discontinued operations	(6,625)	(27,895)	(17,290)	(57,487)
	(27,545)	(34,834)	(56,532)	(70,550)
<b>INCREASE (DECREASE) IN CASH</b>	<b>(11,155)</b>	41,058	<b>(11,170)</b>	28,796
Impact of foreign exchange on foreign currency denominated cash balances	(5,036)	(30)	(4,728)	(809)
<b>CASH, BEGINNING OF PERIOD</b>	<b>30,994</b>	11	<b>30,701</b>	13,052
<b>CASH, END OF PERIOD</b>	<b>\$ 14,803</b>	\$ 41,039	<b>\$ 14,803</b>	\$ 41,039

Supplementary cash flow information (Note 9(c))



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## PETROLIFERA PETROLEUM LIMITED

PERIOD ENDED JUNE 30, 2009 (UNAUDITED)

### 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

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 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. These standards currently do not impact the company as it has full controlling interest of all of its subsidiaries.

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 Canadian generally accepted accounting policies ("GAAP") for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011.

### 3. RESTRICTED CASH AND LONG-TERM INVESTMENTS

As at June 30, 2009, long-term investments included notes received in exchange for Asset Backed Commercial Paper ("ABCP") with a face value of \$37.6 million and a carrying value of \$21.0 million and collateral to support issued letters of credit of \$0.2 million, while restricted cash included collateral to support issued letters of credit of \$2.1 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. 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.

For the six months ended June 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. For the three months ended June 30, 2009, the company received a \$0.5 million payment, representing interest that had accrued on the previous holdings of ABCP during the period from September 1, 2008 until January 21, 2009. It is expected that substantially all of the restructuring costs and reserves were deducted from the payments received during 2009 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.

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 June 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 June 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	\$ 14,014	0 – 80%	0 – 60%	75%	54%	4 – 8	2.40%
A-2	13,543	0 – 70%	0 – 40%	65%	36%	8	2.40%
B	2,459	0 – 30%	0 %	27%	0%	8	2.40%
C	928	0%	0 %	0%	0%	8	2.40%
IA Tracking	6,613	0 – 40%	0%	36%	0%	8	2.40%
<b>Total</b>	<b>\$ 37,557</b>						

Based on the above approach the fair value of the investment in the longer term notes was \$21.0 million as at June 30, 2009 compared to \$22.5 million as at December 31, 2008. The reduction reflected the receipt of interest totaling \$1.5 million in 2009 but incorporated in the determination of fair value as at December 31, 2008. To date, the total impairment at approximately 40 percent of the original cost of the investment recognized on the longer term notes, including impairments recognized on the ABCP, remains unchanged compared to the amount of impairment recognized at December 31, 2008.

The theoretical fair value of the company's longer-term notes could range from \$17.1 million to \$29.8 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.

#### 4. DISCONTINUED OPERATIONS & SUBSEQUENT EVENT

On March 2, 2009, Petrolifera announced that its Board of Directors had authorized the sale of the company's interests in Argentina. Several bids for the company's Argentinean interests were received from third parties subsequent to June 30, 2009, 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 has concluded the sale process and will retain its operations in Argentina. Despite the subsequent decision to "hold for use" the Argentinean operations, the condition for retaining these operations did not exist for the period ending June 30, 2009 and as such, these operations are classified as discontinued in the unaudited Consolidated Financial Statements.

As the reserve-based debt facility's availability of US\$70 million as at June 30, 2009 was determined solely on the Argentinean crude oil and natural gas reserves, the reserve-based debt has also been classified as a component of the long-term liabilities of discontinued operations. During July, 2009, the availability of the reserve-based debt facility was reduced to US\$60 million, based solely on the Argentinean crude oil and natural gas reserves as at December 31, 2008.



The carrying amounts of certain classes of assets and liabilities, which are grouped and disclosed on the Consolidated Balance Sheets as discontinued operations, that relate to the company's interests in Argentina are as follows:

As at (\$000)	June 30, 2009		Dec. 31, 2008	
<b>ASSETS</b>				
Accounts receivable	\$	16,020	\$	29,186
Income taxes receivable		4,763		4,682
Inventory		260		658
Prepaid expenses		280		278
Discontinued operations – current assets		21,323		34,804
Property and equipment		190,773		191,815
Deferred financing costs and other		1,380		1,625
Discontinued operations - long-term assets	\$	192,153	\$	193,440
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	\$	14,695	\$	16,304
Income taxes payable		428		1,439
Discontinued operations - current liabilities		15,123		17,743
Long-term bank debt		75,563		77,150
Asset retirement obligations		10,091		10,106
Future income taxes		15,501		12,050
Discontinued operations - long-term liabilities	\$	101,155	\$	99,306

The amounts of revenue and expenses disclosed on the Consolidated Statements of Operations and Retained Earnings as discontinued operations that relate to the company's interest in Argentina are as follows:

\$000 (except per share amounts)	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
<b>REVENUE</b>				
Petroleum and natural gas sales	\$ 22,254	\$ 33,569	\$ 48,625	\$ 60,683
Interest income	1	53	6	58
	22,255	33,622	48,631	60,741
Royalties	(3,488)	(4,666)	(6,917)	(8,050)
	18,767	28,956	41,714	52,691
<b>EXPENSES</b>				
Operating	5,717	6,340	11,599	12,265
General and administrative	809	978	1,750	1,901
Finance charges	1,220	1,004	2,691	1,563
Taxes other than income taxes	955	816	1,364	1,322
Foreign exchange loss (gain)	(1,420)	859	624	883
Depletion, depreciation and accretion <sup>(1)</sup>	138	6,388	7,042	11,057
	7,419	16,385	25,070	28,991
Earnings from discontinued operations before income taxes	11,348	12,571	16,644	23,700
Current income tax provision	1,027	5,170	1,991	7,830
Future income tax provision (recovery)	4,265	(538)	4,288	787
	5,292	4,632	6,279	8,617
<b>NET EARNINGS FROM DISCONTINUED OPERATIONS</b>	\$ 6,056	\$ 7,939	\$ 10,365	\$ 15,083
<b>NET EARNINGS FROM DISCONTINUED OPERATIONS PER SHARE (Note 9(a))</b>				
Basic	\$ 0.11	\$ 0.16	\$ 0.19	\$ 0.30
Diluted	\$ 0.11	\$ 0.15	\$ 0.19	\$ 0.29

(1) Depletion and depreciation have not been recognized for the period subsequent to March 2, 2009, the date the Argentinean operations were classified as discontinued operations.



As the decision to “hold for use” the Argentinean operation was made subsequent to June 30, 2009 and as this held for use operation may have a pervasive effect on the future activities of the company, a pro forma consolidated balance sheet and a pro forma consolidated statement of operations incorporating the effect of the “held for use” operation on the Consolidated Balance Sheet as if it had occurred as at June 30, 2009 and on the Consolidated Statements of Operations as if it had occurred for the three months and six months ended June 30, 2009 are provided below:

Pro forma consolidated balance sheet:

	As at June 30, 2009		
(\$000)	Consolidated Balance Sheet as Reported	Pro Forma Adjustments for Assets & Liabilities of Discontinued Operations	Pro forma Balance Sheet
<b>ASSETS</b>			
Current			
Cash	\$ 14,803	\$ -	\$ 14,803
Accounts receivable	8,298	16,020	24,318
Restricted cash	2,120	-	2,120
Income taxes receivable	-	4,763	4,763
Inventory	-	260	260
Prepaid expenses	330	280	610
Discontinued operations	21,323	(21,323)	-
	46,874	-	46,874
Long-term investments	21,172	-	21,172
Property and equipment	93,225	190,773	283,998
Deferred financing costs and other	-	1,380	1,380
Discontinued operations	192,153	(192,153)	-
	\$ 353,424	\$ -	\$ 353,424
<b>LIABILITIES</b>			
Current			
Accounts payable and accrued liabilities	\$ 8,491	\$ 14,695	\$ 23,186
Income taxes payable	290	428	718
Due to a related company	75	-	75
Discontinued operations	15,123	(15,123)	-
	23,979	-	23,979
Long-term bank debt	26,541	75,563	102,104
Asset retirement obligations	-	10,091	10,091
Future income taxes	-	15,501	15,501
Discontinued operations	101,155	(101,155)	-
	151,675	-	151,675
<b>SHAREHOLDERS' EQUITY</b>			
Share capital and contributed surplus	110,692	-	110,692
Accumulated other comprehensive income	8,455	-	8,455
Retained earnings	82,602	-	82,602
	201,749	-	201,749
	\$ 353,424	\$ -	\$ 353,424



Pro forma consolidated statements of operations:

(\$000)	Three Months Ended June 30, 2009			Six Months Ended June 30, 2009		
	Consolidated Statement of Operations as Reported	Pro Forma Adjustments for Revenue & Expenses of Discontinued Operations	Pro Forma Statement of Operations	Consolidated Statement of Operations as Reported	Pro Forma Adjustments for Revenue & Expenses of Discontinued Operations	Pro Forma Statement of Operations
<b>REVENUE</b>						
Petroleum and natural gas sales	\$ -	\$ 22,254	\$ 22,254	\$ -	\$ 48,625	\$ 48,625
Interest income	-	1	1	31	6	37
	-	22,255	22,255	31	48,631	48,662
Royalties	-	(3,488)	(3,488)	-	(6,917)	(6,917)
	-	18,767	18,767	31	41,714	41,745
<b>EXPENSES</b>						
Operating	-	5,717	5,717	-	11,599	11,599
General and administrative	1,346	809	2,155	2,342	1,750	4,092
Stock-based compensation	846	-	846	2,438	-	2,438
Finance charges	128	1,220	1,348	234	2,691	2,925
Taxes other than income taxes	-	955	955	-	1,364	1,364
Foreign exchange loss (gain)	(33)	(1,420)	(1,453)	368	624	992
Depletion, depreciation and accretion	-	138	138	-	7,042	7,042
	2,287	7,419	9,706	5,382	25,070	30,452
Earnings (loss) before income taxes	(2,287)	11,348	9,061	(5,351)	16,644	11,293
Current income tax provision	399	1,027	1,426	399	1,991	2,390
Future income tax provision (recovery)	(57)	4,265	4,208	-	4,288	4,288
	342	5,292	5,634	399	6,279	6,678
Net earnings (loss) from discontinued operations	6,056	(6,056)	-	10,365	(10,365)	-
<b>NET EARNINGS</b>	\$ 3,427	\$ -	\$ 3,427	\$ 4,615	\$ -	\$ 4,615

## 5. BANK DEBT AND LONG-TERM BANK DEBT

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. 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 then categorizing as current its borrowings under the line-of-credit. The line of credit bears interest at a floating rate.

As at June 30, 2009 the outstanding line of credit facility was \$26.5 million (2008 – \$16.6 million). Interest expense on the line of credit facility for the three and six months ended June 30, 2009 was \$0.1 million and \$0.2 million, respectively (2008 – \$0.2 million and \$0.4 million, respectively). The effective interest rate on the company's line of credit was 2.7 and 2.6 percent for the three months and six months ended June 30, 2009, respectively (2008 – 3.9 and 5.4 percent, respectively). The unused credit on the facility was \$1.7 million as at June 30, 2009, excluding \$0.6 million in collateral to support issued letters of credit, whereas the unused credit on the prior facility was \$1.4 million as at December 31, 2008.



## 6. SHARE CAPITAL AND CONTRIBUTED SURPLUS

### (a) Authorized:

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

### Issued:

	Number of Shares		Amount (\$000)
Balances, share capital, beginning and end of period	54,948,010	\$	92,408
Contributed surplus:			
Balance, contributed surplus, beginning of period		\$	15,846
Stock-based compensation (b)			2,438
Balance, contributed surplus, end of period		\$	18,284
Share capital and contributed surplus:			
Balance, share capital and contributed surplus, beginning of period		\$	108,254
Balance, share capital and contributed surplus, end of period		\$	110,692

### (b) Stock Options:

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

As at June 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	984,000	2.64	687,500	10.02
Exercised	-	-	(226,500)	(0.73)
Forfeited	(1,891,160)	(13.14)	(99,300)	(14.78)
Outstanding, end of period	3,669,167	\$ 2.48	3,590,567	\$ 9.38
Exercisable, end of period	1,722,667	\$ 2.45	1,406,416	\$ 12.91

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 June 30, 2009 and 2008:

As at June 30	2009		2008	
	Number Outstanding	Weighted Average Remaining Contractual Life (yrs)	Number Outstanding	Weighted Average Remaining Contractual Life (yrs)
\$0.50 - \$1.00	787,667	0.9	796,667	1.9
\$1.70 - \$1.80	418,000	1.4	419,000	2.4
\$2.00 - \$3.40	2,216,000	4.6	-	-
\$5.40 - \$9.94	158,500	2.5	717,600	4.4
\$10.70 - \$20.95	89,000	1.8	1,657,300	3.3
Total	3,669,167	3.3	3,590,567	3.0

During the three months and six months ended June 30, 2009, a non-cash expense of \$0.8 million and \$1.3 million, respectively, (2008 – \$0.7 million and \$3.1 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 during the six months ended June 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
<b>2009</b>	<b>-%</b>	<b>2.0%</b>	<b>4 years</b>	<b>89%</b>
2008	-%	2.9% - 3.1%	4 years	89% - 91%

The weighted average fair value at the date of grant of all options granted for the three and six months ended June 30, 2009 was \$1.69 per option. The weighted average fair value at the date of grant of all options granted for the three and six months ended June 30, 2008 was \$7.05 and \$6.49 per option, respectively.

## 7. FINANCIAL INSTRUMENTS

### Capital Management

The company is subject to external restrictions on its reserves-based revolving credit facility. As at June 30, 2009, the facility had an overall limit of US\$100 million, with an availability of US\$70 million. During July, 2009, the availability of the reserve-based facility was reduced to \$60 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 as defined by the credit facility agreement as net earnings prior to deduction of interest, income taxes, depletion, depreciation and accretion expense and other non-cash expenses including all such charges classified as net earnings from discontinued operations. As at June 30, 2009, long-term bank debt outstanding was \$102.1 million and two times EBITDA was \$132.2 million, for a ratio of 0.77:1.00, 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 in addition to financial instruments classified as a portion of current assets of discontinued operations. 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 local government agencies and mainly pertain to input taxes paid on certain expenditures. Refer to Note 3 for further discussion regarding the credit risk of long-term investments.

The company has not experienced any collection problems with its counterparties and does not currently have any overdue amounts.

The carrying amounts of cash, accounts receivable, restricted cash and long-term investments in addition to financial instruments classified as a portion of current assets of discontinued operations 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 and six months ended June 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 and a portion of current liabilities of discontinued operations, as disclosed on the Consolidated Balance Sheet, fall due within the next reporting period and are anticipated to be funded through the company's cash, collections of accounts receivable and the unused credit facility. The company holds a \$28.2 million line of credit, of which \$26.5 million is drawn at June 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 interest rates and foreign currency exchange rates can expose the company to fluctuations in its net earnings (loss) from continuing and discontinued operations and in the fair value of its financial assets and liabilities.

### Interest Rate Risk

Floating rate debt exposes the company to fluctuations in cash flows and net earnings (loss) from continued and discontinued operations 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 increased (decreased) the net loss from continuing operations by approximately \$0.3 million for the year. The company continues to be exposed to fluctuations in cash flows and net earnings from discontinued operations due to changes in market interest rates on its reserve-based credit facility.



## 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) as incurred in US dollars (USD) and to a lesser extent Peruvian Nuevos Soles (PEN) and Colombian Pesos (COP). The table below shows the company's total financial instruments exposure to foreign currencies from continuing operations:

(\$000)	Per Balance Sheet	CAD	USD	PEN	COP
		CAD \$ equivalent amounts			
Cash	\$ 14,803	\$ 826	\$ 13,890	\$ 6	\$ 81
Accounts receivable	8,298	107	18	4,384	3,789
Restricted cash	2,120	-	2,120	-	-
Long-term investments	21,172	21,056	116	-	-
Accounts payable and accrued liabilities	(8,491)	(433)	(385)	(12)	(7,661)
Long term bank debt	(26,541)	(26,541)	-	-	-
<b>Net financial assets (liabilities)</b>	<b>\$ 11,361</b>	<b>\$ (4,985)</b>	<b>\$ 15,759</b>	<b>\$ 4,378</b>	<b>\$ (3,791)</b>

The company estimates a 20 percent change in the CAD 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 the loss before income taxes and discontinued operations as follows (an equal but opposite impact to the loss before income taxes and discontinued operations would result if the CAD weakened by 20 percent):

(\$000)	USD	PEN	COP
	CAD \$ equivalent amounts		
Decrease (increase) in loss before income taxes and discontinued operations	\$ (2,627)	\$ (730)	\$ 632

The company continues to have exposure to foreign currency exchange risk on its discontinued operations on oil and natural gas sales contracts, denominated in USD and settled in Argentine Pesos (ARP). Operating and capital expenditures are incurred in USD and ARP. 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). Changes in the value of the USD and ARP relative to the CAD would impact the value of the financial instruments classified as discontinued operations and would result in changes to other comprehensive income but not to net earnings.



## 8. SEGMENTED INFORMATION

The company has corporate offices in Canada, the U.S. and Barbados (combined to comprise the corporate segment) and exploration activities in Peru and Colombia. The company's Argentinean segment is classified as discontinued operations as discussed in Note 4 despite the decision subsequent to the reporting period to "hold for use" the Argentinean operations.

Financial information pertaining to these operating segments is presented below.

	<b>Corporate</b>	<b>Colombia</b>	<b>Peru</b>	<b>Total</b>
(\$000)				
Three Months Ended June 30, 2009				
Revenue, gross	\$ -	\$ -	\$ -	\$ -
Net earnings (loss) from continuing operations	(2,777)	2	146	(2,629)
Property and equipment	287	37,471	55,467	93,225
Capital expenditures	11	9,270	708	9,989
Total assets from continuing operations	\$ 38,442	\$ 41,362	\$ 60,144	\$ 139,948
Three Months Ended June 30, 2008				
Revenue, gross	\$ -	\$ -	\$ -	\$ -
Net earnings (loss) from continuing operations	(4,365)	19	(3)	(4,349)
Property and equipment	302	1,850	29,648	31,800
Capital expenditures	-	522	6,625	7,147
Total assets from continuing operations	\$ 68,794	\$ 5,625	\$ 33,501	\$ 107,920

	<b>Corporate</b>	<b>Colombia</b>	<b>Peru</b>	<b>Total</b>
(\$000)				
Six Months Ended June 30, 2009				
Revenue, gross	\$ 9	\$ -	\$ 22	\$ 31
Net earnings (loss) from continuing operations	(5,826)	(21)	97	(5,750)
Property and equipment	287	37,471	55,467	93,225
Capital expenditures	20	24,275	6,668	30,963
Total assets from continuing operations	\$ 38,442	\$ 41,362	\$ 60,144	\$ 139,948
Six Months Ended June 30, 2008				
Revenue, gross	\$ 48	\$ -	\$ -	\$ 48
Net earnings (loss) from continuing operations	(9,821)	6	60	(9,755)
Property and equipment	302	1,850	29,648	31,800
Capital expenditures	-	747	14,216	14,963
Total assets from continuing operations	\$ 68,794	\$ 5,625	\$ 33,501	\$ 107,920



## 9. SUPPLEMENTARY INFORMATION

### (a) Per share amounts

The following table summarizes the common shares used in the net earnings and net earning from discontinued operations per share calculations:

	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Weighted average common shares outstanding	<b>54,948,010</b>	50,499,548	<b>54,948,010</b>	50,355,834
Dilutive effect of all stock options and all stock purchase warrants	<b>651,897</b>	1,235,447	<b>494,843</b>	1,263,042
Weighted average common shares outstanding – diluted	<b>55,599,907</b>	51,734,995	<b>55,442,853</b>	51,618,876

As the company has recognized net losses from continuing operations, the dilutive effect of all stock options and all stock purchase warrants became anti-dilutive causing 54,948,010 weighted average dilutive common shares outstanding to be used as the denominator in the dilutive per share net loss from continuing operations calculation for the three and six months ended June 30, 2009 and 50,499,548 and 50,355,834 weighted average dilutive common shares outstanding to be used as the denominator in the same calculation for the three and six months ended June 30, 2008, respectively.

### (b) Net change in non-cash working capital

	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
(\$000)				
Accounts receivable	\$ (1,439)	\$ (822)	\$ (153)	\$ (2,226)
Prepaid expenses	111	80	(73)	(112)
Accounts payable and accrued liabilities	(12,417)	705	(11,087)	2,133
Due to a related company	(2)	(43)	33	(36)
Income taxes payable	339	(44)	339	(44)
	\$ (13,408)	\$ (124)	\$ (10,941)	\$ (285)
Operating	\$ (1,738)	\$ (332)	\$ (842)	\$ (2,185)
Investing	(11,670)	208	(10,099)	1,900
	\$ (13,408)	\$ (124)	\$ (10,941)	\$ (285)

### (c) Supplementary cash flow information

	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
(\$000)				
Interest paid	\$ 128	\$ 161	\$ 234	\$ 384
Income taxes paid	\$ 60	\$ 56	\$ 60	\$ 56

## 10. COMMITMENTS

### CONTRACTUAL COMMITMENTS

The company's annual commitments under service contracts for drilling, leases for office premises and other equipment and an administrative services agreement are as follows:

	2009	2010	2011	Subsequent to 2011	Total
(\$000)					
Drilling service contracts and other leases	\$ 12,897	\$ 17,729	\$ 465	\$ 349	\$ 31,440



## OFFICERS

**Richard A. Gusella**  
Executive Chairman

**Gary D. Wine**  
President and  
Chief Operating Officer

**Kristen J. Bibby**  
Vice President, Finance &  
Chief Financial Officer

**Robert N. Erlich**  
Vice President, Exploration  
& New Ventures

**Jennifer K. Kennedy**  
Corporate Secretary  
Partner, Macleod Dixon LLP

## BOARD OF DIRECTORS

**Richard A. Gusella**  
Executive Chairman

**Gary D. Wine**  
President and  
Chief Operating Officer

**Pasquale Di Capo** <sup>(3,4)</sup>  
Chairman, Governance Committee,

**Colin M. Evans** <sup>(4)</sup>

**Andrew A. Gustajtis** <sup>(1,2,4)</sup>  
Chairman, Human Resources Committee,  
Reserves Committee

**Gordon H. Johnston** <sup>(1,2)</sup>

**Stewart D. McGregor** <sup>(3)</sup>

**Christopher J. Smith**, FCA (ICAEW) <sup>(1,2,3)</sup>  
Chairman, Audit Committee

- (1) Audit Committee
- (2) Reserves Committee
- (3) Governance Committee
- (4) Human Resources Committee

## CUSIP NUMBER

716709100

## ISIN

CA7167091007

## HEAD OFFICE

Suite 900, 332 - 6 Avenue SW  
Calgary, AB T2P 0B2  
Canada  
tel 403.539.8450  
fax 403.538.6225

www.petrolifera.ca  
inquiries@petrolifera.ca

## BRANCH OFFICES

11th Floor, Carlos Pellegrini 587  
Buenos Aires, Argentina  
tel 011.54.11.4324.3700

**Carlos Mombro**, General Manager

7C - 777 Antequera  
San Isidro, Lima, Peru  
tel 011.511.421.9590

**Carlos Monges**, General Manager

Calle 99 No 9a-54  
Torre 3, #1202A  
Bogota, Colombia

## SUBSIDIARIES

Petrolifera Petroleum (Holdings) Limited (Barbados)

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 (United States of America)

## TSX LISTING

Common shares: **PDP**

## SOLICITORS

Macleod Dixon LLP  
Calgary, Alberta

Maciel, Norman and Asociados  
Buenos Aires, Argentina

Estudio Galvez  
Lima, Peru

Posse, Herrera and Ruiz  
Bogota, Colombia

## BANKERS

Standard Bank PLC  
Royal Bank of Canada (Barbados)  
National Bank of Canada

## AUDITORS

Deloitte & Touche LLP

## RESERVOIR ENGINEERS

GLJ Petroleum Consultants  
Calgary, Alberta

