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PACIFIC RUBIALES ENERGY CORP.

MANAGEMENT DISCUSSION AND ANALYSIS
August 8, 2013
Form 51-102 F1
For the three month ended June 30, 2013

1. Preface

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

This MD&A is management's assessment and analysis of the results and financial condition of the Company, and should be read in conjunction with the accompanying consolidated financial statements for the second quarter of 2013 and the 2012 audited annual consolidated financial statements and related notes. The preparation of financial information is reported in United States dollars and is in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board ("**IASB**") unless otherwise noted. All comparative percentages are between the quarters ended June 30, 2013 and June 30, 2012, unless otherwise stated. The following financial measures: (i) EBITDA; (ii) funds flow from operations; and (iii) adjusted net earnings from operations, as referred to in this MD&A, are not prescribed by IFRS and are outlined under "Additional Financial Measures" on page 26. All references to net barrels or net production reflect only the Company's share of production and after deducting royalties. A list of abbreviations for oil and gas terms is provided on page 30.

In order to provide shareholders of the Company with full disclosure relating to potential future capital expenditures, we have provided cost estimates for projects that, in some cases, are still in the early stages of development. These costs are preliminary estimates only. The actual amounts are expected to differ and these differences may be material. For further discussion of the significant capital expenditures, see "Capital Expenditures" on page 13.

References to "**we**", "**our**", "**us**", "**Pacific Rubiales**", "**PRE**", or the "**Company**" mean Pacific Rubiales Energy Corp., its subsidiaries, partnerships and joint venture investments, unless the context otherwise requires. The tables and charts in this document form an integral part of this MD&A.

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

This MD&A was prepared originally in the English language and subsequently translated into Spanish and Portuguese. In the case of any differences between the English version and its translated versions, the English document shall prevail and be treated as the governing version.

2. Second Quarter 2013 Highlights

Pacific Rubiales is an exploration and production company with a proven track record of cash generation and operational excellence. The Company's producing assets are located in Colombia and Peru, with a growing portfolio of exploration assets in Brazil, Peru, Guyana, Papua New Guinea, and other countries in Central and South America.

During the second quarter of 2013, the Company again delivered outstanding results in cash flow, production, and exploration success. Highlights of the Company's activities during the quarter ending June 30, 2013 include:

- **38% increase in daily net production**. During the second quarter of 2013, average net production after royalties and internal consumption in Colombia and Peru totaled 127,555 boe/d (310,065 boe/d total field production), nearing the high end of the yearly target and up by 38% as compared to the same quarter of 2012. In Colombia, average net production reached 126,121 boe/d (307,138 boe/d total field production), and in Peru 1,434 bbl/d (2,927 bbl/d total field production).

- **Continued strong cash generation**. EBITDA for the second quarter of 2013 totaled $604 million compared to $564 million during the second quarter of 2012. EBITDA for the second quarter of 2013 represented a 57% margin on total revenues for the period. Funds flow and cash flow from operations increased to $475 million and $109 million compared to $415 million and $132 million in the same period of 2012, respectively. Consolidated net earnings for the second quarter of 2013 were $58 million compared to $224 million in the second quarter of 2012, impacted mainly by higher depletion, depreciation and amortization and the effect of foreign exchange losses from the Colombian peso depreciation during the second quarter of 2013.

- **Netbacks remained strong despite lower oil prices**. Combined oil and gas netback remained strong for the second quarter of 2013 at $60.54/boe compared to $60.88/boe for the first quarter of 2013, despite a 6% decrease in the combined realized prices due to the narrowing of the Brent-WTI spread. Crude oil operating netback during the second quarter of 2013 was $63.31/bbl compared to $63.34/bbl for the first quarter of 2013. Total combined operating cost decreased by $5.89/boe (16%) from $36.26/boe in the first quarter of 2013 to $30.37/boe in the second quarter of 2013, offsetting the drop in realized prices.

- **Cost reduction initiatives yielding results.** Total oil operating cost including overlift per bbl for the second quarter of 2013 decreased by $6.19/bbl to $32.53/bbl from $38.72/bbl for the first quarter of 2013 due to a reduction in transportation and upgrading costs, offset by an increase in cost of production. The Company continued to execute the measures announced previously on reducing oil operating costs by $8/bbl pro-forma by the end of 2013. During the current quarter, the Company secured additional transportation capacity on OCENSA and increased the volume of its own crude used in blending to reduce reliance on purchased diluents, which improved our operating margin. Additional cost reduction initiatives, including the OBC Pipeline, the construction of transmission lines by Petroelectrica to reduce energy cost at the Rubiales and Quifa fields, and the water treatment and irrigation project for Rubiales and Quifa are all on schedule for completion in the second half of 2013.

- **Additional water injection license granted.** The Company has received from the Colombian environmental authority (ANLA) the environmental license required to increase water injection at the Rubiales field by an additional 1 MMbbl/d. The necessary water injection facilities to process this additional volume have been built, which will allow the Company to increase oil production relatively quickly to a target level of approximately 220,000 bbl/d total field production by the end of this year for the Rubiales field.

- **Update on CPE-6 blanket exploration and development license**. In July 2013, the Company conducted meetings with local communities and stakeholders who showed strong support for the development of the CPE-6 Block. A public hearings meeting with the ANLA has been scheduled for August 9, 2013 regarding the CPE-6 Block blanket exploration and development license. The Company expects to receive the license within three to six weeks after the meeting.

- **Discoveries in Colombia and Brazil.** The exploration drilling campaign during this quarter resulted in four new discoveries: three in Colombia and one in offshore Brazil. In Colombia, the Capure-1X exploration well, drilled in the Guama Block, the preliminary results of the LCI-1X exploration well in La Creciente Block, Lower Magdalena Valley Basin, and the Potrillo-1, in the Yamu Block, Eastern Llanos Basin, resulted in three new discoveries: a gas condensate and natural gas discoveries in the Capure-1X and LCI-1X well and a light oil discovery in the Potrillo-1 well. In the Santos Basin, offshore Brazil, the Bilby-1 exploration well lead to a new oil discovery of 33° API. The Company is in the process of defining an appraisal program to confirm the extension of these discoveries.

- **Execution of exploration programs in Colombia, Peru and Brazil**. During the second quarter of 2013, total net exploration capital expenditure of $94 million consisted of the drilling of five exploratory wells: four in Colombia and one in offshore Brazil, as well as completion of 789 km of 2D seismic and 1,785 km of aeromagnetic and gravimetric data in Peru and Colombia, respectively. During this period, the Company also started drilling one exploration well in Peru whose final results are expected during the third quarter of 2013.

- **New exploration blocks awarded.** During the second quarter of 2013, the Agencia Nacional do Petróleo, Gás Natural e Biocombustíveis ("ANP") of Brazil awarded the Company three blocks in Brazil's 11th Bid Round. The blocks awarded are located in the Foz do Amazonas Basin (one block) and in the Pará-Maranhão Basin (two blocks) in the northern deep water of offshore Brazil, and have a total area of approximately 2,300 km^2 gross (1,153 km^2 net). The blocks were acquired through a consortium that included Queiroz Galvão Exploração e Produção S.A. and Premier Oil Plc. The Company also received regulatory approval for its interest in Block 116 in Peru and acquired 90% of the issued and outstanding shares of BCH International Inc., which owns 100% of the participating interest in an onshore block in Belize.

- **Capital expenditures**. Capital expenditures excluding acquisitions during the second quarter of 2013 totaled $490 million ($483 million in 2012). Year to date, capital expenditures totaled $1,095 million and are on schedule. Of the capital expenditures incurred this quarter, $140 million were invested in the expansion and construction of production infrastructure; $94 million on exploration activities (including drilling, seismic, and other geophysical activities) in Colombia, Peru and Guatemala; $149 million on development drilling; $66 million related to Karoon and Portofino and $41 million in other projects, which included the Company´s Synchronized Thermal Additional Recovery ("STAR") pilot project at Quifa SW.

- **STAR Pilot Project.** The Company is seeing continued success from its secondary oil recovery pilot test project in the Quifa SW field. Reservoir ignition has been sustained since early in the year, resulting in incremental oil production and a lowering of water cuts in the production wells, in the vicinity of the air injection well. During the second quarter, successful synchronization of the producing wells was achieved. The results to date are indicating a more than doubling of the primary recovery factor in the test area of the reservoir and the Company expects to certify an increased recovery factor in the pilot test area by August 2013. These results are providing the Company with the confidence to proceed with field trials of the STAR secondary recovery in other areas of the Quifa SW field, in 2014.

- **Acquisition of CGX.** On April 26, 2013, the Company closed a private placement financing of CGX Energy Inc. ("CGX") in the amount of C$35 million pursuant to the terms of a binding term sheet signed on March 25, 2013. The Company's interest in CGX increased from 35% to approximately 63%, obtaining control of CGX. More importantly, this transaction furthers the Company's position in the world-class exploration assets in the Guyana-Suriname basin. On the Corentyne Block specifically, DeGloyer and MacNaughton estimated mean Prospective Resources of 1,522 MMbbl of liquid hydrocarbons and 7,889 Bcf of natural gas (resource report dated December 31, 2012).

- **New partners in Pacific Infrastructure.** In July 31, 2013 the Company and a number of private investors in Pacific Infrastructure Ventures Inc. ("Pacific Infrastructure") entered into an agreement with International Finance Corporation, IFC African, Latin American and Caribbean Fund, LP and IFC Global Infrastructure Fund, LP (together the "IFC Parties"), pursuant to which the IFC Parties agreed to invest in Pacific Infrastructure for a total amount of $150 million. Subject to the terms and conditions in the agreement, the IFC Parties will obtain a 26.134% equity participation of Pacific Infrastructure; consequently, the Company's interest will decrease from 56.9% to 41.4%. The investment by IFC confirms the vision and strategic importance of the Puerto Bahía and Olecar pipeline projects currently underway.

- **50% increase on cash dividends**. On June 3, 2013, the Company announced an increase of 50% in the quarterly cash dividend from $0.110 to $0.165 per common share, under-pinned by strong cash flow and the continued growth of production and reserves. On June 28, 2013, the Company paid a cash dividend in the aggregate amount of approximately $53 million or $0.165 per common share.

3. Financial Summary

A summary of the financial results for the three and six months ending June 30, 2013 and 2012 are as follows:

(in thousands of US$ except per share amounts or as noted)	Three Months Ended June 30 2013	Three Months Ended June 30 2012	Six Months Ended June 30 2013	Six Months Ended June 30 2012
Oil and gas sales	**$ 1,055,573**	$ 1,035,854	**$ 2,314,335**	$ 1,967,704
EBITDA [(1)]	**603,967**	564,023	**1,298,691**	1,106,246
EBITDA Margin (EBITDA/Revenues)	**57%**	54%	**56%**	56%
Per share - basic ($) [(2)]	**1.87**	1.91	**4.03**	3.77
Funds flow from operations [(1)]	**475,001**	415,223	**981,161**	807,687
Per share - basic ($) [(2)]	**1.47**	1.41	**3.05**	2.75
Adjusted net earnings from operations [(1)]	**98,052**	195,082	**241,264**	486,574
Per share - basic ($) [(2)]	**0.30**	0.66	**0.75**	1.66
Net earnings [(3)]	**57,559**	224,344	**179,513**	482,689
Per share - basic ($) [(2)]	**0.18**	0.76	**0.56**	1.64
Average net production (boe/d)	**127,555**	92,611	**127,721**	93,091
Average sales volumes (boe/d)	**127,398**	117,408	**135,479**	108,158
(COP$ / US$) exchange rate [(4)]	**1,929.00**	1,784.60	**1,929.00**	1,784.60

1. *See "Additional Financial Measures" on page 26.*
2. *The basic weighted average number of common shares outstanding for the second quarter of 2013 and 2012 was 323,000,819 and 294,561,287, respectively.*
3. *Net earnings attributable to equity holders of the parent.*
4. *COP/USD exchange rate fluctuations can have a significant impact on the Company's accounting net earnings, due in the form of unrealized foreign currency translation on the Company´s financial assets and liabilities and deferred tax balances that are denominated in COP.*

During the second quarter of 2013 the Company continued to generate strong cash flow. EBITDA for the second quarter of 2013 totaled $604 million, which represents an increase of 7% compared to $564 million in 2012. EBITDA in the second quarter of 2013 represents a 57% margin on total revenues for the period (54% margin in 2012). Funds flow from operations increased to $475 million in the current quarter from $415.2 million in 2012.

The Company's financial results are influenced by fluctuations in commodity prices, price differentials and the COP/US$ exchange rate. Net earnings for the second quarter of 2013 totaled $57.6 million versus $224.3 million in 2012, impacted by lower combined realized prices (5%), higher depreciation, depletion and amortization, and a number of non-operating and non-cash items that may or may not recur in future periods such as mark-to-market gains/losses on derivatives, loss from equity investments, and foreign exchange gains/losses.

A reconciliation of net earnings to EBITDA is as follows:

(in thousands of US$)	Three Months Ended June 30 2013	Three Months Ended June 30 2012	Six Months Ended June 30 2013	Six Months Ended June 30 2012
Net earnings	**$ 57,559**	**$ 224,344**	**$ 179,513**	**$ 482,689**
Adjustments to net earnings				
Income taxes expense	128,785	121,608	289,134	180,978
Depletion, depreciation and amortization	344,870	227,582	689,950	398,362
Finance cost	36,608	19,751	83,847	40,332
Others	36,145	(29,262)	56,247	3,885
EBITDA	**$ 603,967**	**$ 564,023**	**$ 1,298,691**	**$ 1,106,246**

The Company uses a number of other non-IFRS indicators to measure performance.

See "Additional Financial Measures" on page 26 for detailed reconciliations for EBITDA, funds flow from operations and adjusted net earnings from operations.

4. Operating Results

<u>Operating netback per barrel of oil equivalent (“boe”) sold</u>

The Company produces crude oil and natural gas in Colombia and Peru and sells both in the domestic markets and internationally. In Colombia, the Company purchases crude oil and/or other diluents for blending with the Rubiales heavy crude. The Company also purchases crude oil from third parties for trading purposes. Total costs for oil and gas sold consist mainly of production, transportation, and costs of diluents purchased for blending. Operating netback is calculated as the average sale price per boe less all associated costs.

Below is a summary of the combined operating netback for the total volumes of crude oil and natural gas sold during the quarters, including diluents but excluding trading volumes:

Operating netback for second quarter of 2013 compared to first quarter of 2013

	Three months ended June 30, 2013			Three months ended March 31, 2013		
	Crude Oil	**Natural Gas**	**Combined**	**Crude Oil**	**Natural Gas**	**Combined**
Average daily volume sold (boe/day)[(1)]	**112,701**	**10,887**	**123,588**	**128,641**	**11,114**	**139,755**
Operating netback ($/boe)						
Crude oil and natural gas sales price	95.84	39.78	90.91	102.06	40.26	97.14
Production cost of barrels sold [(2)]	16.41	5.45	15.44	12.89	4.49	12.22
Transportation (trucking and pipeline) [(3)]	13.56	0.02	12.37	15.66	0.05	14.42
Diluent cost [(4)]	6.34	-	5.78	9.32	-	8.58
Other costs [(5)]	(0.21)	2.72	0.04	0.68	2.91	0.86
Total operating cost	**36.10**	**8.19**	**33.63**	**38.55**	**7.45**	**36.08**
Overlift/Underlift [(6)]	(3.57)	(0.02)	(3.26)	0.17	0.29	0.18
Total Operating Cost including Overlift/Underlift	**32.53**	**8.17**	**30.37**	**38.72**	**7.74**	**36.26**
Operating netback crude oil and gas ($/boe)	**63.31**	**31.61**	**60.54**	**63.34**	**32.52**	**60.88**

1. *Combined operating netback data based on weighted average daily volume sold which includes diluents necessary for the upgrading of the Rubiales blend.*
2. *Cost of production mainly includes lifting cost and other direct production costs such as fuel consumption, outsourced energy, fluid transport (oil and water), personnel expenses and workovers, among others. Increases in the oil production cost are driven by higher fluid (mainly water) production which affects fuel consumption, outsourced energy and fluid transport costs, as compared to prior period of 2012.*
3. *Includes the transport costs of crude oil and gas through pipelines and tank trucks incurred by the Company to take the products to the delivery points to customers.*
4. *See additional discussion on diluent costs below.*
5. *Other costs mainly correspond to inventory fluctuation, storage cost and the net effect of the currency hedges of operating expenses incurred in Colombian pesos during the period, as well as royalties paid in cash on gas and oil production, and external road maintenance at the Rubiales field.*
6. *Corresponds to the net effect of the overlift position for the period amounting to $36.6 million as of June 30, 2013.*

Despite the reduction in combined realized prices of 6%, the Company was able to maintain the combined operating netback at $60.54/boe during the second quarter of 2013 as compared to the first quarter of 2013 ($60.88/boe). Operating netback was influenced by the following factors:

- Combined realized oil and natural gas price decreased to $90.91/boe in the second quarter of 2013 from $97.14/boe in the first quarter of 2013, primarily due to the narrowing of the ICE Brent-WTI spread. During the same period, WTI Nymex decreased slightly to $94.17/bbl from $94.36/bbl, and the ICE Brent fell significantly by $9.29/bbl to an average of $103.35/bbl in the second quarter of 2013 versus $112.64/bbl in the first quarter of 2013.
- The drop in realized price was mitigated by a reduction in diluent and transportation costs and overlift. Production costs in the second quarter of 2013 increased by $3.22/boe as compared to the first quarter of 2013. The increase was primarily due to the disposal cost of rising water volumes at the Rubiales, Quifa and Cajua fields, and the use of internal land transportation of oil and water volumes at the fields.

Cost Reduction in Operating Costs

Total combined operating costs including overlift for the second quarter of 2013 totaled $30.37/boe, 16% lower compared to $36.26/boe for the first quarter of 2013, resulting from the early impact of a number of cost reduction initiatives to improve the operating netback, announced by the Company in the first quarter of 2013. Total cost reduction of $5.89/boe ($6.19/bbl for crude oil operating cost) achieved during the second quarter of 2013 was mainly driven by a significant reduction of 33% in crude oil diluent upgrading cost, 14% in transportation cost and the decrease in overlift cost, all offset by an increase in cost of production as explained before.

Transportation Cost

Transportation costs decreased by $2.05/boe as a result of acquiring additional transportation capacity of 31,000 bbl/d on the OCENSA pipeline (allowed through the new OCENSA pipeline business arrangement), which significantly reduced the use of tank trucks to transport the Company's crude oil in Colombia.

Diluent Cost

During the second quarter of 2013 oil diluent cost decreased by 43% to $6.34/bbl from $11.07/bbl in the same period of 2012. Diluent cost also decreased from $9.32/bbl in the first quarter of 2013 to $6.34/bbl in the second quarter. During this period the Company used a higher volume of its own light crude oil for dilution, lower volumes of purchased natural gasoline for diluent, resulting in a lower overall blending ratio (around 13%). In addition, the start-up of the blending facilities at Cusiana Station allowed the Company to reduce dilution from 18°API to 17°API at the Rubiales field, reducing the overall costs incurred on transporting diluents.

For the purpose of blending the Rubiales crude oil, the Company used 9,070 bbl/d of its own crude and purchased 5,427 bbl/d of diluents during the second quarter of 2013 compared to nil own crude and 9,607 bbl/d of purchased diluents in the first quarter of 2013. For the second quarter of 2012, 9,025 bbl/d were used for blending, consisting solely of purchased diluents. These volumes are included in the average daily volume of crude oil sold.

The table below provides the details on the average net cost for blending the Rubiales crude for the Company.

Adjusted Net Cost of Diluent (US$/bbl)	Three Months Ended		
	2013		2012
	Q2	Q1	Q2
Average diluent purchase price	119.81	124.86	119.41
Pipeline fees	12.42	11.33	11.70
Average Rubiales blend sales price	(95.41)	(102.31)	(102.50)
Net diluent cost per barrel	36.82	33.88	28.61
Average blending ratio	7.54%	14.09%	13.38%
Net blend cost per barrel	**2.77**	**4.77**	**3.83**

On a net cost basis, the adjusted net blending cost of Rubiales crude decreased by 28% to $2.77/bbl in the second quarter of 2013 from $3.83/bbl in the same period of 2012.

Operating netback for second quarter of 2013 compared to second quarter of 2012

	Three months ended June 30					
	2013			2012		
	Crude Oil	Natural Gas	Combined	Crude Oil	Natural Gas	Combined
Average daily volume sold (boe/day)[1]	**112,701**	**10,887**	**123,588**	**98,507**	**11,002**	**109,509**
Operating netback ($/boe)						
Crude oil and natural gas sales price	95.84	39.78	90.91	101.26	41.99	95.30
Production cost of barrels sold [2]	16.41	5.45	15.44	8.13	5.16	7.84
Transportation (trucking and pipeline) [3]	13.56	0.02	12.37	13.09	0.70	11.84
Diluent cost [4]	6.34	-	5.78	11.07	-	9.95
Other costs [5]	(0.21)	2.72	0.04	3.95	2.48	3.80
Total operating cost	**36.10**	**8.19**	**33.63**	**36.24**	**8.34**	**33.43**
Overlift/Underlift [6]	(3.57)	(0.02)	(3.26)	(1.34)	(0.51)	(1.25)
Total Operating Cost including Overlift/Underlift	**32.53**	**8.17**	**30.37**	**34.90**	**7.83**	**32.18**
Operating netback crude oil and gas ($/boe)	**63.31**	**31.61**	**60.54**	**66.36**	**34.16**	**63.12**

Notes: Refer to the operating netback table on page 5.

The combined crude oil and gas operating netback during the second quarter of 2013 was $60.54/boe, lower by $2.58/boe as compared to the second quarter of 2012 ($63.12/boe). Combined average daily volume produced and sold increased from 109,509 boe/d in the second quarter of 2012 to 123,588 boe/d in 2013. Crude oil operating netback during the second quarter of 2013 was $63.31/bbl, 5% lower as compared to the same period of 2012 ($66.36/bbl). Natural gas operating netback was $31.61/boe, 7% lower in comparison with the same period of 2012 ($34.16/boe). The main reasons for the lower operating netback in the second quarter of 2013 as compared to the same period of 2012 are as follows:

- The reduction is generally in line with the lower combined oil and gas realized prices in the second quarter of 2013 ($90.91/boe) as compared to the second quarter of 2012 ($95.30/boe). Realized prices for the current quarter were lower in comparison to 2012 primarily due to a reduction in the ICE Brent-WTI differential, reducing the premium on the Company's sales blends.
- Production costs in the second quarter of 2013 increased by $7.60/boe as compared to the same period of 2012, mainly due to the increase in oil production and water disposal at the Rubiales, Quifa and Cajua fields. Internal land transportation costs were higher at the Cajua field, which only started commerciality in the third quarter of 2012.
- The above effects were offset by a decrease in the diluent costs by $4.73/bbl compared to the same quarter 2012, as the Company increased the volume of own its crude used in blending and consequently reducing the volume of purchased diluents.

Operating netback for crude oil trading

In Colombia, the Company also purchases crude oil from third parties for trading purposes. The netback on crude trading activities during the second quarter was also impacted by the reduction in the realized prices, as indicated below:

Crude oil trading	Three months ended		
	2013		2012
	Q2	Q1	Q2
Average daily volume sold (bbl/day)	**3,810**	**3,895**	**7,899**
Operating netback ($/bbl)			
Crude oil traded	95.78	105.24	119.85
Cost of purchases of crude oil traded	95.62	101.55	116.86
Operating netback crude oil trading ($/bbl)	**0.16**	**3.69**	**2.99**

Production and Sales Volumes

The Company produces and sells crude oil and natural gas. It also purchases liquids and crude oil from third parties for use as diluents to mix with its heavy oil production and for trading purposes, which are included in the reported "volumes sold" shown in the table below. Sales volumes are also impacted by the relative movement in inventories during a reporting period. Both revenues and costs are recognized on the respective volumes sold during the period.

Production to total sales reconciliation	Three Months Ended		
	2013		2012
	Q2	Q1	Q2
Net production			
Colombia oil (bbl/d)	115,170	115,318	79,732
Colombia gas (boe/d)	10,951	11,110	11,139
Peru oil (bbl/d)	1,434	1,461	1,740
Total net production (boe/d)	**127,555**	**127,889**	**92,611**
Production available for sale (boe/d) (1)	127,555	127,889	90,871
Diluent volumes (bbl/d)	5,427	9,607	9,025
Oil for trading volumes (bbl/d)	3,810	3,895	7,899
Inventory movement and other (boe/d) (2)	(9,394)	2,259	9,613
Volumes sold (boe/d)	**127,398**	**143,650**	**117,408**

1. *Production available for sale includes all net production in Colombia and the Company's 49% of net production from Block Z-1 in Peru from December 12, 2012 onwards.*
2. *Includes change in inventory levels and 2,145 bbl/d in the second quarter of 2013 (1,271 bbl/d in first quarter of 2013 and 1,598 bbl/d in second quarter of 2012) of inventory set aside to settle previously accumulated PAP volumes.*

Total volumes sold is composed of production volumes available for sale, diluent volumes added to heavy oil production, oil for trading volumes and inventory balance changes, and increased to 127,398 boe/d in the current quarter from 117,408 boe/d a year ago (an increase of 9%).

Production available for sale in the quarter increased to 127,555 boe/d from 90,871 boe/d in the same period in 2012 (an increase of 40%) due to rising production volumes in producing fields and the acquisitions of PetroMagdalena and C&C. Despite a 23% rise in the Company's net heavy oil production from the Rubiales, Quifa SW and Cajua oil fields, diluent volumes decreased due to the Company increasing the volume of its own crude used in blending and consequently reducing the volume of purchased diluents. Oil for trading volumes in the current quarter decreased to 3,810 bbl/d from 7,899 bbl/d, while inventory balances moved to a 9,394 boe/d build from a 9,613 boe/d draw in the same quarter a year ago.

Average Daily Oil and Gas Production – Net Volumes Before and After Royalties

The following table sets out the average daily production for the three months ending June 30, 2013 at all of the Company's producing fields located in Colombia and Peru:

	Average Q2 Production (in boe/d)					
	Total field production		Share before royalties [1]		Net share after royalties	
Producing Fields - Colombia	**Q2 2013**	**Q2 2012**	**Q2 2013**	**Q2 2012**	**Q2 2013**	**Q2 2012**
Rubiales / Piriri	209,990	171,226	88,358	71,607	70,687	57,286
Quifa SW [2]	54,678	44,542	32,533	26,584	23,464	20,826
La Creciente [3]	10,815	11,085	10,620	10,901	10,620	10,898
Cravoviejo	9,402	-	9,367	-	8,618	-
Cubiro	9,080	-	5,549	-	5,117	-
Cajua	4,091	-	2,455	-	2,307	-
Cachicamo	2,497	-	2,497	-	2,297	-
Arrendajo	1,586	829	1,071	270	990	11
Abanico	1,288	1,721	360	492	344	472
Sabanero [4]	1,148	1,466	563	729	529	685
Dindal / Rio Seco	1,078	983	624	635	514	524
Other producing fields [5] [6]	1,485	393	668	174	634	169
Total Production - Colombia	**307,138**	**232,245**	**154,665**	**111,392**	**126,121**	**90,871**
Producing Fields - Peru (See note below)						
Block Z-1 [7]	2,927	3,551	1,434	1,740	1,434	1,740
Total Production - Peru	**2,927**	**3,551**	**1,434**	**1,740**	**1,434**	**1,740**
Total Production Colombia and Peru	**310,065**	**235,796**	**156,099**	**113,132**	**127,555**	**92,611**

1. *Share before royalties is net of internal consumption at the field and before PAP at the Quifa SW field.*
2. *The Company's share before royalties in the Quifa SW field is 60% and decreases according to a high-prices clause that assigns additional production to Ecopetrol.*
3. *Royalties on production from La Creciente field are payable in cash and accounted as part of the production cost. During the second quarter of 2013 the ANH requested the Company to pay in cash the royalties related to the condensate from La Creciente field. The Company has completed 87% of the project to increase the process capacity to 100 MMcf/d at La Creciente Station.*
4. *The Company holds a 49.999% equity interest in Maurel et Prom Colombia, which owns the Sabanero Block.*
5. *Other producing fields corresponds to producing assets located in Cerrito, Moriche, Las Quinchas, Guama, Topoyaco, Guasimo and Buganviles Blocks. It also includes the acquired blocks from PetroMagdalena such as Carbonera, Carbonera La Silla and Yamu, and Llanos 19 acquired from C&C (Yamu is not an operated block). Subject to Ecopetrol´s and ANH´s approval (as applicable), the Company has divested its participation in the Moriche, Las Quinchas, Guasimo, Chipalo, Yamu, Cerrito, Carbonera and Catguas Blocks.*
6. *During the second quarter of 2013, the ANH requested the Company to pay in cash the royalties related to crude oil for the Lisa, Yaguazo, Apamate, Cotorra and Cerro Gordo fields.*
7. *Block Z-1 includes the Corvina and Albacora fields which are operated by BPZ Resources, Inc. in which the Company acquired a 49% undivided participating interest on April 27, 2012. The transaction was completed upon receiving governmental approval on December 12, 2012; the Company or any of its subsidiaries is the technical operations manager under an Operating Services Agreement since April 1, 2013. The applicable royalties in Peru are paid in cash and are accounted as part of the production cost.*

<u>*Colombia*</u>

Average net production in Colombia for the second quarter of 2013 remained at similar levels as reported in the first quarter of 2013, despite the delivery of additional volumes associated with the high-price clause arbitration decision at Quifa SW (PAP). The average net production for the second quarter of 2013 totaled 126,121 boe, only slightly lower than the volumes reported in the first quarter of 2013 of 126,428 boe/d. Gross average production increased to 307,138 boe/d and the average net production after royalties for the second quarter of 2013 reached 126,121 boe/d, representing approximately a 39% growth compared to the same period of 2012, mainly due to:

- Drilling of 255 producing wells at the Rubiales field, 81 producing wells at the Quifa SW field, 24 wells at the Cajúa and 13 wells in other production fields during the same period, as well as an increase in the capacity of production facilities at Rubiales and Quifa. Net production at Rubiales and Quifa increased 21% while the La Creciente natural gas field increased by 3% as compared to 2012.

- License modification for the water disposal in the Rubiales field (received in August 2012), allowing for the injection of an additional 400,000 barrels of water per day.
- Average net production after royalties contributed by the PetroMagdalena and C&C acquisitions during the second quarter of 2013 totaled 6,362 boe/d (total field production of 11,692 boe/d) and 11,139 bbl/d (total field production of 12,153 bbl/d) respectively, representing 14% of the total net production after royalties reported by the Company during the second quarter of 2013.

Peru

Production from Peru corresponds to the 49% participating share of production attributable to the Company from Block Z-1. Revenues and costs have been recognized in the Company´s financial results with respect to the production from Block Z-1 since December 12, 2012 as a result of the approval of the applicable Peruvian governmental authorities.

On April 1, 2013, the Company commenced its duties as the Technical Operation Manager of Block Z-1, and on July 5, 2013, the new platform CX15 located in the Corvina field started drilling the first development well.

Net production after royalties for the second quarter of 2013 from Block Z-1 averaged 1,434 bbl/d (total gross field production of 2,927 bbl/d). Production is expected to increase during the second half of 2013 as a result of the development drilling campaign started at the Corvina field and development drilling at the Albacora field, which is expected to begin during the third quarter of 2013.

Royalties and High Prices Right Clauses

The current royalty rates for volumes of hydrocarbons produced from the Company's Colombian assets range from 5% to 20%. Royalties on production represent the entitlement of the respective states to a portion of the Company's share of production and are recorded using rates in effect under the terms of contract and applicable laws at the time of hydrocarbon discovery. In Colombia, royalties for oil may be payable in kind while for gas they are payable in cash. During the second quarter of 2013, the Agencia Nacional de Hidrocarburos (the "**ANH**") requested the Company to pay in cash the royalties related to the condensate of La Creciente field and the crude oil for minor fields operated by the Company. In Peru, royalty calculations for oil resulted in a 5.3% levy on total gross revenues, which the government allows companies to pay either in kind or cash; however the current practice is to pay the royalties in cash.

Additional Production Share in the Quifa SW

The Company's share of production after royalties in the Quifa SW field is 60%; however, this participation may change from time-to-time as a function of the high-prices clause formula, stipulated in the Quifa Association Contract.

On April 12, 2012, the Company agreed to apply the formula that the ANH uses in its contracts to assign and deliver the presumptive additional share to Ecopetrol, as from the activation of the additional production clause in April 2011 until the arbitration was concluded. On March 13, 2013, the arbitration panel delivered its decision, interpreting that the PAP clause should be calculated on 100% of the production of the Quifa SW field instead of simply the Company's 60%. On April 15, 2013, the Company initiated the delivery of the additional PAP production from the Quifa SW field to Ecopetrol. In addition, during the second quarter of 2013, the Company started discussions with Ecopetrol to agree on the delivery method for the volume of crude subject to PAP accumulated prior to the final arbitration decision (previously recorded as a financial provision in the Company's financial statements). This interim position of the Company is subject to the final determination of the Consejo de Estado on the annulment of the arbitration decision.

Carrizales field (Cravo Viejo Block)

On April 27, 2013, the exploitation area of Carrizales field reached 5,000,000 barrels of accumulated production of oil, activating the ANH rights on additional production participation share due to high prices pursuant to the E&P Cravoviejo contract. According to the contract terms, this additional participation share from Carrizales field is payable in cash, which has been accounted for as part of the operating cost for this field.

Update on Environmental Permits

Colombia

The Company currently has ten processes under evaluation by the Environmental Authority in Colombia ("**ANLA**"). The most important ones are: (i) additional water injection for the Rubiales field; (ii) blanket exploration and development license for the CPE-6 Block; and (iii) licenses to explore new blocks. The Company expects to receive these licenses in the second half of 2013.

In July 2013, the Company received from the ANLA the environmental license required to increase water injection at the Rubiales field by an additional 1 MMbbl/d. The necessary water injection facilities to process this additional volume have been built, which will allow the Company to increase oil production relatively quickly to a target level of approximately 220,000 bbl/d average daily gross field production by the end of this year for the Rubiales field.

In July 2013 the Company conducted meetings with local communities and stakeholders who showed strong support for the development of the CPE-6 Block. A public hearings meeting with the ANLA has been scheduled for August 9, 2013 regarding the CPE-6 Block blanket exploration and development license. The Company expects to receive the license within three to six weeks after the meeting.

Peru

During the second quarter of 2013, the Company initiated the Environmental Management Plan in order to obtain the Peruvian government's authorization to continue exploration activities in the central area of the offshore Block Z-1 in northern Peru.

Commercial Activity

Realized Prices and Sales Volume for the Second Quarter of 2013

Average benchmark crude oil and natural gas prices for the second quarter of 2013 were as follows:

	Three Months Ended June 30		Three Months Ended March 31	
Average Crude Oil and Gas Prices (US$/bbl)	**2013**	**2012**	**2013**	**°API**
Domestic Market [(1)]	$97.34	$93.23	$95.55	12.5
WTI NYMEX (Weighted Average of PRE Cargoes, Small Cargoes and Parcels)	$94.25	$93.70	$94.40	38
Vasconia Trading (Weighted Average Cargoes and Parcels PRE) [(2)]	$97.45	$106.17	$105.24	24
Vasconia Produced (Weighted Average Cargoes and Parcels PRE) [(2)]	$96.36	$103.99	$104.15	24
Vasconia (Weighted Average Cargoes and Parcels PRE) [(2)]	$96.38	$104.68	$104.28	24
Castilla (Weighted Average Cargoes PRE) [(3)]	$95.41	$102.50	$102.36	19
Rubiales 12.5 Export Barranquilla (Weighted Average Small Cargoes PRE) [(4)]	$92.41	$91.60	$97.40	12.5
Combined Realized International Oil Sales Price	**$95.29**	**$102.36**	**$102.21**	
Bunker Sales (IFO 380-500) [(5)]	$92.82	$104.15	$101.33	
Peru Sales (Domestic Market)	$99.23	-	-	
PRE Natural Gas Sales ($/MMBTU)	**$6.97**	**$7.38**	**$7.10**	
Combined Realized Oil and Gas Sales Price	**$91.05**	**$96.95**	**$97.36**	
WTI NYMEX ($/bbl)	$94.17	$93.35	$94.36	
BRENT ICE ($/bbl)	$103.35	$108.76	$112.64	
Regulated Gas Price ($/MMBTU) [(6)]	$5.90	$5.80	$5.94	
Henry Hub average Natural Gas Price ($/MMbtu)	$4.02	$2.35	$3.48	

1. *Weighted average price of Rubiales crude oil sold in the domestic market.*
2. *Weighted average price of 27 parcels Vasconia crude oil.*
3. *Weighted average price of 8 Castilla crude oil cargoes.*
4. *Weighted average price of 7 Rubiales 12.5° API (small cargoes).*
5. *Weighted average price of 12 Bunker deliveries.*
6. *The domestic natural gas sales price is referenced to MRP for gas produced in La Guajira field. The MRP is modified every six months based on the previous half-year variation of the US Gulf Coast Residual Fuel No. 6 1.0% sulphur, Platts.*

Combined oil and gas realized price for the current quarter was $91.05/boe, lower by approximately $6/boe as compared to the second quarter of 2012 and first quarter of 2013 as a consequence of the reduction of the ICE Brent-WTI NYMEX price differential. As a consequence of the reduction of $9.1/bbl in the ICE BRENT - WTI NYMEX differential in second quarter 2013 vs. first quarter 2013, Latin American crude prices have suffered a premium reduction versus WTI in the second quarter of 2013. For example, Castilla crude oil (as published by Platts) has been trading at an average of WTI - $0.18/bbl ($93.99/bbl) in second quarter of 2013 compared to WTI + $7.81/bbl ($102.17/bbl) in the first quarter of 2013 (a reduction of $7.99/bbl). It should be noted that Castilla PRE cargoes has been sold at an average premium of $1.24/bbl over WTI in second quarter of 2013 ($95.41/bbl) or $1.42/bbl over the average price of Castilla crude oil in the spot market in the second quarter of 2013. Also the average premium obtained during the negotiations for the eight (8) cargoes sold during the second quarter of 2013, reached + 1.18 $/bbl over the Platts closing premium value for Castilla at each negotiation day.

- As indicated in the table above, the Company's combined realized international oil price in the second quarter of 2013 was $95.29/bbl, higher by $1.12/bbl as compared to the average WTI Nymex price due to marketing activities coupled with close monitoring of WTI versus Brent spread.
- In the second quarter of 2013, natural gas sales averaged 62.16 MMcf/d, mainly from La Creciente field, at an average price of $6.97/MMBtu (equivalent to $6.97/Mcf) representing a premium of 18% over the weighted domestic regulated price of $5.90/MMBtu. This volume is similar to volumes in the second quarter of 2012 (62.3 MMcf/d) and is used mainly by power plants to generate electricity.

Export Sales Volume

During the second quarter of 2013, the Company sold 11.59 MMboe (oil and natural gas) of which 10.42 MMbbl (90%) were exported. A breakdown of the export sales by destination follows:

	Three Months Ended June 30			
Export destination (MMbbl)	**2013**	**%**	**2012**	**%**
Asia	3.02	29%	1.98	20%
USA	3.31	32%	4.08	42%
Europe	1.19	11%	3.00	31%
LATAM / Caribbean	2.90	28%	0.67	7%
Total Export	**10.42**	**100%**	**9.73**	**100%**

	Three Months Ended June 30			
Export oil reference (MMbbl)	**2013**	**%**	**2012**	**%**
Castilla Blend	7.89	76%	6.85	70%
Vasconia Blend	1.46	14%	2.16	22%
Rubiales	0.92	9%	0.57	6%
Bunkers	0.15	1%	0.15	2%
Total Export	**10.42**	**100%**	**9.73**	**100%**

Transport of Hydrocarbons

During the second quarter of 2013, the Company transported 159,199 bbl/d through the different pipelines and trucking systems as follows:

	Three Months Ended June 30		**Six Months Ended June 30**	
Means of transport (bbl/d)	**2013**	**2012**	**2013**	**2012**
ODL-OCENSA pipeline system	91,544	66,780	162,849	143,270
Crude oil transported through the ODC pipeline	20,855	16,999	44,163	33,998
Crude oil transported through the trucking system	46,800	28,507	95,500	48,771
Total Transport of Hydrocarbons	**159,199**	**112,286**	**302,512**	**226,039**

- The Guaduas Facility pumped 36,551 bbl/d of crude oil from the Company and third parties. This operation handled 19,139 bbl/d (11,190 in the second quarter of 2012) from third parties, generating an operational profit of $3.04 million ($1.75/bbl).
- Incremental oil production from Rubiales, Quifa, and Cajua and recent acquisitions PetroMagdalena and C&C was transported by truck to access pipeline facilities at the new Cusiana blending facility, Guaduas, Vasconia and the Atlantic Coast while waiting on new pipeline capacity from the OBC Pipeline.

Exploration Activities

During the second quarter of 2013, the Company continued with its exploration activity in Colombia, offshore Brazil and Peru, which included the drilling of five exploration wells and the acquisition of 789 km of 2D seismic and 1,785 km of aeromagnetic and aerogravimetric surveys. The drilling results for the three and six months ending June 30, 2013 and 2012 are as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2013	**2012**	**2013**	**2012**
Succesful exploratory wells	3	-	7	1
Succesful appraisal wells [(1)]	-	15	1	26
Succesful stratigraphic wells	-	3	-	7
Dry wells	2	4	5	7
Total (see break down in the table below)	**5**	**22**	**13**	**41**
Success rate	**60%**	**82%**	**62%**	**83%**

1. *Includes horizontal appraisal wells.*

Detail of Exploratory/Appraisal Wells Drilled During the Second Quarter of 2013

The following is a summary of the exploration campaign during the second quarter 2013.

No. of wells	Block	Area / Field / Prospect	Well Name	Type	Total Depth TVDSS (feet)	Net Pay (feet) [(1)]
1	Guama	Capure	Capure-1X	Exploration	7,400	137
2	Santacruz	Phobos	Phobos-1X	Exploration	9,201	0
3	Arrendajo	Mirla Blanca	Mirla Blanca-1	Exploration	6,345	0
4	S-M-1166	Bilby	Bilby-1	Exploration	14,489	229 [(2)]
5	Yamu	Potrillo	Potrillo-1	Exploration	11,076	14

1. *“Net Pay” represents the total estimated net pay encountered in the horizontal or vertical drilled sections.*
2. *Net pay data from the Bilby 1 well is related to the oil-bearing zone*

Colombia

In the Guama Block, Lower Magdalena Valley Basin, the Company finished drilling the Capure-1X well, drilled approximately two km northeast of the previously drilled Pedernalito-1X well. The well’s petrophysical evaluation indicated a total of 137 feet of net pay, averaging 8% porosity, which resulted in a new gas condensate discovery for the block. Hydraulic fracturing and production short-tests have been planned for the third quarter of 2013.

During this period, and also in the Lower Magdalena Valley, the Company started drilling the LCI-1X exploration well, located southeast of the La Creciente “A” field in the La Creciente Block, with an estimated TD of 12,944 feet MD. At the end of the second quarter, the well had reached a depth of 8,620 feet MD. Preliminary petrophysical evaluation of the well indicates 63 feet of net pay within the Ciénaga de Oro Formation, resulting in a new natural gas discovery. The Company continues drilling and logging the well to then proceed for testing the Cienaga de Oro interval.

In the Santa Cruz Block, Catatumbo Basin, the Company finished drilling the Phobos-1X exploration well. The well showed presence of hydrocarbons in the Mirador and Barco formations, but the pressure and fluid tests only showed hydrocarbon traces so the well was plugged and abandoned.

In the Arrendajo block, Eastern Llanos Basin, the Mirla Blanca 1 exploration well was drilled in the north central part of the block with the Carbonera C-5 as the main exploration objective. The petrophysical evaluation did not show the presence of hydrocarbons, therefore the well was plugged and abandoned.

In the Yamu Block, also in the Eastern Llanos Basin, Geopark (the block operator) drilled the Potrillo-1 exploration well with the C-7 and C-8 Units of the Carbonera Formation as the main exploration objectives. The well found 14 feet of net pay in the C-7 Unit resulting in a new light oil discovery. An initial test in the C-7 interval showed a production rate of 580 bbl/d with a water cut of 60%.

In the Quifa Block, in the eastern Llanos Basin, the Company started mobilization for the 721 km^2 of 3D seismic surveys in the northwestern portion of the block. The seismic program will be acquired during the second half of 2013.

In the CPE-6, the Company started the processing of 366 km^2 of 3D seismic data acquired in the northern part of the block. Completion of the processing is expected by the third quarter of 2013.

In the COR-15 (operated by Maurel et Prom Colombia) and COR-24 blocks, the Company completed 1,785 km of aeromagnetic and aerogravimetric surveys. Final survey results are expected by the third quarter of 2013.

In the Portofino Block, Canacol Energy Ltd., the operator of the block, began the contracting process for civil work for the Tachuelo-1 stratigraphic well, which is expected to start drilling in August 2013.

Peru

In Block 138, located in the Ucayali Basin, the Company drilled the Yahuish-1X exploration well to a total depth of 8,417 feet MD, with the Cretaceous and Paleozoic as main exploration targets. The well's preliminary results showed fair to good oil shows in two sand intervals in the Paleozoic. Fluid sampling was attempted unsuccessfully; by the end of the quarter the first of two production tests programmed for these intervals were in progress.

In Block 135, the Company finished the acquisition of a 789 km 2D seismic survey. Processing and interpretation of this seismic program is now in progress.

In Block Z-1, located in the offshore Tumbes Basin of northern Peru, the data of the 1,542 km^2 of 3D seismic survey is currently being processed. Results are expected during the second half of 2013.

In Block 116, in the Santiago Basin of northern Peru, Maurel et Prom Peru, S.A., the block operator, continues preparation of the proposed location for the Fortuna 1X well, which is expected to start drilling during the fourth quarter of 2013.

Guatemala

In the Guatemala blocks (N-10-96 and O-10-96), Compañía Petrolera del Atlántico S.A., the block operator, continued with the civil works for the Balam-1X exploration well. Due to unusual flooding of the area, the well has been re-scheduled for spudding during the third quarter of 2013.

Belize

In Belize, the Company completed the design of 650 km of 2D seismic survey and started the environmental feasibility assessment for the seismic survey.

Brazil

In the S-M-1166 Block, Karoon Gas Australia Ltd., the block operator, finished drilling the Bilby-1 exploration well at a total depth of 4,416 meters (14,489 feet). Petrophysical evaluation of the well indicated presence of 33° API oil within an oil bearing column of 70 meters (230 feet). The operator is now evaluating the well data to define an appraisal program to confirm the extent of this discovery.

5. Capital Expenditures

Excluding business acquisitions, capital expenditures during the second quarter of 2013 totaled $490.2 million ($483 million in 2012). $139.6 million were invested in the expansion and construction of production infrastructure primarily in Quifa SW, Quifa North, and Rubiales fields; $93.7 million went into exploration activities including drilling, seismic and other geophysical activities in Colombia, Peru and Guatemala; $66.6 million related to Karoon, Portofino and Papua New Guinea farm-ins; $149.3 million for development drilling; and $41 million in other projects including the STAR project.

	Three Months Ended June 30		Six Months Ended June 30	
(in thousands of US$)	2013	2012	2013	2012
Production facilities (1)	$ 139,647	$ 120,993	$ 286,676	$ 223,156
Exploration drilling including seismic acquisition (2)	93,724	62,899	172,087	153,236
Early facilities and others (2)	-	47,709	-	47,709
Development drilling (1)	149,277	64,544	302,968	120,973
Other projects (STAR, Gas export, PEL)	40,963	20,338	67,252	38,470
Farm-in Agreement (3)	66,585	166,323	265,673	166,323
Total capital expenditures	**$ 490,196**	**$ 482,806**	**$ 1,094,656**	**$ 749,867**

1. *Includes investment in Maurel et Prom Colombia B.V,. in which the Company holds a 49.999% participation and indirectly owns a 49.999% working interest in the Sabanero Block.*
2. *Includes the drilling, seismic and other geophysical in Colombia, Peru and Guatemala.*
3. *Includes capital expenditures of $64.2 million related to the 35% participating interest in the offshore contract located in the Santos Basin in Brazil currently operated by Karoon, and subject to governmental approval. Also includes the investment of $2.4 million on Portofino Block in Colombia, for which approval was subsequently obtained from ANH on July 17, 2013. For the second quarter of 2012, includes $146 million related to the 49% undivided participating interest in the Z-1 exploration Block in Peru, and $20.1 million on PPL37 Block in Papua New Guinea.*

6. Farm-in Transactions and Acquisitions

The following is a summary of the farm-in transactions and acquisitions completed during the second quarter of 2013.

C$35 million to acquire control of CGX

On April 26, 2013 the Company closed the acquisition of 350 million units of CGX at C$0.10 per unit for C$35 million under a private placement, pursuant to the binding term sheet signed previously. Under the private placement each unit consists of one common share of CGX and one share purchase warrant, exercisable for a five year period at C$0.17 per share. The investment increases the Company's interest in CGX to approximately 63%, effectively acquiring control of CGX.

Through this transaction the Company increased its foothold in the world-class exploration assets in the Guyana-Suriname basin. On the Corentyne Block specifically, the certifier DeGloyer and MacNaughton estimated mean prospective resources of 1,522 MMbbl of liquid hydrocarbons and 7,889 Bcf of natural gas (resource report dated December 31, 2012).

Acquisition of interest in Belize

On February 15, 2013, the Company acquired from several private investors a 90% indirect interest in the La Democracia block (previously known as Blocks 6 and 15) located in Belize for a total of $1.5 million cash. The La Democracia block is operated under a Production Sharing Agreement. The block is located in the central part of Belize with a total area of 638,520 acres. The Company expects to find new production opportunities similar to those identified in the Caribbean trend and the Yucatan Province. As part of the consideration, the Company has granted to the private investors a 5% royalty over the production (after governmental royalty) of the Block and a one-time cash payment of $2 million upon first declaration of commerciality. The Company will acquire the outstanding 10% interest at no further consideration two years after the signing date of the agreement.

New exploration blocks in Brazil

On May 16, 2013, the Company announced that it had been awarded three blocks during Brazil's 11th Bid Round organized by the Agencia Nacional do Petróleo, Gás Natural e Biocombustíveis of Brazil ("ANP"). The blocks awarded to the Company are located in the Foz do Amazonas Basin (one block) and in the Pará-Maranhão Basin (two blocks) in the northern deep water of offshore Brazil, and have a total area of approximately 2,300 km^2 gross (1,153 km^2 net). The blocks were acquired through a consortium that also included Queiroz Galvão Exploração e Produção S.A. ("**QGEP**") and Premier Oil Plc ("**Premier**"). All three blocks have an initial five year exploration phase with the option to extend the exploration phase by an additional three years.

The Block FZA-M-90 is located in the deep water offshore Sector AP1. QGEP is the operator of the Block with a 35% participating interest, Premier at 35%, and the Company at 30%. The exploration work commitments include a 3D seismic program over the entire block plus the drilling of one exploration well. The award includes a signature bonus payable to the ANP of R$54.1 million ($27 million).

Block PAMA-M-265 and Block PAMA-M-337 are both located in the deep water offshore Sector SPAMA-AP1. In Block PAMA-M-265, the Company will have a 70% participating interest, while in Block PAMA-M-337 the Company will have a 50% participating interest with the remaining interest being held by QGEP. The exploration work commitments include 3D seismic over each block plus the drilling of one exploration well on Block PAMA-M-337. The award includes a signature bonus of R$10.1 million ($5 million) for Block PAMA-M-265 and R$70.4 million ($35 million) for Block PAMA-M-337, payable to the ANP. Both blocks will be operated by QGEP.

Approval of the acquisition of a participating interest in Block 116 in Peru

On June 27, 2013, the Peruvian government approved the acquisition of a 50% participating interest by the Company in the exploration contract for Block 116 located in northeastern Peru as well as the transfer of the operatorship of this block. The Company first announced this acquisition on October 12, 2011, and the corresponding farm-in agreement was executed with Maurel et Prom Peru S.A.C. on December 4, 2012. Following regulatory approval, the Company has initiated preparations for an exploratory well in Block 116, planned to start during the last quarter of this year.

7. Project Status

STAR Project in the Quifa Field

In March 2011, the Company and Ecopetrol agreed to advance with the STAR pilot project in the Quifa SW field as a preliminary step to expanding the technology. STAR is aimed at increasing the recovery in the Company's heavy oil fields in Colombia. The pilot test is being carried out in the Quifa SW field under the existing terms and conditions of the Association Contract. The pilot facility at Quifa SW, including production and injection wells and compression facilities, was constructed during 2012. Also during 2012, geological and reservoir studies were completed and various steam and nitrogen tests were conducted prior to the start of air injection in early 2013.

During the second quarter of 2013 the process of air injection into the reservoir continued, and after 100 days of air injection more than 450 MMSCD have been injected to the reservoir showing good early results. The intelligent wells and automation system have indicated that combustion has taken place and the oil bank displacement to the producers has been initiated. The information gathered so far has confirmed that the Llanos fields show exceptional reservoir characteristics suited for this kind of process and that the potential to increase recovery two to three-fold is feasible. The early production results in one of the first line wells have resulted in water cut reductions exceeding 20% in the first two months and the oil production increasing nearly 10 times with respect to production before starting air injection.

The Company is seeing continued success from its secondary oil recovery pilot test project in the Quifa SW field. Reservoir ignition has been sustained since early in the year, resulting in incremental oil production and a lowering of water cuts in the production wells, in the vicinity of the air injection well. During the second quarter, successful synchronization of the producing wells was achieved. The results to date are indicating a more than doubling of the primary recovery factor in the test area of the reservoir and the Company expects to certify an increased recovery factor in the pilot test area in August 2013. These results are providing the Company with the confidence to proceed with field trials of the STAR secondary recovery in other areas of the Quifa SW field, in 2014.

Carmentea – Araguaney Pipeline Project

This new project involves an extension of the existing pipeline and comprises a new 85-km and 36-inch diameter pipeline with the capacity to transport up to 460,000 bbl/d between Cusiana and Araguaney. This will allow additional volumes of oil transportation between the ODL Pipeline and the Bicentenario Pipeline ("**OBC Pipeline**").

The ANLA issued Auto 241 on January 30, 2013, whereby the Diagnosis of Environmental Alternative No. 2 alternative presented by Oleoducto de los Llanos Orientales S.A. ("**ODL**") was approved. Detailed engineering is ongoing along with the implementation of recommendations from the "Peer Review" and a construction analysis developed in May 2013.

Cusiana Blending Facility

This project allows the blending of light oil trucked to a new diluent blending facility at the OCENSA pumping station, located in Cusiana, with heavy oil pumped through the ODL Pipeline. Consequently, API gravity in the ODL Pipeline will be reduced from 18° to 15°, resulting in significant savings in diluent transportation costs. The project was completed during the second quarter of 2013 and blending started on April 22, 2013. By June 2013, the Cusiana facility has processed 297,974 barrels of diluent and has pumped to the OCENSA pipeline approximately 5 MMbbl.

Bicentenario Pipeline

The Company has a 33.38% equity interest in the Oleoducto Bicentenario de Colombia S.A.S. ("**OBC**"). OBC is a special purpose entity promoted by Ecopetrol, which has a 55.97% interest in the company with the remaining 10.65% interest owned by other oil producers operating in Colombia. OBC will be responsible for the financing, design, construction and operation of the OBC Pipeline, Colombia's newest oil pipeline transportation system, which will run from Araguaney, in the Casanare Department of central Colombia to the Coveñas Export Terminal in the Caribbean.

The new pipeline will eventually add 450,000 bbl/d to the capacity of the existing pipeline systems, connecting the Eastern Llanos Basin to export markets. The project, which is being constructed in phases, includes a new pipeline from Araguaney Station to Coveñas export terminal. Total extension of this new pipeline is estimated to be 976 km with different sections of 30- and 42-inch diameter line.

As of June 2013, phase 1, which comprises a 230 km, 42-inch pipeline from Araguaney to Banadía, was under construction; 99% of the pipeline has been completed. The pumping station in Araguaney is currently under expansion and two tanks of 600,000 barrel capacity each are currently under construction in the Coveñas terminal; both systems are into connection works. The construction progress for phase 1 is 75% complete as of June 2013. The OBC Pipeline is expected to be operational in the fourth quarter of 2013.

PEL – Power Transmission Line Project

Petroelectrica ("**PEL**") is a wholly owned subsidiary of the Company and is responsible for constructing and operating a new power transmission line of 230 kilovolts to connect the Rubiales field with Colombia's electrical grid. The new transmission line originates at the Chivor Substation and will stretch 260 km to the Rubiales field. The project includes two substations to supply power to the booster stations of the ODL Pipeline as well as substations for the Rubiales and Quifa fields. The new power line will be able to supply up to 192 MVA that will be used in oil production and pipeline transportation activities. Field construction started in May 2012 and is expected to be completed by the fourth quarter of 2013. As of June 2013, the Chivor, Quifa and Rubiales substations are under construction with 456 of 534 concrete foundations in progress: 378 towers out of 534 have been erected, and 70 km of electrical wire has been installed.

The PEL transmission line will help to reduce the operating costs for the Rubiales and Quifa fields by lowering electricity costs for oil production and transportation.

Small Scale LNG project

The Company is actively looking for alternate ways to monetize its existing natural gas reserves in La Creciente field, as well as exploiting its other extensive gas exploration resources in nearby fields. The Company has initiated a small scale liquefied natural gas ("**LNG**") project that will be developed jointly with Exmar NV ("**Exmar**"), an experienced LNG/LPG transportation company based in Belgium. The project is targeting LNG supply for power generation in Central America and the Caribbean.

The project comprises an 88 km, 18-inch gas pipeline from La Creciente to the Colombian Atlantic Coast and a Floating, Liquefying, Regasification and Storage Unit ("**FLRSU**"). The FLRSU will be connected to a Floating Storage Unit ("**FSU**") in order to allow FOB exports to standard carriers (130,000 to 150,000 CBM).

In March 2012, the Company signed a tolling agreement with Exmar. Under the terms of this agreement, the first natural gas liquefaction is targeted for late 2014. Environmental permitting for the onshore portion of the gas pipeline was granted. Construction of the FLRSU is underway in WISON´s shipyard in China.

As of June 2013, basic and detailed engineering for the gas pipeline, including the offshore jetty, was 86% complete.

Water Treatment for Agricultural Development

In order to handle the increasing volumes of water produced in the Rubiales and Quifa fields, the Company has initiated a project which will treat produced formation water from these fields and use it for irrigation of a palm oil agricultural project for biodiesel manufacturing. The first phase of this development includes the construction of two water treatment plants using Reverse Osmosis (RO) technology with a capacity of 500,000 bbl/d each. This project will bring significant savings in terms of energy and water injection facilities for water disposal. In addition, the palm oil project will create sustainable jobs and social development for the area.

As of June 2013, basic engineering is in its final phase. Engineering, Procurement and Construction (EPC) contracts for the construction of the RO plants are being received in the field and early facilities are expected to be operational in the first quarter of 2014.

Puerto Bahía Project

As of June 30, 2013, the Company had a 56.9% interest in Pacific Infrastructure, a private company that is currently developing Puerto Bahía, an oil export terminal located in the Cartagena Bay in Colombia. Puerto Bahía will be developed in three phases: (i) 1.7 MMbbl of oil and petroleum products storage capacity, a berthing position for vessels of up to 80K DWT, a truck loading/unloading station with a capacity of up to 30 Mbbl/d and a fixed bridge; (ii) additional storage capacity of up to 3 MMbbl, an additional berthing position for vessels of up to 150K DWT and barge handling facilities with a capacity of up to 45 Mbbl/d; and (iii) liquids terminal with capacity of up to 4 MMbbl, a multi-purpose terminal handling bulk materials, containers and a berthing platform with a length of 300 meters to handle dry materials.

During 2012 the environmental license, the port concession and the free trade zone permits were granted. Designs and engineering were completed during the first half of 2013. As of June 30, 2013, construction of phase 1, which includes the liquids terminal, unloading station, CS terminal, electric supply, and a fluvial bridge, is approximately 15% complete.

Recognizing the strategic importance of world-class operating capabilities, Pacific Infrastructure signed a binding Memorandum of Understanding with Oiltanking International in December 2012. Oiltanking is recognized globally as a word-class operator of large-scale liquids terminals.

In addition to Puerto Bahía, Pacific Infrastructure is also developing the Olecar pipeline which will connect Puerto Bahía to the oil pipeline hub at the port of Coveñas, ensuring the uninterrupted supply of crude oil for export. The Olecar project includes: (i) a pumping station at Coveñas with a capacity of 300 Mbbl/d; (ii) a 130 km, 30-inch diameter pipeline; and (iii) bidirectional connections between the Cartagena Refinery, the second largest refinery in Colombia, and Puerto Bahía. As of June 30, 2013, initial environmental studies have been completed and right-of-way negotiations were in progress. Environmental permitting is expected to be approved in the second half of 2013.

New partners in Pacific Infrastructure

In July 31, 2013 the Company and a number of private investors of Pacific Infrastructure Ventures Inc. ("Pacific Infrastructure") entered into an agreement with International Finance Corporation, IFC African, Latin American and Caribbean Fund, LP and IFC Global Infrastructure Fund, LP (together the "IFC Parties"), pursuant to which the IFC Parties agreed to invest in Pacific Infrastructure for a total amount of $150 million. Subject to the terms and conditions in the agreement, the IFC Parties will obtain a 26.134% equity participation of Pacific Infrastructure; consequently, the Company's interest will decrease from 56.9% to 41.4%. The investment by IFC confirms the vision and strategic importance of the Puerto Bahía and Olecar pipeline projects currently underway.

8. Discussion of 2013 Second Quarter Financial Results

Revenues

	Three Months Ended June 30		Six Months Ended June 30	
(in thousands of US$)	**2013**	**2012**	**2013**	**2012**
Net crude oil and gas sales	$ 1,022,370	$ 949,704	$ 2,244,240	$ 1,776,502
Trading revenue	33,203	86,150	70,095	191,202
Total Revenue	**$ 1,055,573**	**$ 1,035,854**	**$ 2,314,335**	**$ 1,967,704**
$ per boe oil and gas	90.91	95.30	94.20	98.50
$ per bbl trading	95.78	119.85	100.53	115.95
$ Total average revenue per boe	**91.05**	**96.95**	**94.38**	**99.96**

Total crude oil and gas sales in the second quarter of 2013 were $1,055.6 million, $19.7 million higher than the same period of 2012. Net sales increased by 2% compared to 2012, the result of an increase in the volume sold and a lower realized combined price. For additional details related to oil and gas sales, please refer to section 4 – "Commercial Activities".

Following is an analysis of the revenue drivers for the second quarter of 2013 as compared to the same period of 2012:

	Three Months Ended June 30			
	2013	**2012**	**Differences**	**% Change**
Total of boe sold (Mboe)	11,593	10,684	909	9%
Avg. Combined Price - oil & gas and trading ($/boe)	91.05	96.95	(5.90)	-6%
Total Revenue (000$)	**1,055,573**	**1,035,854**	**19,719**	**2%**

Revenue increase due to the change in volume and price for the second quarter of 2013 in comparison to the same period of 2012 is as follows:

Drivers for the revenue increase (000$):		
Due to Volume	88,134	447%
Due to Price	(68,415)	-347%
	19,719	

Operating Costs

(in thousands of US$)	Three Months Ended June 30 2013	2012	Six Months Ended June 30 2013	2012
Oil and Gas Operating Costs	$ 378,337	$ 333,151	$ 832,178	$ 583,776
Trading Operating Costs	33,147	84,003	68,748	184,066
(Underlift) Overlift	(36,621)	(12,490)	(34,352)	(29,905)
Total Cost	**$ 374,863**	**$ 404,664**	**$ 866,574**	**$ 737,937**
$ per boe crude oil and gas	33.63	33.43	34.93	32.37
$ per bbl Trading Operating Costs	95.62	116.86	98.60	111.63
$ per boe Under/Overlift	(3.26)	(1.25)	(1.44)	(1.66)
$ Total average cost per boe	**32.33**	**37.88**	**35.34**	**37.49**

Total operating costs for the second quarter of 2013 totaled $374.9 million compared to $404.7 million for the same period of 2012, a combination of an increase in oil and gas produced and a decrease in the volume of oil for trading. Total average cost for the second quarter of 2013 was $32.33/boe, lower by 15% as compared to $37.88/boe for 2012. Average cost for oil and gas produced and sold in the current quarter was $33.63/boe compared to $33.43/boe for the same quarter in 2012 with the increase mainly due to:

- Increased water disposal at Rubiales, Quifa and Cajua fields due to higher oil and water production volumes in the second quarter of 2013.
- Increased internal land transportation cost of produced oil and water at the Cajua field, which commenced commerciality during the third quarter of 2012. The crude produced from Cajua field is currently transported via tank truck to the water treatment facilities.
- Higher volumes of oil transported via tank truck and increase in oil production during the second quarter of 2013 coupled with an increase in the pipeline transport tariff rates. Production coming from recent acquisitions is also transported via tank truck to access the pipeline facilities.
- Diluent costs decreased by $4.73/bbl compared to the same quarter 2012, as the Company increased the volume of its own crude used in blending and consequently reduced the volume of purchased diluents.

Average cost for oil for trading decreased from $116.86/bbl for the second quarter of 2012 to $95.62/bbl in the current quarter as a result of the decrease in crude price.

Depletion, Depreciation and Amortization

(in thousands of US$)	Three Months Ended June 30 2013	2012	Six Months Ended June 30 2013	2012
Depletion, depreciation and amortization	$ 344,870	$ 227,582	$ 689,950	$ 398,362
$ per boe	29.75	21.30	28.14	20.24

Depletion, depreciation and amortization ("**DD&A**") for the second quarter of 2013 was $344.9 million ($227.6 million in the same period of 2012). The increase of 52% over 2012 was primarily due to: (i) increase in production and higher capitalized costs that are subject to depreciation; (ii) higher depreciable cost base of oil and gas properties from the acquisition of PetroMagdalena, C&C and interest in Block Z-1, which are depreciated at a higher rate based on reserve life; and (iii) higher depreciable cost base of the Rubiales field, which is depreciated over the remaining life of the contract expiring in 2016.

General and Administrative

(in thousands of US$)	Three Months Ended June 30 2013	2012	Six Months Ended June 30 2013	2012
General and administrative costs	$ 76,743	$ 67,167	$ 149,070	$ 123,521
$ per boe	6.62	6.29	6.08	6.27

General and administrative expenses for the second quarter of 2013 were $76.7 million, representing a $9.6 million increase from the same period in 2012. The increase in G&A costs was primarily due to:

- A higher number of direct and indirect employees in the second quarter of 2013 due to the significant increase in the exploratory and production activities of the Company compared to 2012. The total number of employees as of June 30, 2013 was 2,409 compared to 1,870 in the same period in 2012, a 29% increase.
- The remaining increase was mainly due to additional costs related to expansions in Colombia, Brazil, Peru and Papua New Guinea, as well as an increase in the cost of back office, office rental, field personnel and technical assistance to support the growth of production and exploration activities.

Finance Cost

	Three Months Ended June 30		Six Months Ended June 30	
(in thousands of US$)	2013	2012	2013	2012
Finance costs	$ 36,608	$ 19,751	$ 83,847	$ 40,332

Finance cost includes interest on the Company's bank loans, convertible debentures, senior notes, revolving credit facilities, finance leases and fees on letters of credit. For the second quarter of 2013, interest expense totaled $36.6 million compared to $19.8 million for the same period of 2012. The increase in finance costs is primarily due to the $1 billion senior notes due 2023 that were issued in the first quarter of 2013.

Foreign Exchange

	Three Months Ended June 30		Six Months Ended June 30	
(in thousands of US$)	2013	2012	2013	2012
Foreign exchange (loss) gain	$ (15,082)	$ (4,824)	$ 2,753	$ (16,773)

The U.S. dollar is the Company's functional currency. Foreign exchange gains or losses primarily result from the movement of the Colombian peso ("**COP**") against the U.S. dollar. A significant portion of the Company is operating in, and capital expenditures as well as assets, and liabilities are denominated in, COP. During the quarter, the COP depreciated against the U.S. dollar by 5% as compared to the appreciation of the Colombian peso against the U.S. dollar by 0.4% during the same period of 2012. Foreign exchange loss for the second quarter of 2013 was $15.1 million, compared to a loss of $4.8 million for the same period of 2012. The foreign exchange loss for the second quarter of 2013 was mainly due to unrealized loss from the translation of COP denominated balances into the U.S. dollar.

Income Tax Expense

	Three Months Ended June 30		Six Months Ended June 30	
(in thousands of US$)	2013	2012	2013	2012
Current income tax	$ 101,344	$ 134,595	$ 262,664	$ 263,707
Deferred income tax	27,441	(12,987)	26,470	(82,729)
Total Income Tax Expense	**$ 128,785**	**$ 121,608**	**$ 289,134**	**$ 180,978**

The income tax rate in Canada was 26.50% for the second quarter of 2013 as well as in 2012. In Colombia, the tax rate was 34% for the second quarter of 2013 compared to 33% in 2012, and in Peru, the income rate for Block Z-1 is 22%.

The Colombian Congress approved a new tax law in December 2012, which came into effect on January 1, 2013, where the statutory income tax rate was reduced from 33% down to 25%. In addition, the law introduced an incremental 9% income tax surcharge to substitute the elimination of certain payroll taxes primarily related to low income salaries. As a result, the newly approved income tax rate was increased to 34% (considering the additional 9%).

The effective tax rate (income tax expenses as a percentage of net earnings before income tax) was 70.8% in the second quarter of 2013 compared to 35.2% for the same quarter in 2012. The Company's effective tax rate differs from the statutory rate mainly because of the following:

- Expenses that are not deductible for tax purposes (such as share-based compensation, foreign exchange gain or loss, and other non-deductible expenditures in Canada and Colombia);
- Corporate expenses that result in tax loss carry forward, but for which no deferred tax assets and recovery have been recognized. When the Company has a reasonable expectation to utilize those losses in the future, deferred tax assets and a corresponding deferred tax recovery may be recognized which would reduce the income tax expense; and

- Foreign exchange effect on the deferred tax determined on COP-denominated assets and liabilities. The Company's assets, are primarily located in Colombia. As a result, the tax base, and hence deferred tax balances of these assets are subject to fluctuations in the US-COP exchange rate. The depreciation of the COP against the US dollar by 5% during the current quarter resulted in an unrealized deferred income tax expense of $50 million. In comparison, the Company recorded a $3.2 million unrealized income tax recovery during the second quarter 2012 as a result of the appreciation of the COP against the US, dollar by 0.48%.

Financial Position

Debts and Credit Instruments

The Company was compliant with all of its debt covenants during the second quarter of 2013. The following debts are outstanding as of June 30, 2013:

2011 Senior Notes

The 2011 Senior Notes, due December 12, 2021, are direct and unsecured with an interest rate of 7.25%, payable semi-annually (the "**2011 Senior Notes**"). The 2011 Senior Notes are listed on the Official List of the Luxembourg Stock Exchange and trade on the Euro MTF. As of June 30, 2013, the aggregate principal amount of 2011 Senior Notes outstanding was $712 million.

2013 Senior Notes

The 2013 Senior Notes, due March 28, 2023, are direct and unsecured with an interest rate of 5.125% payable semi-annually. The 2013 Senior Notes are listed on the Official List of the Luxembourg Stock Exchange. As of June 30, 2013, the aggregate principal amount of the 2013 Senior Notes outstanding was $1 billion.

Revolving Credit Facilities

On September 13, 2012, the Company entered into two Revolving Credit and Guaranty Agreements: (i) $400 million Revolving Credit and Guaranty Agreement (the "**U.S. Dollar Facility**") with a syndicate of international lenders and Bank of America, N.A., as administrative agent: and (ii) Meta Petroleum Corp. Colombia Branch and Pacific Stratus Energy Corp. Colombia Branch entered into a Colombian peso equivalent of $300 million Revolving Credit Agreement as borrowers (the "**Colombian Peso Facility**") with a syndicate of Colombian lenders and Sociedad Fiduciaria Bogotá, S.A., as administrative agent.

The revolving credit facilities have an interest rate determined in accordance with the ratings assigned to the Company's senior debt securities by Standard & Poor's Ratings Group, Moody's and Fitch Inc. Based on the Company's credit rating as of June 2013, the interest rate was LIBOR plus 2.75% under the U.S. Dollar facility and DTF + 2.25% under the Colombian Peso Facility. In addition, the Company is required to pay commitment fees of 0.95% on the unutilized portion under the U.S. Dollar Facility and 0.40% under the Colombian Peso Facility of any outstanding commitments under the two facilities.

Using proceeds from the issuance of the 2013 Senior Notes, the Company repaid the $358 million outstanding on the U.S. Dollar Facility on April 15, 2013. On May 6, 2013, the Company repaid $98.4 million outstanding on the Colombian Peso Facility. As of June 30, 2013, the Company has available the full amount under the $400 million U.S. Dollar Facility and $192 million equivalent available under the Colombian Peso Facility. Both the U.S. Dollar Facility and the Colombian Peso Facility remain fully committed to their maturity in 2015.

Itau Credit Facility

On February 6, 2013, the Company entered into a credit facility agreement in the amount of $100 million with Banco Itau BBA. S.A. (the "**Itau Credit Facility**"). This credit facility had an interest rate of LIBOR + 2.4% and a commitment fee of 0.7% on the unutilized portion. The Company drew down the $100 million on the facility and used the proceeds to redeem the remaining principal amount of the 2009 Senior Notes. On May 3, 2013, the Company repaid the total amount of the credit facility and closed it.

Bank of America Credit Facility

On May 2, 2013, the Company entered into a $109 million credit and guaranty agreement with Bank of America, N.A., as lender. Proceeds from this facility were used in part to repay the entire $100 million outstanding on the Itau Credit Facility. This loan has a maturity 44 months from the date of the loan, and an interest rate of LIBOR + 1.5%.

Convertible Debentures

The Company has outstanding convertible unsecured subordinated debentures due August 29, 2013 (the "**Debentures**") of C$2.7 million in face amount as of June 30, 2013. The Debentures bear interest at 8% annually and are payable semi-annually. The outstanding Debentures are convertible into common shares of the Company at the rate of C$12.40 (2012 – C$12.83) per share, this being equivalent to 80.9061 (2012 – 77.9423) common shares per C$1,000 face amount of Debentures, subject to adjustments pursuant to the indenture.

Bank of America Working Capital Facility

On August 1, 2013, the Company entered into a $100 million uncommitted credit and guaranty agreement with Bank of America, N.A. as lender. Proceeds from this facility will be used for working capital. This loan has a maximum maturity of 6 months from the date of the loan, with an interest rate which will be negotiated when the company needs the funds. As of August 5, 2013, the Company has drawn down $100 million with an interest rate of LIBOR + 0.95%.

Letters of Credit

As at June 30, 2013, the Company has issued letters of credit and guarantees for exploration and operational commitments for a total of $307 million.

Outstanding Share Data

Common Shares

As at June 30, 2013, 323,402,776 common shares were issued and outstanding.

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

Stock Options and Warrants

As at June 30, 2013, there were no warrants outstanding and 26,772,234 stock options were outstanding, of which all were exercisable.

Liquidity and Capital Resources

Liquidity

Funds provided by operating activities for the second quarter of 2013 totaled $109.2 million ($131.9 million in 2012). The increase in cash flow in 2013 was the result of the increase in production and higher combined crude oil and gas sale prices. The Company has been generating cash flows from operations from the sale of crude oil and natural gas and continues to plan for increased future production.

As of June 30, 2013, the Company had working capital of $69.2 million, mainly comprised of $438.8 million of cash and cash equivalents, $662.2 million of account receivables, $125.2 million of inventory, $107.2 million of income tax receivable, $3.4 million of prepaid expenses, $1,233.7 million of accounts payable and accrued liabilities, $15.3 million of income tax payable, $1 million of current portion of long term debt and $17.6 million of finance lease obligations.

As of June 30, 2013, the Company has not drawn down on its $400 million U.S. Dollar Facility and has drawn down $266.5 million under the available $300 million Colombian Peso Facility. The Company repaid the $358 million outstanding on the U.S. Dollar Facility on April 15, 2013, and prepaid $98.4 million on the Colombian Peso Facility; both facilities remain fully committed until 2015.

During February 2013, the Company entered into and subsequently drew down on a new credit facility with Banco Itau for $100 million. The $100 million outstanding on the Itau facility has since been fully repaid with a new $109 million short term credit facility from Bank of America.

The Company believes it has adequate resources to fund its capital plan for 2013 with the Company's cash flows from operations and current debt facilities. With respect to the Company's broader integration strategy, the Company will pay for the expansion plan with its own cash flow. However, if additional resources are required, there are possible sources of funds available to the Company to finance additional capital expenditures and operations including the revolving credit facility, existing working capital incurring new debt, and the issuance of additional common shares if necessary.

On August 1, 2013, the Company entered into a $100 million uncommitted credit and guaranty agreement with Bank of America, N.A. as lender. Proceeds from this facility will be used for working capital. This loan has a maximum maturity of 6 months from the date of the loan, with an interest rate which will be negotiated when the company needs the funds. As of August 5, 2013, the Company has drawn down $100 million with an interest rate of LIBOR + 0.95%.

9. Commitments and Contingencies

As part of the Company's normal course of business, the Company entered into arrangements that will impact the Company's future operations and liquidity. The principal commitments of the Company are ship or pay arrangements on crude oil and gas transportation, asset retirement obligations, debt repayments, service contracts with suppliers in relation to the exploration and operation of oil properties and engineering and construction contracts, among others.

Disclosure concerning the Company's significant commitments can be found in Note 21 to the consolidated financial statements. The Company has no off-balance sheet arrangements.

10. Risk Management Contracts

The Company enters into derivative financial instruments to reduce the exposure to unfavorable movements in commodity prices, interest rates and foreign exchange rates. The Company has established a system of internal controls to minimize risks associated with its derivative program and does not intend to use derivative financial instruments for speculative purposes.

Disclosure concerning the Company's Risk Management Contracts can be found in Note 24 to the consolidated financial statements.

11. Selected Quarterly Information

	2013		2012				2011	
(in thousands of US$)	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Financials:								
Net sales	$1,055,573	$1,258,762	$1,046,689	$ 870,369	$1,035,854	$ 931,850	$1,011,476	$ 828,285
Net earnings (loss) attributable to equity holders of the parent for the period	57,559	121,954	(23,777)	68,817	224,344	258,345	80,834	193,720
Earnings (loss) per share								
- basic	0.18	0.38	(0.08)	0.23	0.76	0.88	0.29	0.71
- diluted	0.18	0.37	(0.08)	0.23	0.74	0.85	0.28	0.65

12. Related-Party Transactions

According to IFRS, parties are considered to be related if one party has the ability to "control" (financially or by share capital) the other party or have significant influence (management) on the other party in making financial, commercial and operational decisions. On May 31, 2012, the board of directors of the Company created the New Business Opportunities Committee (the "**NBOC**") to review and approve related party transactions. The NBOC is comprised of the following independent directors: Miguel Rodriguez (Chair), Dennis Mills, Victor Rivera and Hernan Martinez. The NBOC is apprised of related party transactions prior to implementation, engages independent legal counsel as needed, and meets *in camera* to deliberate. The NBOC also reviews the business rationale for the transaction and ensures that the transaction is in compliance with applicable securities laws and the Company's debt covenants.

The Company's internal audit and legal compliance departments also monitor related party transactions. The audit and legal compliance teams work together to compose a list of potential related parties. This list is cross-checked against the Company's list of suppliers and other creditors.

The related party transactions during the current quarter corresponded to the normal course of operations and were measured at fair value, which are the amounts of consideration established and agreed to by the related parties and which, in the opinion of management and the NBOC, are considered similar to those negotiable with third parties.

The following sets out the details of the Company's related party transactions:

a) In June 2007, the Company entered into a 5-year lease agreement with Blue Pacific Assets Corp. ("**Blue Pacific**") for administrative office space in one of its Bogota, Colombia locations. Monthly rent expense of $57 is payable to Blue Pacific under this agreement. Messrs. Arata, de la Campa, Iacono (directors and officers of the Company) and Mr. von Siegmund (an officer of the Company) control, or provide investment advice to the holders of, 67.2% of the shares of Blue Pacific. During 2011, the lease was amended to include additional space in Bogota for a 10-year term with a monthly rent of $0.4 million, and assignment of the lessor to an entity controlled by Blue Pacific.

b) As at June 30, 2013, the Company had trade accounts receivable of $3.6 million (December 31, 2012: $4.4 million) from Proelectrica, in which the Company has a 24.9% indirect interest and which is 31.49% owned by Blue Pacific. The Company's and Blue Pacific's indirect interests are held through Pacific Power. Revenue from Proelectrica in the normal course of the Company's business was $10.7 million and $21.9 million for the three and six months ended June 30, 2013 (2012: $10 million and $19 million).

   In October, 2012, the Company and Ecopetrol signed two build, own, manage, and transfer ("**BOMT**") agreements with Consorcio Genser Power-Proelectrica and its subsidiaries ("**Genser-Proelectrica**") to acquire certain power generation assets for the Rubiales field. Genser-Proelectrica is a joint venture between Proelectrica and Genser Power Inc. which is 51% owned by Pacific Power. Total commitment under the BOMT agreements is $229.7 million over ten years. During April 2013 the Company and Ecopetrol entered into another agreement with Genser-Proelectrica to acquire additional assets for a total commitment of $57 million over ten years. At the end of the Rubiales Association Contract in 2016, the Company's obligations along with the power generation assets will be transferred to Ecopetrol. During the three and six months ended June 30, 2013, those assets are under construction and the Company paid a cash advance of $8.9 million and $9.4 million (2012: Nil). The Company has accounts payable of $0.5 million (December 2012: Nil) due from Genser-Proelectrica.

c) During the three and six months ended June 30, 2013, the Company paid $10 million and $22.8 million (2012 $6 million and $16.3 million) to Transportadora Del Meta S.A.S. ("**Transmeta**") in crude oil transportation costs. In addition the Company has accounts receivable of $1.7 million (December 31, 2012: $2.4 million) from Transmeta and accounts payable of $3.1 million (December 31, 2012: $8.5 million) to Transmeta as at June 30, 2013. Transmeta is controlled by Mr. German Efromovich, a director of the Company.

d) Loans receivable from related parties in the aggregate amount of $307 (December 31, 2012 – $179) are due from four directors and three officers (2012 – three directors and three officers) of the Company. The loans are non-interest bearing and payable in equal monthly payments over 48-month terms.

e) The Company has entered into aircraft transportation agreements with Petroleum Aviation Services S.A.S., a company controlled by Mr. Efromovich. During the three and six months ended June 30, 2013, the Company paid $2.5 million and $6.6 million (2012: $3.8 million and $7.3 million) in fees as set out under the transportation agreements. As at June 30, 2013 the Company has accounts payable of $3.1 million to Petroleum Aviation Services S.A.S. (December 31, 2012: $2.8 million).

f) During the three and six months ended June 30, 2013, the Company paid $28.1 million and $60.5 million to ODL (2012: $17.7 million and $45.4 million) for crude oil transport services under the pipeline take or pay agreement, and has accounts payable of $5.6 million to ODL as at June 30, 2013 (December 31, 2012: $5 million). The Company received $0.2 million and $0.5 million from ODL during the three and six months ended June 30, 2013 (2012: $0.1 million and $0.4 million) with respect to certain administrative services and rental equipment and machinery.

g) As at June 30, 2013 the balance of loans outstanding to OBC under the agreement in note 17 (Other assets), is $32.6 million (December 31, 2012: $32.6 million). Interest income of $0.5 million and $1 million was recognized during the three and six months ended June 30, 2013 (2012: $2.5 million and $4.5 million). The Company has received $0.3 million and $0.7 million during the three and six months ended June 30, 2013 (2012: Nil) with respect to certain administrative services and rental equipment and machinery and has no account receivable as at June 30, 2013 (2012: Nil).

h) During the three and six months ended June 30, 2013, the Company has paid Nil and $0.3 million (2012: $1 million and $1.7 million) to Helicopteros Nacionales de Colombia S.A.S. ("**Helicol**") with respect to air transportation services. Helicol is controlled by Mr. German Efromovich.

i) On July 22, 2013, the Company, through its wholly-owned subsidiary, Meta Petroleum Corp., entered into a take-or-pay agreement with Pacific Infrastructure and its subsidiary for future use of a large scale terminal for hydrocarbons that is currently in development, located in Cartagena, Colombia. The Company holds a 56.9% equity interest in Pacific Infrastructure. The effective date of the agreement is December 1, 2014 and has a term of seven years, which may be extended for three successive periods of one year. Pursuant to the take-or-pay agreement the minimum monthly commitment is approximately $3 million as of the effective date. The agreement may be terminated prior to the end of the term upon the repayment of the credit facility between Pacific Infrastructure and Banco Itau BBA S.A., at which time, a new take-or pay agreement may be negotiated if required by the Company.

13. Accounting Policies, Critical Judgments, and Estimates

Significant accounting policies

The accounting policies adopted by the Company are consistent with those disclosed in the 2012 annual audited consolidated financial statements, and certain new policy and the adoption of new standards and interpretations effective as of January 1, 2013. The accounting policies that the Company has adopted are described in detail in the Company's interim consolidated financial statements as of June 30, 2013 and the 2012 annual audited consolidated financial statements.

Critical judgments in applying accounting policies

The preparation of consolidated financial statements requires management to make estimates and assumptions. Estimates and judgments are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

The following critical judgments have been made by the Company in applying accounting policies which have the most significant impact on the amounts recognized in the consolidated financial statements.

Cash generating units have been identified to be the major producing fields, the lowest level at which there are identifiable cash inflows that are largely independent of cash inflows of other groups of assets. The Company prepares and reviews separate detailed budgets and forecast calculations for each of the cash generating units. Impairment assessment is generally carried out separately for each cash generating unit based on cash flow forecasts calculated based on proven and probable reserves for each cash generating unit (value in use).

Exploration and evaluation (E&E) assets are tested for impairment when indicators of impairment are present and when E&E assets are transferred to oil and gas properties. In assessing impairment for E&E assets, the Company is required to apply judgment in considering various factors that determine technical feasibility and commercial viability.

The determination of the Company's functional currency requires analyzing facts that are considered primary factors, and if the result is not conclusive, the secondary factors. The analysis requires the Company to apply significant judgment since primary and secondary factors may be mixed. In determining its functional currency the Company analyzed both the primary and secondary factors, including the currency of the Company's revenues, operating costs in the countries that it operates in, and sources of debt and equity financing.

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

Estimation uncertainty and assumptions

Oil and gas properties are depreciated using the units-of-production method over proved developed and undeveloped oil and gas reserves for facilities and wells. The calculation of the unit-of-production rate of amortization could be impacted to the extent that actual production in the future is different from current forecast production based on proved reserves.

This would generally result from significant changes in any of the following:

- Changes in proved reserves.
- The effect on proved reserves of differences between actual commodity prices and commodity price assumptions.
- Unforeseen operational issues.

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the oil price assumption may change which may then impact the estimated life of the field and may then require a material adjustment to the carrying value of goodwill and tangible assets. The Company monitors internal and external indicators of impairment relating to its tangible and intangible assets.

Certain association contracts in Colombia provide for an adjustment to the partner‟s share when certain volume thresholds are reached. As a result, from time to time the Company may be required to estimate the impact of such contract adjustments.

Decommissioning costs will be incurred by the Company at the end of the operating life of certain facilities and properties. The ultimate decommissioning costs are uncertain and cost estimates can vary in response to many factors including changes to relevant legal requirements, the emergence of new restoration techniques or experience at other production sites. The expected timing and amount of expenditure can also change, for example in response to changes in reserves or changes in laws and regulations or their interpretation. As a result, there could be significant adjustments to the asset retirement obligation established which would affect future financial results.

Significant assumptions with respect to share-based payment expense include an estimate of the volatility of the Company"s shares and the expected life of the options, which are subject to measurement uncertainty.

The fair values of financial instruments are estimated based on market and third party inputs. These estimates are subject to changes in the underlying commodity prices, interest rates, foreign exchange rates, and non-performance risk.

14. Internal Controls over Financial Reporting ("ICFR")

In accordance with National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings ("**NI 52-109**") of the Canadian Securities Administrators ("**CSA**"), quarterly the Company issues a "Certification of Interim Filings". This Certification requires certifying officers to state that they are responsible for establishing and maintaining Disclosure Controls and Procedures (DC&P) and Internal Control Over Financial Reporting (ICFR).

During this quarter, 250 controls over 30 corporate processes were evaluated. From this evaluation the Company concluded that there are no material weaknesses or significant deficiencies in the design and effectiveness of the controls evaluated.

During the year 2013, Internal Audit will continue the reviews focused on identifying, evaluating, and addressing critical and material risks for the organization. Following are some of the most significant risks identified, as well as the actions initiated by management to mitigate them:

- Regulatory compliance, including the Corruption of Foreign Public Officials Act ("**CFPOA**"), anti-money laundering training program, and the update of all regulatory obligations the Company has in different countries.
- Price and exchange rate volatility, focused on hedging process and strategies, improving the automated environment.
- Fraud risk assessment related to asset misappropriation, corruption and financial fraud. The Company has launched e-learning employee fraud awareness training to help maintain fraud-resistance.
- Data security and privacy protection focused on the access to the network and application security in accordance with the standards.
- Mitigation of health, safety, and environmental risks where the Company is operating with a zero tolerance HSE program.

15. Outlook

The Company will continue to implement its growth strategy during the second half of 2013 by expanding its resource and reserve base and developing its production and transport capacity. The outlook for the second half of 2013 includes:

- We expect to continue producing at the top end of the 2013 plan of approximately 308 Mboe/d gross total field or 129 Mboe/d net after royalty, and will update the range as the rest of the year progresses.
- Total capital expenditures of $0.6 billion are planned for the remainder of 2013, largely driven by development drilling and production facilities in Colombia and Peru. The capital program is expected to be funded by internally generated cash flow in an expected WTI oil price environment of $85-$90.
- Exploration expenditures of $58 million, including drilling an additional 36 gross exploration wells, seismic data acquisition and early facilities. In the total drill program, approximately 19 exploration wells are targeting high impact prospects, including the Company's first exploration wells in Peru, Brazil, Guatemala and Papua New Guinea.
- $214 million drilling a planned 217 gross (excluding workovers and water injection wells) development wells, a significant increase over 2012 with activity driven by development of Cajua field, continued on-going infill drilling in the Quifa SW and Rubiales fields, stepped up light oil development in the Cubiro Block in Colombia and a significant program of development drilling on Block Z-1 in Peru.
- $268 million in facilities and infrastructure, with approximately 85% directed to the Company's core producing Rubiales, Quifa SW, Cajua and Sabanero heavy oil fields and the remaining 15% for the planned development of the CPE-6 Block as well as other mostly light oil field development in Colombia.
- The Company will have a meeting with the ANLA on August 9, 2013 regarding the CPE-6 Block blanket exploration and development license, following a fruitful public hearing with local communities that was held in July 2013. The Company expects to receive the license within three to six weeks after the meeting with the ANLA.

16. Additional Financial Measures

This report contains the following financial terms that are not considered in IFRS: operating netback, adjusted net earnings from operations, funds flow from operations, and EBITDA. These non-IFRS measures do not have any standardized meaning and therefore are unlikely to be compared to similar measures presented by other companies. These non-IFRS financial measures are included because management uses the information to analyze operating performance, leverage and liquidity. Therefore, these measures should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

a) *Funds Flow from Operations*

The following table shows the reconciliation of funds flow from operations to cash flow from operating activities for the three and six months ending June 30, 2013:

	Three Months Ended June 30		Six Months Ended June 30	
(in thousands of US$)	2013	2012	2013	2012
Cash flow from operating activities	$ 109,180	$ 131,906	$ 731,713	$ 708,005
Changes in non-cash working capital	(365,821)	(283,317)	(249,448)	(99,682)
Funds flow from operations	**$ 475,001**	**$ 415,223**	**$ 981,161**	**$ 807,687**

b) *Adjusted Net Earnings from Operations*

	Three Months Ended June 30		Six Months Ended June 30	
(in thousands of US$)	2013	2012	2013	2012
Adjusted net earning from operations	**$ 98,052**	**$ 195,082**	**$ 241,264**	**$ 486,574**
Non-operating items				
Other expenses	(24,282)	(1,112)	(20,560)	(2,593)
(Loss) gain from foreign exchange	(15,082)	(4,824)	2,753	(16,773)
(Loss) gain on risk management	(537)	42,679	(6,188)	50,599
Share-based compensation	(405)	(619)	(35,937)	(31,013)
Loss from equity investments	(187)	(6,862)	(1,819)	(4,105)
Total non-operating items	**(40,493)**	**29,262**	**(61,751)**	**(3,885)**
Net earnings attributable to equity holders of the parent, as reported	**$ 57,559**	**$ 224,344**	**$ 179,513**	**$ 482,689**

Adjusted net earnings from operations is a non-IFRS financial measure that represents net earnings adjusted for certain items of a non-operational nature, including non-cash items. Adjusted net earnings from operations is one of the indicators against which the Company evaluates its performance. The reconciliation lists the effects of certain non-operational items that are included in the Company's financial results and may not be comparable to similar measures presented by other companies.

c) *EBITDA*

A reconciliation of Net Earnings to EBITDA is follows:

	Three Months Ended June 30		Six Months Ended June 30	
(in thousands of US$)	2013	2012	2013	2012
Net earnings	**$ 57,559**	**$ 224,344**	**$ 179,513**	**$ 482,689**
Adjustments to net earnings				
Income taxes expense	128,785	121,608	289,134	180,978
Foreign exchange loss (gain)	15,082	4,824	(2,753)	16,773
Finance cost	36,608	19,751	83,847	40,332
Loss (gain) on risk management contracts	537	(42,679)	6,188	(50,599)
Loss from equity investment	187	6,862	1,819	4,105
Other expense	24,282	1,112	20,560	2,593
Share-based compensation	405	619	35,937	31,013
Loss attributable to non-controlling interest	(4,348)	-	(5,504)	-
Depletion, depreciation and amortization	344,870	227,582	689,950	398,362
EBITDA	**$ 603,967**	**$ 564,023**	**$ 1,298,691**	**$ 1,106,246**

17. Sustainability Policies

The Company is committed to conducting its business in a transparent and inclusive way and ensuring the business succeeds in harmony with its surroundings. Pursuant to this commitment, the Company is hardwiring "shared value" as one of the pivotal points in the development of its corporate strategy. Through this strategy, the Company is working in different projects that seek to create business opportunities that increase its profitability while addressing needs and challenges in its local areas of operation as well as host countries.

We are also a committed partner of various organizations and initiatives focused on the advancement of corporate sustainability globally and also at the regional and local levels. We are an active participant in the EITI (Extractive Industry Transparency Initiative) and the Carbon Disclosure Project, and are a signatory member of the Global Compact.

The Jantzi Social Index of the Canadian Stock Market includes Pacific Rubiales as one of the 60 Canadian companies that pass a set of broadly based environmental, social, and governance rating criteria. This inclusion recognizes that the Company has demonstrated strong policies and management systems to mitigate the risks associated with operating in high-risk countries. Equally important is the recognition made by STOXX, which named Pacific Rubiales one of the 1,800 most sustainable companies worldwide.

Among our awards, we have been named by World Finance as the “Best Oil & Gas Sustainable Company in Latin America” and were awarded a “National Award for Social Responsibility and Sustainability” by the RS and Corporación Calidad magazine. We were also recognized by the Global Compact with the Social Investment Pioneer Awards.

Finally, our policies, purchasing processes and procedures were internationally certified by CIPS (Chartered Institute of Purchasing Supply), making us one of the 104 companies with this recognition. Being awarded and recognized for our social, environmental, economic, and governance issues is of high importance to our company and its credibility among stakeholders.

<u>Advances made in our sustainability commitments:</u>

During the first half of 2013 the Company made the following advances with respect to its stakeholders and the environment:

- Completed human rights training for the majority of its security forces, adhering to guidelines of the Comité Minero-energetico de Seguridad y Derechos Humanos (Mining and Energy Committee on Human Rights and Security). Additionally, our security department has been working with the Asociación Colombiana de Petróleos (*Colombian Petroleum Association*) and Ministerio de Defensa Nacional, Departamento de Protección de Infraestructura Crítica (The Ministry of National Defense, Department of Critical Infrastructure Protection) on the development of security standards adapted to the hydrocarbon sector.
- Created a Gender Committee responsible for constructing and promoting a gender equity policy to further advance the empowerment of women in the workplace.
- Continued to implement ongoing vegetation and reforestation projects as well as planting extended forests.
- Monitored and documented our greenhouse gas emissions for submission to the Carbon Disclosure Project. We are committed to documenting, controlling, and eventually reducing our carbon footprint.

For further details regarding the Company’s sustainability policies, please see our 2012 Sustainability Report, which is available on our website.

18. Legal Notice – Forward-Looking Information and Statements

Certain statements in this MD&A constitute forward-looking statements. Often, but not always, forward-looking statements use words or phrases such as: "expects", "does not expect" or "is expected", "anticipates" or "does not anticipate", "plans" or "planned", "estimates" or "estimated", "projects" or "projected", "forecasts" or "forecasted", "believes", "intends", "likely", "possible", "probable", "scheduled", "positioned", "goal", "objective" or state that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. Such forward-looking statements, including but not limited to statements with respect to anticipated levels of production, the estimated costs and timing of the Company's planned work programs and reserves determination, involve known and unknown risks, uncertainties and other factors which may cause the actual levels of production, costs and results to be materially different from estimated levels of production, costs or results expressed or implied by such forward-looking statements. The Company believes the expectations reflected in these forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements should not be unduly relied upon. Factors that could cause actual results to differ materially from those anticipated in these forward-looking statements are described under the caption “Risks and Uncertainties”. Although the Company has attempted to take into account important factors that could cause actual costs or operating results to differ materially, there may be other unforeseen factors to cause costs to the Company's program and results may not to be as anticipated, estimated or intended.

Statements concerning oil and gas reserve estimates may also be deemed to constitute forward-looking statements to the extent they involve estimates of the oil and gas that will be encountered if the property is developed. The estimated values disclosed in this MD&A do not represent fair market value. The estimates of reserves and future net revenue for individual properties may not reflect the same confidence level as estimates of reserves and future net revenue for all properties due to the effects of aggregation.

19. Risks and Uncertainties

The business operations and earnings of the Company could be impacted by the occurrence of risks of all kinds including financial, operational, technological and political that might affect this industry. Our Enterprise Risk Management program identifies, assess and provides action plans and controls to mitigate the occurrence of the risks described below which can potentially affect businesses and hence the profitability and value of the shares of the Company.

The business and operations of the Company will be subject to a number of risks. The Company considers the risks set out below to be the most significant to potential investors in the Company, but does not include all of the risks associated with an investment in securities of the Company:

- Fluctuating oil and gas prices;
- Global financial conditions;
- Exploration and development;
- Operating hazards and risks;
- Security risks;
- Reserves estimates;
- Transportation costs;
- Cash flows and additional funding requirements;
- Disruptions in production;
- Political risk;
- Environmental factors;
- Title matters;
- Payment of dividends;
- Dependence on management;
- Ability to attract and retain qualified personnel;
- Changes in legislation;
- Litigation;
- Repatriation of earnings;
- Enforcement of civil liabilities;
- Competition;
- Environmental licenses & required permits;
- Partner relationships;
- Oil & gas transportation;
- Availability of diluents;
- Water disposal;
- Labor relations;
- HSE works;
- Community relations;
- Fraud;
- Foreign exchange rate fluctuation;
- Business continuity;
- Regulatory compliance; and
- Shareholder relations.

If any of these risks materialize into actual events or circumstances or other possible additional risks and uncertainties of which the Company is currently unaware or which it considers not to be material in relation to the Company's business, actually occur, the Company's assets, liabilities, financial condition, results of operations (including future results of operations) business and business prospects are likely to be materially and adversely affected. In such circumstances, the price of the Company's securities could decline and investors may lose all or part of their investment. For more information, please see the Company's Annual Information Form which is available at www.sedar.com.

20. Advisories

Finding Costs

The aggregate of the finding costs incurred in the most recent financial year and the change during that year in estimated future finding costs generally will not reflect total finding costs related to reserves additions for that year.

Boe Conversion

The term "boe" is used in this MD&A. Boe may be misleading, particularly if used in isolation. A boe conversion ratio of cubic feet to barrels is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. In this MD&A, we have expressed boe using the Colombian conversion standard of 5.7 Mcf: 1 bbl required by the Colombian Ministry of Mines and Energy.

All of the Company's natural gas reserves are contained in the La Creciente, Guama and other blocks in Colombia as well as in the Piedra Redonda field in Block Z-1, Peru. For all natural gas reserves in Colombia, boe's have been expressed using the Colombian conversion standard of 5.7 Mcf: 1 bbl required by the Colombian Ministry of Mines and Energy. For all natural gas reserves in Peru, boe's have been expressed using the Canadian conversion standard of 6.0 Mcf: 1 bbl. If a conversion standard of 6.0 Mcf: 1 bbl was used for all of the Company's natural gas reserves, this would result in a reduction in the Company's net 1P and 2P reserves of approximately 4.2 and 4.7 MMboe respectively.

Prospective Resources

Readers should give attention to the estimates of individual classes of resources and appreciate the differing probabilities of recovery associated with each class. Estimates of remaining recoverable resources (unrisked) include prospective resources that have not been adjusted for risk based on the chance of discovery or the chance of development and contingent resources that have not been adjusted for risk based on the chance of development. It is not an estimate of volumes that may be recovered. Actual recovery is likely to be less and may be substantially less or zero.

Prospective Resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects. Prospective Resources have both an associated chance of discovery and a chance of development. Prospective Resources are further subdivided in accordance with the level of certainty associated with recoverable estimates, assuming their discovery and development, and may be sub-classified based on project maturity. There is no certainty that any portion of the resources will be discovered. If discovered, and they would be technically and economically viable to recover; there is no certainty that the Prospective Resource will be discovered. If discovered, there is no certainty that any discovery will be technically or economically viable to produce any portion of the resources.

Translations

This MD&A was prepared originally in the English language and subsequently translated into Spanish and Portuguese. In the case of any differences between the English version and its translated versions, the English document shall prevail and be treated as the governing version.

21. Abbreviations

The following list of abbreviations is used in this document

1P	Proved reserves (also known as P90).
2P	Proved reserves + Probable reserves.
3P	Proved reserves + Probable reserves + Possible reserves.
bbl	Barrels
bbl/d	Barrels per day
Bcf	Billion cubic feet
boe	Barrels of oil equivalent
boe/d	Barrels of oil equivalent per day
Btu	British thermal units
Bwpd	Barrels of water per day
CBM	Cubic Billion Meter
ESP	Electro-Submersible Pump
GDP	Gross Domestic Product
km	Kilometers
KWh	Kilowatt Hour
Mbbl	Thousand barrels
Mboe	Thousand barrels of oil equivalent
MMcf/d	Million cubic feet per day
MD	Measured depth
MMbbl	Million barrels
Mmboe	Million barrels of oil equivalent
MMBtu	Million British thermal units
MMcf	Million cubic feet
MMcf/d	Million cubic feet per day
Mmscf/d	Million standard cubic feet per day
Mw	Megawatts
NGL	Natural gas liquids
OOIP	Original oil in place
Tcf	Trillion cubic feet
TD	Total depth
TVDSS	True vertical depth below sea level
USGC	US Gulf Coast
WTI	West Texas Intermediate index