PACIFIC RUBIALES ENERGY CORP.
MANAGEMENT DISCUSSION AND ANALYSIS

November 9, 2010
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For the three and nine month periods ended September 30, 2010

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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 32.

This MD&A is the 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 third quarter of 2010 and related notes. The preparation of financial information is reported in United States dollars and is in accordance with Canadian generally accepted accounting principles ("GAAP") unless otherwise noted. The financial measures EBITDA, funds flow from operations and net operating income from operations referred to in this MD&A are not prescribed by GAAP and are outlined under "Non-GAAP Financial Measures" on page 32. All references to net barrels or net production reflect only the Company's share of production after deducting royalties and the operating partner's working interest. A table of abbreviations and definitions of oil and gas terms is provided on page 34.

In order to provide shareholders with full disclosure relating to potential future capital expenditures, we have provided cost estimates for projects that, in some cases, are still in early stages of development. These costs are preliminary estimates only. The actual amounts are expected to differ and these differences may be material. For further discussion of the significant capital expenditures, see "Capital Expenditures" on page 22.

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

Additional information relating to the Company filed with Canadian securities regulatory authorities, including the Company's quarterly and annual reports and the Annual Information Form, are available on SEDAR at www.sedar.com and 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.

2. Executive Summary

Financial and Operating Summary

The results for the third quarter of 2010 underline the strength of the Company's operational activity, its capacity to increase production and commitment from management to deliver robust financials. Management is focused on realizing challenging operational objectives while continuing the Company's ambitious exploration and production ("E&P") investment program under the umbrella of its paramount strategic focus: growth.

During the third quarter of 2010, the Company significantly increased revenues by 159% to $405.4 million as compared to $156.6 million in the same period of 2009. The total accumulated revenues for the first nine months of 2010 totaled $1.15 billion, higher by 168% in comparison to the same period of 2009. This was the result of the considerable increase in production and the optimization of marketing activities, coupled with higher combined crude oil and gas prices in 2010. This operational success not only resulted in increased revenues but also in an increase in net income for the three month period to $32.9 million, compared to a $63.1 million loss for the same period of 2009. A summary of the financial results for the three and nine months ended September 30, 2010 and 2009 follows:

	Three Months Ended September 30		**Nine Months Ended September 30**	
(in thousands of US$ except per share amounts or as noted)	2010	2009	2010	2009
Net sales of oil and gas (1)	405,421	156,557	1,145,644	427,551
Income from Operations (2)	147,817	13,466	442,621	43,819
Funds Flow from Operations (3)	160,013	55,677	465,576	126,159
Per share - basic ($)	0.61	0.26	1.78	0.59
- diluted ($)	0.54	0.26	1.63	0.59
EBITDA (4)	219,603	82,686	651,893	180,793
Per share - basic ($)	0.83	0.39	2.50	0.85
- diluted ($)	0.74	0.39	2.28	0.85
Net Income (5)	32,856	(63,107)	112,909	(129,011)
Per share (6) - basic ($)	0.12	(0.29)	0.43	(0.61)
- diluted ($)	0.11	(0.29)	0.39	(0.61)

(1) Net sales of oil and gas for the third quarter of 2010 include revenue of $32.9 million from the trading of third party crude oil. See additional details explained in the section "Commercial Activity" on page 11.

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

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

(4) See "Non-GAAP Financial Measures" on page 32.

(5) Net income for the three month period of $32.9 million includes a series of non-operating expenses and non-cash items totaling $50.6 million, mainly corresponding to:

- *a) Non-cash items of $35.9 million (same period of 2009 – $58.8 million), due to unrealized exchange losses resulting from the strengthening of the Canadian dollar and Colombian peso against the US dollar, and unrealized loss on risk management contracts outstanding as of the end of September 2010 (which may or may not materialize in future periods) and stock-based compensation costs. The Company entered into foreign exchange hedging contracts to reduce its foreign currency exposure associated with operating expenses incurred in Colombian pesos.*
- *b) Non-operating expenses of $20.2 million (same period in 2009 – $15.9 million) consisting of interest primarily due to financial costs associated with financing facilities for the development of the infrastructure required to increase the production capacity of the Rubiales field, and other costs.*

The basic weighted average number of common shares outstanding for the third quarter of 2010 and 2009 was 264,065,489 (fully diluted – 295,603,818) and 214,158,123 (fully diluted –214,158,123), respectively.

Quarterly Details Operating Summary

*The Company produces crude oil and gas and purchases crude oil from third parties for trading purposes. Following are details of the netback and trading margin for these a*ctivities as of September 30, 2010:

a) Operating Crude Oil and Gas

	Three months ended September 30,			
	2010	2010	2010	2009
	Oil	Gas	Combined	Combined
Average daily production sold (boe/day)	57,009	9,464	66,473	31,107
Operating netback ($/boe) [(1)]				
Crude oil and natural gas sales price	66.23	28.90	60.91	55.31
Cost of Production [(2)]	4.11	4.02	4.10	7.61
Transportation	7.07	0.47	6.13	11.18
Diluent cost (including Transportation) [(3)]	13.67	-	11.72	7.73
Other costs [(4)]	(0.22)	0.91	(0.93)	0.10
Overlift/Underlift [(5)]	(1.23)	(0.09)	(0.20)	(7.89)
Operating netback	42.83	23.59	40.09	36.58

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

(2) Cost of production mainly includes lifting costs and other production costs such as personnel, energy, security, insurance and others. Cost of production for gas includes work over for an amount of $2.1 million ($0.4 per boe) executed during this quarter.

(3) Net blending cost is estimated at $3.24 per boe, considering an average diluent purchase price delivered at Rubiales field of $75.21 per boe (Light Crude Oil - API 43 with a blending factor around 21%), pipeline and handling transportation fees from Rubiales to Coveñas of $7.49 per boe and an average Rubiales Blend (Castilla) sale price of $67.44 per barrel

(4) Other costs mainly correspond to royalties on gas production, external road maintenance at Rubiales field, inventory fluctuation, and the net effect of the currency hedges of operating expenses incurred in Colombian pesos during the period. The negative cost for oil of $0.22 per bbl was mainly attributable to the realized hedge gain recognized against operating expenses during this period. See additional comments in section "Foreign Currency Derivatives" on page 25.

(5) Corresponds to the net effect of the overlift position for the period amounting to $1.8 million, which generated a reduction in the combined production costs of $0.20 per boe as explained in the section "Corporate Development Highlights – Financial Position – Operating Costs" on page 18.

b) Third Party Crude Oil Trading

	Three months ended September 30,	
	2010	2009
Total Third Party Crude Oil Traded (bbl/day)	4,783	-
Crude Oil Trading Margin ($/boe) [(1)]		
Average crude oil sales price	74.75	-
Purchasing and transportation costs	73.09	-
Trading Margin	1.66	-
Gross Crude Oil Trading Margin ($)	738,554	-

(1) *During the third quarter of 2010, the Company purchased crude oil from local crude oil producers for trading purposes on the international market. See additional details explained in the section "Commercial Activity" on page 11.*

EBITDA during the nine months of 2010 totaled $651.9 million which represents a significant increase of 261% compared to EBITDA of $180.8 million in the same period of 2009. For the third quarter of 2010, EBITDA amounted to $219.6 million, mainly generated from international sales (88%), while gas and domestic sales contributed 6.5% and 5.5%, respectively.

Capital expenditures during the first nine months of 2010 totaled $416.6 million (2009 - $272.6 million). The capital expenditures during the third quarter of 2010 totaled $200 million, of which $131.8 million was invested in the expansion and construction of production infrastructure; $23.8 million went into exploration activities including seismic, aerogravimetry, aeromagnetometry and drilling; $43.5 million was invested in production drilling activities and $1 million was invested in other projects.

The Company entered into currency risk management contracts in the form of costless collars to reduce the foreign currency exposure associated with operating expenses, as well as general and administrative expenses, incurred in Colombian pesos. During the third quarter of 2010, the Company had currency risk management contracts outstanding totaling $165 million with expiration dates between October and December 2010.

On June 30, 2010, the Company solicited consents to amend the indenture (the "Indenture") relating to its 8.75% senior unsecured notes due 2016 (the "Notes") to provide the Company with needed flexibility to make minority equity investments in, and provide guarantees for, joint venture entities. This solicitation was approved by a majority of the Note holders on July 15, 2010.

Exploration

During the third quarter of 2010, the Company continued its exploration campaign in the Quifa and CPE-6 blocks, and started drilling activity in the Guama and Topoyaco blocks, for a total of 5 exploratory wells drilled during the period. In Quifa, the Jaspe-1 ST2 appraisal well was drilled on prospect "A" at the northern part of Quifa, while in the CPE-6 block the Guairuro-2 stratigraphic well was drilled in the northern part of the block. Both wells confirmed the presence of hydrocarbon columns on the basal sandstones at the C-7 interval of the Carbonera Formation. In the Guama and Topoyaco blocks, the Company started drilling three exploratory wells during the third quarter of 2010 and final depth is expected to be reached during the fourth quarter.

The exploration program during the third quarter of 2010 resulted in two new exploratory successes: 1) the Guairuro-2 well, located in the CPE-6 block, which showed presence of hydrocarbons and 31.5 feet of net pay, and 2) the Jaspe-1 ST2 well, located in the Quifa Block, which is in the process of being completed.

Total net exploration expenditure for the third quarter of 2010 was $23.8 million. For more details please see "Discussion of Third Quarter Results – Exploration" on page 7.

Production

The increase in gross operated production of the Company during the third quarter of 2010 was a significant achievement, averaging 144,115 boe/d (56,404 boe/d net after royalties), which is 64,703 boe/d (23,762 boe/d net after royalties) greater than operated production for the same period of 2009. The 81% growth in operated production is mostly as a result of the increase in production at the Rubiales and Quifa heavy oil fields and the construction of new facilities at both fields to process crude oil.

The new facilities at Quifa will gather production from the western block of Quifa. Dehydrated heavy crude will be pumped directly to the Oleoducto de los Llanos (ODL) pumping station. The anticipated capacity of these new facilities is 30,000 bbl/d of crude from the Quifa field. Start-up of the Quifa Central Processing Facility (CPF) is planned to take place in early November 2010.

Production continues to grow and as of November 8, 2010, the Company had reached the historical milestone of exceeding 156,896 boe/d of gross operated production, equivalent to 62,888 boe/d, net after royalties, which, as in previous quarters, continues to make the Company the fastest growing oil and gas company in Colombia, as well as the country's second largest operator. For more details please see "Discussion of Third Quarter Results – Production" on page 8.

Commercial Activity

The average WTI NYMEX price for the third quarter of 2010 was $76.26/bbl in comparison with $67.88/bbl for the same period of 2009, which represents an increase of 12%. Approximately 88% of the total cargo exported by the Company during the third quarter of 2010 corresponded to Castilla quality crude oil, with an average realized sales price of $67.44/bbl during this period. Sales of Castilla quality crude oil began in October 2009, when the ODL pipeline was put in operation in 2010; therefore, there is no comparable figure available for 2009. On the other hand, the average realized oil sales price for the Vasconia quality crude oil, the other crude oil sold by the Company, for the third quarter of 2010 increased to $74.75/bbl from $65.55/bbl in the same period of 2009, representing an increase of 14%. In the execution of its commercial strategy, the Company continued exporting its oil production to international markets, namely, USA and Europe, while maintaining a presence in the local market with direct sales to the bunker and industrial sectors. During the third quarter of 2010, the Company exported 5.4 million bbl of crude oil, and sold 0.4 million bbl of oil to the Colombian domestic market. In addition, gas sales to the domestic market averaged 58 mmscf/d of natural gas produced at the La Creciente field. For more details please see “Discussion of Third Quarter Results – Commercial Activity” on page 11.

Project Status

STAR Project

On April 7, 2010, the Company announced the successful completion of the first phase of the Synchronized Thermal Additional Recovery (“STAR”) project, and the kick-off of the second phase, as contemplated by the Memorandum of Understanding (“MOU”) executed on April 6, 2010 with Empresa Colombiana de Petroleos (“Ecopetrol”), the independent state oil company. The first phase results confirmed the feasibility and potential of the technology and cleared the way for the next stages of the project. During the third quarter, design of the pilot project was completed, including well completion design, locations and infrastructure facilities. Procurement of long lead items are underway, including air compressors, separators and gas treatment unit.

By October 2010, the construction of the production facilities plant was completed and shipping and handling to the Rubiales field was underway. The construction of the compressors system and the automated steam injection plant continues as planned. We expect to finish the construction and transportation to the Rubiales field by the end of the year. The monitoring plan and the design of some specialized tests, such as the nitrogen communication test and 4D seismic runs were completed in the third quarter of 2010. The tests themselves may be conducted in December 2010.

Llanomulsion Project

In January 2009, the Company initiated the development of a special transport emulsion formula (oil in water), that eliminates the need for diluents as part of the efforts to minimize transportation costs in the ODL pipeline while maximizing line capacity. The patented formula, called Llanomulsion, increases pipeline capacity by reducing fluid viscosity to one-third of the original viscosity of the diluted crude. Tests in the main pumping units of the ODL pipeline have been performed. The next step in this development is an industrial test in the ODL pipeline, scheduled for the first quarter of 2011.

Oleoducto de Los Llanos (ODL) Pipeline

As of the end of September 2010, 45% completion of the planned 340,000 bbl/d expansion project was reported. This project includes construction of two booster stations, increasing storage capacity at the Rubiales Pumping Station and construction of a pipeline branch to Cusiana Station. The expected completion date of March 2011.

Petroeléctrica de los Llanos (PEL) - Power Transmission Line Project

The Company has incorporated a new legal vehicle “Petroeléctrica de los Llanos, S.A.” (PEL) which will be responsible for constructing and operating a new power transmission line of 230 Kilovolts to connect the Rubiales field with the country´s electrical grid. The new transmission line will originate at the Chivor Substation and will have an extension of 260 km to the Rubiales field. The line includes two substations to supply power to the booster stations of the ODL pipeline, as well as a main substation for the Rubiales and Quifa fields.

Please see “Project Status” on page 13 for more details.

3. Company Overview

Profile

Pacific Rubiales, a Canadian-based company and producer of natural gas and heavy crude oil, owns 100 percent of Meta Petroleum Corp., a Colombian oil branch which operates the Rubiales and Piriri oil fields in the Llanos Basin in association with Ecopetrol and Pacific Stratus Energy Colombia Corp., which operates the wholly-owned La Creciente gas field in the northern part of Colombia. The Company is focused on identifying opportunities primarily within the eastern Llanos Basin of Colombia as well as in other areas in Colombia, Guatemala and northern Peru. Pacific Rubiales has a current net production of approximately 60,000 boe/d, with working interests in 35 blocks in Colombia, 2 blocks in Guatemala and 3 blocks in Peru.

Vision

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

Strategy

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

On November 8, 2010, the Company announced a broadening of its comprehensive growth strategy which includes three major components:

i. Continuing growth through exploration, development and production of new and existing reserves.
ii. Securing market access by participating in key oil and gas transportation and infrastructure projects.
   - The Company will have a significant participation in the "Bicentennial Pipeline Project" with Ecopetrol and other oil companies operating in Colombia.
   - The Company also anticipates maintaining its stake in Pacific Infrastructure Inc. ("PII"; formerly Lando Industrial Park, S.A.), a company developing a new crude oil and products terminal and port in Cartagena as well as a new pipeline that will link Covenas with Cartagena.
iii. Integrating downstream assets.
   - The Company will invest in C.I. Pacific Fuels S.A.S. which will initially focus on developing the bunker market within Colombia and the supply of finished products to wholesale markets.
   - The Company has invested in Pacific Coal S.A., a company focusing on the development of asphalite and coal assets.

The cornerstone of the Company's strategy is the technical excellence of its people coupled with the experience and the know-how to deliver its vision. Our management team is primed to take full advantage of present and future opportunities in exploration and production.

4. Discussion of Third Quarter Results

Exploration

Quifa Block

During the third quarter of 2010 the exploration campaign in the Quifa Block included the drilling of the Jaspe-1 ST2 appraisal well, in the northern part of the block, which confirmed the presence of a new reservoir compartment for the “A” prospect well with 12 feet of net pay, located at the northern part of Quifa. The well is currently being tested. For the rest of the year, the Company has planned an aggressive drilling campaign of 9 additional appraisal wells in order to confirm the discoveries made at the stratigraphic wells drilled to date. The Company’s total net investment in exploration for the third quarter of 2010 for the Quifa Block was $1.6 million.

CPE-6 Block

During 2010, the Company continued the drilling campaign in the CPE-6 block with the Guairuro-1 and Guairuro-2 stratigraphic wells. During the third quarter of 2010, the Guairuro-2 well reached a total depth of 3,309 feet measured depth (MD) or 2,497 feet true vertical depth below sea level (TVDSS), and found the top of the C7 interval of the Carbonera Formation at 3,112 feet MD or 2,300 feet TVDSS, and the top of the Paleozoic basement at 3,246 feet MD or 2,434 feet TVDSS. The well was cored throughout the whole interval of the C-7 interval, and confirmed the presence of hydrocarbons in all the cored sandstones with a total of 31.5 feet of net pay. The Guairuro-2 well is the second of the six stratigraphic wells to be drilled in the block in 2010. The Company is now planning to drill four additional wells during the last quarter to fulfill the minimum work program agreed to in the E&P contract signed with Agencia Nacional de Hidrocarburos (“ANH”).

Peru Bocks

In Block 138, an Environmental Impact Assessment (EIA) was approved on August 11, 2010 by the Director General of Energy Environmental Affairs (DGAAE) of the Ministry of Energy and Mines. Kickoff of the 537 km 2D seismic acquisition program commenced in the second week of October and is estimated to last 5 months.

Exploration Milestones

- In the La Creciente and Guama Blocks, the Company finished the acquisition of two 3D seismic programs for a total of 272 km^2.

  In the CPO-12 and CPO-1 Blocks, the Company finished two 2D seismic programs for a total of 628 Km.
- In the Topoyaco Block, two wells were spudded during September 2010 having as the main objective the sand intervals of the Villeta Formation. On October 21, 2010, the Company announced the preliminary exploration results of the Topoyaco-2 exploratory well. Both wells exhibited oil impregnations along the Villeta and Caballos formations. The petrophysical analysis of Topoyaco-2 showed 114 feet of net pay sandstones and 125 feet of oil-impregnated limestones.

- On September 13, 2010, the Company announced the results of the Guairuro-2 stratigraphic well, which was drilled in the CPE-6 Block, which confirmed the presence of hydrocarbons and identified a total of 31.5 feet net pay on the C-7 interval of the Carbonera formation. Also, the Jaspe-1 ST2 well (appraisal on prospect “A” in northern Quifa) identified 12 feet of net pay sandstones.

- On October 18, 2010, the Company announced the execution of a Farm-in Agreement for two blocks in the Republic of Guatemala with Flamingo Energy Investment (BVI) Ltd., Chx Guatemala Limitada, and Compañia Petrolera del Atlantico, S.A., through which the Company will earn-in a 55% participating interest, as well as operatorship, in the "7-98" Contract, which corresponds to the area known as "A-7-96", made up of the "N-10-96" and "O-10-96" blocks.

- On October 18, 2010, the Company announced that the Pedernalito-1X exploratory well, located in the Guama Block (Lower Magdalena Basin), presented gas shows along the whole bottom section of the borehole from 4,946 to 6,068 feet MD. This well was spudded on September 8, 2010, having as its main objective the stacked gas sands of the Porquero Formation on the flank of an incipient mud dome. The well is currently under production tests.

- The planned exploration program for the last quarter of 2010 includes the Guairuro-3, Visure-1, Tuqueque-1, as well as the testing of Pedernalito-1 and Topoyaco-2 wells (currently ongoing). The Company plans to drill 19 additional exploratory wells: Quifa (9 wells), CPE-6 (3), CPO-1 (1), Arauca (1), La Creciente (1), Guaduas (1), and Abanico (3). Also, for the last quarter of 2010, the Company will acquire 294 km of 2D seismic in the Quifa Block, and 170 km of 2D seismic in the CR-1 Block.

Exploration Capital Expenditures

Total net capital expenditures during the nine months of 2010 totaled $68.1 million. For the third quarter of 2010, the Company made a net investment of $23.8 million in exploration activities, as follows:

		Q3 2010		YTD 2010	
		In thousands of US$		*In thousands of US$*	
Block	**Working Interest**	**Gross**	**Net**	**Gros**	**Net**
Colombia - Llanos Basin					
CPE6	50%	2,218	1,281	20,866	10,383
CPO1 (1)	50%	3,936	-2,405	6,340	0
CPO12	40%	0	0	9,768	3,815
CPO14	63%	152	111	1,039	651
Quifa	70%	2,866	1,573	31,719	22,195
CPE1	100%	375	434	453	512
Arauca	100%	1,135	1,312	1,135	1,312
Colombia - Lower Magdalena					
Guama	100%	2,942	3,400	7,556	8,015
La Creciente	100%	4,455	5,149	7,567	8,261
CR1	60%	336	226	336	226
SSJN-3	100%	198	228	198	228
Colombia - Putumayo Basin					
Topoyaco	50%	20,600	10,300	20,600	10,300
Tacacho	51%	1,339	963	1,339	963
Terecay	100%	910	1,051	910	1,051
Colombia - Others					
Other exploration projects		352	195	352	195

(1) Gross Investment for the CPO1 Block during the nine months of 2010 totaled $6.3 million ($3.9 for the third quarter of 2010), and the Company´s net investment of $2.4 million made during the same period, was fully reimbursed by Petroamerica based on a farm-out agreement signed with this partner.

Production

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

Total operated production for the third quarter of 2010 averaged 144,115 boe/d (56,404 boe/d net after royalties) for an increase of 64,703 boe/d (23,762 boe/d net after royalties) over the same period of 2009. This represents an 81% growth in operated production, which came about mainly through increased production at the Rubiales, Quifa and La Creciente fields, as follows:

Producing Fields	Gross production before royalties		Share before royalties		Share after royalties	
	Q3 2010 boe/d	Q3 2009 boe/d	Q3 2010 boe/d	Q3 2009 boe/d	Q3 2010 boe/d	Q3 2009 boe/d
Rubiales / Piriri (1)	125,945	66,402	54,329	29,596	43,463	23,677
Quifa (2)	3,109	121	1,866	73	1,754	69
La Creciente	9,351	6,932	9,351	6,933	9,349	6,933
Puli (3)	69	60	35	30	28	24
Dindal / Rio Seco	610	751	553	680	442	544
Moriche	310	101	153	86	141	79
Quinchas	43	38	41	28	38	26
Abanico	2,650	2,964	713	856	642	813
Buganviles (3)	21	18	10	9	9	8
Rio Ceibas (4)	1,834	1,936	497	528	400	422
Chipalo (5)	0	0	0	0	0	0
Cerrito	173	88	138	59	138	47
Total	**144,115**	**79,412**	**67,686**	**38,878**	**56,404**	**32,642**

(1) Net of internal consumption at the field.
(2) New discoveries under production test.
(3) The Delta Field, in the Buganviles Association Contract, has been temporally shut-in while the Company completed a standard process for changing the exploration environmental license to an exploitation license. The license was secured during July 2010 and the Company is currently evaluating options for restarting production.
(4) Corresponds to the Company´s share in non-operated fields.
(5) The Samarkanda Field, in the Chipalo Association Contract, has been temporarily shut-in while the Company evaluates technical alternatives for its reactivation.

The increase in operated production during this quarter was mainly attributable to:

- The successful execution of the drilling program of a total of 42 producing and 3 injector wells at the Rubiales field during the third quarter of 2010, which increased production by an average of 10,300 bbl/d during this period.
- Optimization of the new crude oil facilities constructed at the Rubiales field during 2010.
- Southwest Quifa is currently producing 7,600 bpd from 10 wells.

New Facilities Construction

During the third quarter of 2010, the following new facilities were constructed, mainly at the Rubiales field: i) 6.5 km of new roads, ii) 37.4 km of flow lines between 10” and 30”, iii) 5 new power sub-stations, iv) new skim tank at CPF-1 in order to handle an incremental volume of 325,000 bbl/d of fluid, v) new water treatment facilities at CPF-1 in order to handle an incremental volume of 100,000 bbl/d of water and vi) 80,000 bbl/d additional water disposal capacity in the existing injection pads. Also during the third quarter, construction of CPF-2 has reported significant progress. CPF-2 will add 70,000 bbl/d oil production capacity to the Rubiales field.

Production Historical Milestone

As of November 9, 2010, the Company reached the historical milestone of 163,877 boe/d of gross operated production, equivalent to 68,704 boe/d, net after royalties. The 163,877 boe/d milestone resulted from the continuous growth in production of heavy oil in the Rubiales/Piriri and Quifa blocks, further supported by the coming into operation of the ODL pipeline. This volume also incorporates the development of the Company’s light and medium oil blocks, as well as the natural gas volume produced (at a conversion rate of 6,000 standard cubic feet per barrel) from the La Creciente block and other smaller fields.

Royalties

Royalty rates for hydrocarbons produced in the Company’s assets range from 5% to 30.01%. Royalties on production represent the entitlement of the respective governments 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 production. Royalty for oil may be payable in kind while royalty for gas is generally payable in cash.

Supply and Sales Balance

The following is the Company´s reconciliation of boe produced with the boe sold during the third quarter of 2010:

Inventory Movements	**Total boe Net**	**Aver. day Net**
Ending inventory as of June 2010	835,057	9,077
Transactions of Q3, 2010		
Net oil and gas production	5,189,216	56,405
Settlement of overlift position from June 2010 (1)	(25,949)	-282
Purchases of diluents	889,065	9,663
Purchases of crude oil for trading (2)	450,800	4,900
Total sales	(6,555,612)	-71,257
Overlift position as of Q3 2010 (3)	4,056	44
Production recovery from Ecopetrol (4)	67,558	734
Volumetric compensation	(7,502)	-82
Ending inventory as of September 2010	**846,690**	**9,202**

(1) This volume corresponds to the settlement of the second quarter overlift position of 25,949 bbl of Rubiales crude oil which resulted in a lower volume of sales during the third quarter of 2010.

(2) Corresponds to crude oil purchases from local oil producers for trading purposes in the international market. See additional comments in the "Commercial Activity" section on page 11.

(3) This volume corresponds to an overlift position of 4,056 boe of crude oil and gas as of September 30, 2010 which will be settled in the next quarter.

(4) This volume corresponds to the contractual agreement with Ecopetrol to reimburse with production its 25% share at the Abanico Norte field. This agreement commenced on June 16, 2010 and the proceeds of this volume is booked to offset the account payable to Ecopetrol of $8.6 million as of September 30, 2010.

Production and Sales Reconciliation for the third quarter of 2010

	Volumes Produced	Volumes Sold	Difference (higher volume sold)	
	Oil and Gas (boe)	Oil and Gas (boe)	Oil and Gas (boe)	
Total 2010 (3Q)	5,189,216	6,555,612	1,366,396	
Avg. Per day	56,405	71,257	14,852	(a)

(a) The main reason for the higher volume sold in the third quarter of 2010 in comparison to the volumes produced is due to:

Production after royalties Q3 2010	56,405
Volume sold Q3 2010	71,257
Difference	**14,852**
Explanation of the difference	
Begining inventory	9,077
Purchase of diluent	9,663
Purchase of crude oil for trading	4,900
Overlift settlement from Q2 2010	-282
Production recovery from Ecopetrol	734
Volumetric compensation	-82
Overlift position at the end Q3 2010	44
Ending Inventory	-9,202
Reconciliation of the difference	**14,852**

Commercial Activity

Crude Oil and Gas Prices

During the third quarter of 2010, WTI NYMEX continued its volatile behavior reaching an average of $76.21/bbl compared to the $78.05/bbl in the first half of 2010. WTI NYMEX for the third quarter 2010 was higher by 12% in comparison to the third quarter 2009 price of $67.88/bbl. The average realized oil sales price for Vasconia by the Company for the third quarter of 2010 increased to $74.75/bbl from $65.55/bbl in the same period of 2009, representing an increase of 14%. The average realized oil sales price for Castilla by the Company for the third quarter of 2010 reached $67.44/bbl; Castilla was not sold before the construction of the ODL pipeline in 2010. As such for there is no comparable figure available for 2009.

The combined realized oil and gas sales price for the third quarter of 2010 was $60.91/bbl vs. $55.31/bbl for the third quarter of 2009, representing an increase of 10%.

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

Average Crude Oil Reference Prices	Q3 2010 ($/bbl)	Q3 2009 ($/bbl)	°API
Domestic Market /Bunkers	63.56	59.53	12.5
WTI NYMEX (Weighted Average of PRE Cargoes)	76.26	67.88	38
Vasconia (1 Cargo) *	74.75	65.55	24
Castilla (Weighted Average of 7 PRE Cargoes)	67.44	N/A	19
Combined Realized International Oil Sales Price	68.15	65.55	18.5
PRE Natural Gas Sales ($/mmbtu)	4.82	3.78	N/A
Combined Realized Oil and Gas Sales Price	60.91	55.31	N/A
WTI NYMEX ($/Bbl)	$76.21	$67.88	
Henry Hub average Natural Gas Price ($/MMBTU)	$4.28	$3.71	

* WTI NYMEX for the Vasconia Cargo was 77.23 $/bbl (July 2010)

Crude Oil Sales to International and Local Markets

The Company exported 8 cargoes (7 Castilla and 1 Vasconia) representing a total volume of 5.4 million bbl of oil, 7 cargoes to USA and one to Europe, compared to 1.62 million bbl (Vasconia) exported during the same period of 2009. The total volume exported during the third quarter of 2010 represents more than a two-fold increase when compared with the same period of 2009.

The Company also maintained its flexible commercial strategy by selling 0.4 million bbl of Rubiales 12.5° API in the Colombian domestic market. During the third quarter of 2010, the Company sold in this market an average of 3,985 bbl/d at an average price of $63.56/bbl.

The Company continued purchasing light crude oils (9,780 bbl/d) in the eastern Llanos as a substitute diluent for imported naphtha or natural gasoline, with estimated savings of $1.22/bbl. Additionally, in the third quarter of 2010, the Company incorporated (via transportation contracts at our Guaduas facilities) 78,579 bbl of light/medium crudes from other producers representing additional income of $205 million.

During the third quarter of 2010, the Company purchased crude oil from local oil producers for purposes of trading on the international market. Total volume of crude oil exported during the third quarter totaled 0.45 million bbl sold at an average price of $74.75/bbl, with a trading profit around $1.66/bbl. Total gross revenues generated on this trading activity during the third quarter of 2010 totaled $32.9 million and the associated profit before taxes totaled $0.7 million, which were separately reflected in the third quarter 2010 Consolidated Statement of Operations. The Company has a strategy in place to continue developing this business venture going forward.

During the third quarter of 2010, the Company transported 72,022 bbl/d through the different trucking and pipeline systems, including 10,761 bbl/d of diluents; 80% of this volume was transported via pipeline, generating savings of $15.99/bbl in transportation costs for the Company.

Natural Gas Sales to Local Markets

The sales of gas increased to an average of 58 mmscf/d of natural gas from 40 mmscf/d in the same period of 2009 (45% increase), sold mainly from the La Creciente field at an average price of $4.82/mmbtu (equivalent to $4.80/mmscf), representing a premium of 22% over the weighted domestic regulated price of $3.96/mmbtu and 13% over the Henry Hub natural gas prices in the United States. The 30% increase in gas production during the third quarter of 2010 in

comparison to the same period of 2009 was mainly due to the continuous investment in facilities, in spite of scheduled maintenance with total shut down of the La Creciente facilities for five days, and a force majeure declaration by one of the gas clients which decreased deliveries by over 10 mmscf/d during various days in September.

Third Quarter Market Overview

The average price of WTI NYMEX for the third quarter of 2010 was $76.21/bbl vs. $78.05/bbl for the second quarter of 2010 due to the following reasons:

- The US economic recovery was weakened by high levels of unemployment, low inflation levels, low consumer confidence and high fluctuation of the dollar. The price of the crude was strongly affected by market sentiment due to the fact that weak fundamentals in the US economy remained. However, by August 2010, the price tendency was supported upward by positive economic reports from US and Europe.

- Refinery margins in US were affected by the economy. Some refineries have extended turnarounds to find alternative uses for the refinery, including usage of storage capacity as a terminal.

- Total crude exports from Iraq were 1.7% lower in August 2010, due to attacks on the pipeline that connects with Turkey, affecting the availability of crude in Europe and pushing Brent prices to premium vs. WTI. This incident generated marketing opportunities to sell some volumes to European markets.

The above conditions generally led to a higher crude supply in the market and increased inventory levels which created downward pressure on crude oil prices; as well, there was an incremental volume of heavy crude from Venezuela due to Orinoco Belt upgrades, shutdowns and lower heavy crude oil refined in Curacao Refinery.

5. Project Status

STAR Project

During the third quarter of 2010, the Company successfully completed nine combustion, oxidation and acceleration rate tests (ICT/RTO/ARC), which confirmed the potential benefits to the Rubiales field under the STAR process. These tests confirmed the feasibility and potential of the technology and cleared the way for the next stages of the project.

Based on the excellent results mentioned above and after agreement with our partner Ecopetrol, on April 7, 2010, the Company announced the successful completion of the first phase of the STAR project, and the kick-off of the main activities regarding the second phase of the project.

Some of those activities including the front-end loading and design of the required infrastructure including compressor and automation systems, steam plant, dehydration and production facilities of the project, among others, were contracted and finished in the last quarter. The main equipment mentioned above was also purchased in Q3 2010.

A complete numerical simulation study was finished using a state of the art in-reservoir modeling and a thermal simulator, not only to ensure the design of the STAR wells but to enrich the Company's own combustion font control model.

Presently, the Company has almost finished not only the land surface production facilities to install the In situ Combustion (ISC) equipment, but the design of the five new synchronized wells to be drilled as well as the reconditioning of the existing wells involved in drilling of project. The construction of the production facilities plant was completed and shipping to Rubiales field is underway. The construction of the compressors system and automation steam injection plant continue as planned and we expect to finish the construction and transportation to Rubiales field by the end of the year.

The monitoring plan and the design of some specialized tests like nitrogen communication test and 4D seismic runs were completed. These tests may be conducted in December 2010 and if so, the Company would start pilot testing by the first quarter of 2011.

As mentioned in our last quarterly report, the Company continues its commitment to the implementation of this technology, not only because it creates significant value to the Company, its partners, investors and the country by

extending the production life of the Rubiales field, but also because it is believed that once in place, STAR will have a powerful impact on the entire Llanos region.

Llanomulsion Project

In January 2009, the Company started the development of a special transport emulsion formula (oil in water), which could eliminate the need for diluents. The patented formula, called Llanomulsion, increases pipeline capacity by reducing fluid viscosity to one-third of the original viscosity of the diluted crude.

During the third quarter, tests of a new surfactant developed by Ecopetrol´s research and development affiliate Instituto Colombiano del Petróleo were performed at the Rubiales field pilot plant. Also, tests of Llanomulsion running through the main pumping units in the ODL station were successfully completed. The next step is an industrial test, which consists of i) manufacturing a sizeable batch of 40,000 bbl of the fluid in CPF-1, ii) pumping it through the ODL pipeline to Cusiana and iii) dehydrating the emulsion in Cusiana Station. The industrial test is intended to be performed during the first quarter of 2011, once the new leg to Cusiana and the expansion of the OCENSA pipeline to 560,000 bbl/day will be operational. In the meantime, design parameters for breaking the emulsion will be developed and tested in the pilot plant.

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

Oleoducto de Los Llanos (ODL) Pipeline

The Company has a 35% interest in the ODL pipeline with the balance of 65% owned by Ecopetrol. The ODL pipeline was completed on schedule at a total cost of $558 million. Since October 1, 2009, a total of 29,145,922 bbl of diluted crude have been transported from the Rubiales field to Monterrey Station.

In November 2009, the ODL board of directors approved an expansion of the pipeline from 170,000 bbl/d to 340,000 bbl/d. The project includes construction of two booster stations, increased storage capacity at the Rubiales Pumping Station and construction of a pipeline branch to Cusiana Station. As of the end of September 2010, 45% of the expansion project was completed, with an expected completion date of March 2011; an early stage will be operational by December 2010, in order to transport incremental production from the Rubiales and Quifa fields. During the third quarter of 2010, the volume from the Company transported through the ODL pipeline totaled 5.3 million bbl at $1.90/bbl.

Petroeléctrica de los Llanos (PEL) - Power Transmission Line Project

The Company has incorporated a new legal vehicle Petroeléctrica de los Llanos, S.A. ("PEL"), a wholly-owned subsidiary, which will be responsible for constructing and operating a new power transmission line of 230 kilovolts to connect the Rubiales field with the country´s electrical grid. The new transmission line will originate in Chivor Substation and will extend 260 km to the Rubiales field. The line includes two substations to supply power to the booster stations of the ODL pipeline, as well as a main substation for the Rubiales and Quifa fields. The new power line will be able to supply up to 220 Mw that will be used in oil production and transportation activities. Total capital expenditures for this project has been estimated at $135 million of which up to 70% is expected to be project financed.

During the third quarter, the construction of this power line was approved by UPME (Unidad de Planificación Minero Energética) which is the governmental entity in charge of planning and approving construction of new power transmission lines in the country. As well the Engineering, Procurement & Construction contract ("EPC") was awarded to the Company. At the present time, detailed engineering and acquisition of rights of way is progressing. The environmental impact study is scheduled to be submitted to the Environmental Ministry in November 2010.

6. Reserves

Proved and Probable Oil and Gas Reserves

The total proved and probable oil-equivalent reserves of the Company as of September 30, 2010, discounting production for the third quarter of 2010, reached 312.17 million bbl gross (before royalties) or 266.19 million bbl net to the Company. Oil equivalent is expressed in thousands of barrels (Mbbl). Gas volumes are expressed in billion cubic feet (Bcf) and, when expressed in oil equivalent, were converted using 6,000 cubic feet of gas equivalent to one bbl. The certified reserve report as of December 31, 2009 was prepared by Petrotech Engineering Ltd., following all industry standard procedures and in conformity to COGPE guidelines and is available on SEDAR at www.sedar.com.

The following table summarizes the proved plus probable (2P) reserve growth for the Rubiales-Piriri, Quifa, La Creciente, Guaduas, Rio Ceibas, Abanico and Puli blocks as at September 30, 2010:

	2P Reserves									Oil Equivalent		
	Condensate, Light & Medium Oil			Heavy Oil			Associated & Non associated Gas					
	100%	Gross	Net	100%	Gross	Net	100%	Gross	Net	100%	Gross	Net
	(MMbbl)	(MMbbl)	(MMbbl)	(MMbbl)	(MMbbl)	(MMbbl)	BCF	BCF	BCF	(MMboe)	(MMboe)	(MMboe)
Total Reserves At June 30, 2010	12.62	7.16	6.11	526.08	238.46	197.47	460.55	438.42	407.34	615.45	318.69	271.47
Production Q3 2010	0.48	0.19	0.2	12.03	5.24	4.1	6.05	5.72	5.3	13.52	6.38	5.19
Total Reserves at September 30, 2010	12.14	6.97	5.94	514.05	233.22	193.34	454.50	432.70	402.02	601.93	312.31	266.28

7. Discussion of Quarterly Financial Results

Financial Position

Assets

Total assets were $3.5 billion as at September 30, 2010 compared to $2.8 billion as at December 31, 2009. The $3.5 billion in assets primarily consisted of $2.2 billion in oil and gas properties and equipment (December 31, 2009 - $2.0 billion), $618.1 million in cash and cash equivalents (December 31, 2009 - $438.1 million), $318.8 million in accounts receivable (December 31, 2009 - $173.7 million), $119.4 million in investments and other assets, primarily ODL (December 31, 2009 - $74.8 million), and $253.8 million in other assets (December 31, 2009 - $113.4 million). Total assets increased primarily due to an increase in cash and accounts receivable as a result of increased cash flows from operations.

EBITDA

EBITDA during the nine months of 2010 totaled $651.9 million which represents a significant increase of 261% compared to the same period of 2009, which had EBITDA of $180.8 million. For the third quarter of 2010, EBITDA amounted to $219.6 million, mainly generated from international sales (88%), while EBITDA from gas and domestic sales contributed 6.5% and 5.5%, respectively.

Debt

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

On Nov. 3, 2010, Standard & Poor's Ratings Services raised its corporate credit rating on Pacific Rubiales Energy Corp. to 'BB-' from 'B+'. The outlook is stable. They also raised the rating on Pacific Rubiales' $450 million senior unsecured notes due 2016 to 'BB-'. This upgrade is based on the Company's improved financial performance because of a strong growth in its production, adequate liquidity and its ability to generate sufficient operating cash flow to finance most of its required investments.

On July 15, 2010, the Company announced the expiration of its consent solicitation and the receipt of the consents required to amend the indenture relating to the Notes pursuant to the Company's Consent Solicitation Statement dated June 30, 2010. The Company solicited consents in order to provide it with needed flexibility to invest in minority equity investments in joint venture entities that are engaged in any business that is related, ancillary or complementary to the business of the Company, and to provide guarantees of the indebtedness of such entities. The Company paid to each Note holder who validly delivered (and did not revoke) a consent prior to the expiration date, $2.50 for each $1,000 in principal amount of Notes with respect to which a consent was delivered, for an aggregate of $0.6 million.

During April 2010, the Company closed the syndication of a $250 million unsecured revolving credit facility, further details of which can be found under "Liquidity and Capital Resources" on page 22. As of September 30, 2010; nothing has been drawn down on the facility. The interest rate for the facility is determined in accordance with the ratings assigned to the Company's senior debt securities by Standard & Poor's Ratings Group and Fitch Inc. Based on the Company's rating as of September 30, 2010 the interest rate would be LIBOR plus 3.25%. In addition, the Company is required to pay commitment fees of 1% on the unutilized portion of any outstanding commitments under the facility. Subject to customary acceleration events set out in the credit agreement, or unless terminated earlier by the Company without penalty, repayment of the outstanding principal on the facility will be made in full on April 26, 2012. Under the terms of the credit facility, the Company is required to maintain (1) a debt to EBITDA ratio of less than 3.5; and (2) an EBITDA to interest expense ratio of greater than 3, further detail of which can be found under "Liquidity and Capital Resources" on page 22. The Company was compliant with these covenants during the third quarter of 2010.

As of September 30, 2010, the Company has issued standby and letters of credit for operational commitments for a total of $201.7 million (December 31, 2009 – $110.3 million). Most of these bank guarantees are related to naphtha and light oil purchases.

Securities

During the nine months ended September 30, 2010, C$45,000 of the convertible debentures ($32,000 in amortized cost) was converted to 3,460 of the Company's common shares. The amortized cost of $32,000 and the corresponding equity portion of convertible debentures of $12,000 are recorded in common shares as at September 30, 2010.

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

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

Revenues

	Q3		Year to Date	
	2010	2009	2010	2009
Net crude oil and gas sales	372,525	156,557	1,112,748	427,551
Trading revenue	32,896	-	32,896	-
	405,421	**156,557**	**1,145,644**	**427,551**
$ per boe oil and gas	60.91	55.31	62.23	45.05
$ per boe trading	74.75	-	74.75	-

Revenue for the nine months of 2010 totaled $1,145.6 million ($1,112.7 million from oil and gas sales and $32.9 million from trading of crude oil), higher by 168% in comparison to the same period of 2009. Net sales continued to grow mainly due to the increase in production in the Rubiales, Quifa and La Creciente fields.

Net sales in the third quarter of 2010 totaled $405.4 million ($372.5 million from oil and gas sales and $32.9 million from trading of crude oil), which were significantly higher by $248.8 million (159%) in comparison to the prior period in 2009, mainly attributable to the increase in net production in the Rubiales and La Creciente fields, which was almost doubled in comparison to the same period in 2009.

Revenue for the trading activity during the third quarter of 2010 was $32.9 million (September 30, 2009 - nil), which mainly corresponds to the average sales price of the product at $74.75/bbl. This business activity commenced during the third quarter of 2010.

Summarized below is an analysis of the increase in the revenue due to the change in volume and price for the three and nine months ending on September 30, 2010 in comparison to the same period of 2009:

	Three month period ended September 30,				Nine month period ended September 30,			
	2010	**2009**	**Differences**	**% Change**	**2010**	**2009**	**Differences**	**% Change**
Total of boe sold (Mboe)	6,556	2,831	3,725	132%	18,323	9,490	8,833	93%
Avg. Combined Price - Oil & gas and trading ($/bbl)	61.84	55.31	6.53	12%	62.53	45.06	17.47	39%
Total Revenue (MUSD$)	405,421	156,557	248,864		1,145,643	427,551	718,092	

Reasons for the difference (000$):			**Reasons for the difference (000$):**		
Increase due to Volume	206,056	83%	Increase due to Volume	397,979	55%
Increase due to Price	42,809	17%	Increase due to Price	320,113	45%
	248,864			718,092	

Operating Costs

	Q3		Year to Date	
	2010	2009	2010	2009
Oil and Gas Operating Costs	128,583	75,357	394,111	202,400
Trading Operating Cost	32,166	0	32,166	0
Overlift (Underlift)	-1,237	-22,322	-5,073	-3,542
$ per boe Crude Oil and Gas	21.03	26.62	22.04	21.33
$ per boe Trading Operating	73.09	-	73.09	-
$ per boe Over/Underlift	(0.20)	(7.89)	(0.28)	(0.37)

Notes:

(1) *Overlift or underlift corresponds to any resulting short term imbalance between cumulative production entitlement and cumulative sales attributable to each participant at the reporting date. Lifting or off take arrangements for oil and gas produced in jointly owned operations are frequently such that it is not practicable for each participant to receive or sell its precise share of the overall production during the period. Overlift represents an obligation to transfer future economic benefit (by foregoing the right to receive equivalent future production), and therefore constitutes a liability. Underlift represents a right to future economic benefit (through entitlement to receive equivalent future production) which constitutes an account receivable.*

(2) *The overlift recognized as of the end of September 2010 of $1.2 million is the net balance between the overlift position reflected as of the second quarter of 2010 of $1.6 million (25,949 boe), settled in the third quarter of 2010, and the actual overlift as of the end of September 2010 of $0.4 million (4,056 boe). The overlift balance of $1.2 million was valued at the realized price of heavy crude oil, and recorded as a liability and a reduction in the operating costs at September 30, 2010. This overlift and its related financial impact will be reversed once the volume is settled in the fourth quarter of 2010.*

Operating costs for oil and gas during the first nine months of 2010 were $394.1 million (2009 - $202.4 million); the increase over the previous period of 2009 is primarily due to the increase in oil production at the Rubiales and Quifa fields. Production costs per boe slightly increased to $22.04, or 4% higher than the same period in 2009.

Oil and gas operating costs for the third quarter of 2010 were $128.6 million (September 30, 2009 - $75.4 million). The increase over the previous period is primarily due to the 84% increase in net oil production at the Rubiales field. However, production costs per boe were reduced to $21.03, or 21% lower than the same period of 2009 mainly explained by the higher volume of production and a $10.5 million positive effect recognized during the third quarter of 2010, resulting from foreign currency risk management contracts recorded against operating expenses as explained under "Risk Management Contracts" on page 24. The $21.03 per boe consists of cost of production of $4.10, transportation cost of $6.13, dilution cost of $11.72 and other recovery cost of $0.93.

Operating costs for the crude oil trading activities during the third quarter of 2010 were $32.1 million (September 30, 2009 - nil), which mainly corresponds to the average purchasing and transportation costs of the product of $73.09 per bbl. This new business activity commenced during the third quarter of 2010.

Depletion, Depreciation and Amortization

	Q3		Year to Date	
	2010	2009	2010	2009
Depletion, depreciation and amortization	70,549	46,898	204,199	133,432
$ per boe	10.76	16.57	11.14	14.06

For the first nine months of 2010 the Company used the historical reserve reports issued as of December 31, 2009, in calculating a depletion charge of $204.2 million (2009 – $133.4 million). The increase over the same period in 2009 was primarily due to $2.3 billion of oil and gas property costs subject to depletion. Included in the costs subject to depletion is $0.9 billion of future development costs that are estimated to be required to bring proved undeveloped reserves to development (2009 - $1.9 billion of oil and gas property costs and $1.07 billion of future development costs). The

increase was also due to amortization expense of $2.3 million (September 30, 2009 - nil) related to the capitalized costs of the power generation agreements which is charged to depletion, depreciation and amortization. The amortization is based on the unit of production method over the term of the lease.

For the third quarter of 2010 the depletion, depreciation and amortization charge totaled $70.5 million, which was higher by $23.7 million over the same period in 2009, primarily due to the increase in capital investments in 2010 for the drilling campaign at the Rubiales and Quifa fields, as well as a production increase in the third quarter of 2010 compared to 2009.

General and Administrative

	Q3		Year to Date	
	2010	2009	2010	2009
General and administrative costs	26,306	20,836	72,547	47,900
$ per boe	4.01	7.36	3.96	5.05

General and administrative expenses for the first nine months of 2010 were $72.5 million (2009 - $47.9 million), and the increase is mainly attributable to salaries and benefits for additional personnel hired during 2010 to support the increased operations and oil production at the Rubiales and Quifa fields. In addition to the above, the operating costs for this period were also affected by the 14% revaluation of the Colombian peso against the US dollar when compared to the same period of 2009. The majority of the general and administrative costs are incurred in Colombian pesos and therefore subject to fluctuation when converted to the US dollar, after taking into account currency hedging arrangements.

General and administrative expenses for the third quarter of 2010 were $26.3 million (September 30, 2009 - $20.8 million); the $5.5 million increase from the same period in 2009 primarily due to additional personnel needed to support the expanding operations to increase oil production at the Rubiales and Quifa fields and the drilling campaign at other exploratory blocks in 2010. The number of direct employees as of September 2009 totaled 801 while for the same period of 2010 it totaled 1,076, for a 34% increase. In addition, the number of employees hired on a temporary basis also increased from 176 as of September 2009 to 245 for the same period of 2010. This increase in employee headcount generated higher general and administrative expenses of $5 million.

During the third quarter of 2010, general and administrative expenses on a per boe basis reflected a reduction of $3.35/boe (45%) due to the increased production.

Stock-Based Costs

	Q3		Year to Date	
	2010	2009	2010	2009
Stock-based compensation costs	652	351	73,327	662
$ per boe	0.10	0.12	3.96	0.07

For the nine months ended September 30, 2010, stock-based compensation increased to $73.3 million from $0.7 million for the same period in the previous year. The increase is due to 9,551,000 stock options granted in 2010 compared to 150,000 in 2009.

For the third quarter of 2010, stock-based compensation increased to $0.7 million from $0.4 million in the same period of 2009. The increase is due to the 56,000 stock options granted during the third quarter of 2010 having a higher fair market value than that of the 100,000 stock option grants in the same period of 2009.

All stock options outstanding as of September 30, 2010 are completely vested and exercisable.

Foreign Exchange

	Q3		Year to Date	
	2010	2009	2010	2009
Foreign exchange (loss) gain	(20,373)	(69,279)	(41,557)	(93,582)
$ per boe	(3.11)	(24.47)	(2.27)	(9.86)

For the nine months ended September 30, 2010 and 2009, the Colombian peso and the Canadian dollar continued their appreciation trend against the US dollar. During the period, both currencies strengthened by an average of 14% and 17%, respectively.

During the third quarter of 2010, the Colombian peso appreciated 7% (2009 - 13%) and the Canadian dollar appreciated 4% (2009 - 9%) against the US dollar. This significant fluctuation resulted in a loss during the third quarter of 2010 of $20.4 million compared to a loss of $69.3 million during the same period of 2009. The foreign exchange loss of $20.4 million, primarily consisting of the following:

a) Non-cash Colombian peso denominated future income tax liabilities resulted in a $27.4 million loss upon the conversion to US dollars for financial reporting purposes compared to a $65.9 million unrealized loss in the prior year. The future income tax liability relates to the business acquisitions which generate temporary taxable differences (future income tax liability) when the fair value of the carrying amount is compared with the tax value of the asset.

b) The convertible debenture of $177.9 million, which is denominated in Canadian dollars, resulted in a foreign exchange loss of $5.9 million.

Interest Expense

	Q3		Year to Date	
	2010	2009	2010	2009
Interest expense	21,382	11,284	55,783	25,194
$ per boe	3.26	3.99	3.04	2.65

Interest expense includes interest on bank loans, convertible debentures, Notes and fees on letters of credit. For the first nine months of 2010, interest expense totaled $55.8 million (2009 - $25.2 million).

Interest expense in the third quarter of 2010 increased to $21.4 million compared to $11.3 million for the same period in the previous year. The higher interest expense is mainly due to the increase in long-term debt upon the completion of the Notes offering on November 10, 2009.

Income Tax Expense

	Q3		Year to Date	
	2010	2009	2010	2009
Current income tax	35,558	10,840	122,298	17,767
Future income tax	25,654	9,833	35,653	8,451
Total	61,212	20,673	157,951	26,218

The tax rates in Canada and Colombia remain at 33% of taxable income. The special tax benefit in Colombia for acquisition of qualified expenditures has been reduced from 40% in 2009 to 30% in 2010. Currently, the Colombian government is introducing a tax reform which will eliminate this 30% special tax benefit starting in 2011.

Income tax expense increased during the three and nine month period ended September 30, 2010, which is in line with increased revenues and operating income. The effective tax rate is greater than the statutory rate of 33% primarily due to the non-deductible costs for tax purposes such as the stock-based compensation costs.

Current income tax represents the estimated cash income taxes payable for the period. Current income tax increased to $122.3 million from $17.8 million during the same period of 2009, primarily resulting from an increase in the estimated taxable income for the nine month period ending September 30, 2010, which was primarily due to increased operating income and increased deduction for qualified expenditures eligible for the special tax benefit.

Future income tax increased by a net of $25.7 million to $35.7 million in the first nine months of 2010 as compared to the same period in 2009, primarily due to the accounting recognition of the special tax benefit in the acquisition of qualified expenditures in Colombia reduced by the effect of the increase in non-deductible depletion and amortization calculated on higher production in 2010 compared to 2009.

Net Income (Loss)

	Q3		Year to Date	
	2010	2009	2010	2009
Net income (loss)	32,856	(63,107)	112,909	(129,011)
$ per boe	5.01	(22.29)	6.16	(13.59)

Net cumulative income for the nine months ended September 30, 2010 totaled $112.9 million (2009 - $129 million net cumulative loss). The increase in the results is primarily due to the significant increase in the sale of oil and gas, which was 81% higher than in 2009, coupled with improved realized prices that were higher by 10% in comparison to the same period of 2009. Net income for the first nine months of 2010 was impacted by an increase in the operating costs, administrative expenses, and taxes of $191.7 million, $24.6 million and $131.7 million, respectively, primarily due to increased production and taxable revenues.

During the third quarter of 2010, net income totaled $32.9 million (2009 - $63.1 million net cumulative loss), which was the result of higher volume sold and realized oil and gas prices, offset by an increase in the operational costs and expenses, as mentioned above. The net cumulative loss for the same period of 2009 included a number of non-cash items mainly related to exchange losses and a loss in the fair value of management risk contracts; while for this quarter these two items reflected a gain which further improved the results of the third quarter of 2010.

Funds Flow from Operations

	Q3		Year to Date	
	2010	2009	2010	2009
Funds flow from operations	160,013	55,677	465,576	126,159
$ per share, diluted	0.54	0.26	1.63	0.59

The Company continued to generate positive cash flow from operations as a result of the 96% increase in production together with the increase in the combined realized oil and gas price. The funds flow from operations during the first nine months of 2010 totaled $465.6 million.

Funds flow from operations for the third quarter of 2010 increased by $104.3 million over the same period of 2009. This increase is primarily attributable to the 8% increase in net back ($36.57 per boe in the third quarter of 2009 as compared to $39.37 per boe in the third quarter of 2010), as well as the significant increase in production. The increase in net back is due to higher realized prices from $55.31 boe in the third quarter of 2009 to $60.91 boe in the third quarter of 2010.

Liquidity and Capital Resources

Liquidity

Funds provided by operating activities for the first nine months of 2010 totaled $465.6 million (nine months of 2009 – $126.2 million), and for the third quarter of 2010 totaled $160 million (2009 – $55.7 million). The increase in cash flow in 2010 was the result of the considerable increase in production and higher combined crude oil and gas sale prices. The Company has been generating cash flows from operations from the sale of crude oil and natural gas and continues to plan for increased future production.

As of September 30, 2010, the Company held debt denominated in Colombian pesos and US dollars totaling $652.3 million compared to $661.5 million as at December 31, 2009.

As of September 30, 2010, the Company had working capital of $443.6 million, mainly composed of $618.1 million of cash and cash equivalents, $318.7 million of account receivables, $32.3 million of inventory, $19.7 million of risk management assets, $456.5 million of accounts payable and accrued liabilities, $11.9 million of risk management liabilities and $83.6 million of income tax payable.

The original development plan for the Rubiales field called for the expansion of the existing production facility (CPF1) to a capacity of 113,000 bbl/d and the construction of a second facility (CPF2) with an additional capacity of 50,000 bbl/d. A redesigned CPF2, with a capacity of up to 70,000 bbl/d, is planned to be operational in the fourth quarter of 2010. This re-engineering will synchronize the development of the production and pumping facilities with the original production profile for the field. In addition to construction of new infrastructure to handle crude oil production from the Rubiales field, a new CPF is under construction to process new production from the Quifa western block. This facility, which is located in the Rubiales field, has been planned to process up to 30,000 bbl/d of crude and 300,000 bbl/d of produced water by the end of 2010.

On April 27, 2010 the Company closed the syndication of a $250 million unsecured revolving credit facility, which the Company does not expect to fully draw down during 2010, as discussed above. The Company believes it has adequate resources to fund its remaining capital plan for 2010, including the revised investment program increase approved in August 2010, with the Company's cash flows from operations and current debt. With respect to the Company's broader integration strategy (see "Strategy" section on page 6), the Company will pay for the expansion plan with its own cash flow. However, if additional resources are required, possible sources of funds available to the Company to finance additional capital expenditures and operations include cash flows from operations, the $250 million unsecured revolving credit facility, existing working capital and incurring new debt, and the issuance of additional common shares, if necessary.

8. Capital Expenditures

Capital expenditures during the first nine months of 2010 totaled $416.6 million. The capital expenditures during the third quarter of 2010 totaled $200 million, of which $131.8 million was invested in the expansion and construction of production infrastructure, $23.8 million went into exploration activities including seismic, aerogravimetry, aeromagnetometry and drilling, $43.5 million was invested in production drilling activities and $1 million was invested in other projects.

Details of the net capital expenditures during the three and nine month periods of 2010 and 2009 are as follows:

	Net Capital Expenditures (Thousands of US$)			
	Q3		**Year to Date**	
	2010	**2009**	**2010**	**2009**
Production facilities	131,775	52,160	243,146	149,451
Exploration drilling includin seismic acq.	23,819	5,820	68,108	41,077
Development drilling	43,488	30,161	103,571	82,076
Other projects (STAR, Llanomulsion, Gas export)	991	nil	1,816	nil
Total Capital Expenditures	**200,073**	**88,141**	**416,641**	**272,604**

Expanded Capital Plan for 2010

The Company announced on November 4, 2009 an expanded capital plan for 2010 that includes an $853 million capital expenditure program. With this investment program the Company will double its net production, before royalties, from the average 2009 production of 46,000 boe per day to 92,000 boe at the end of 2010. The $853 million capital program for 2010 includes $165.5 million for development drilling, $190.8 million for exploration, $471.8 million for production facilities and $25 million to advance the STAR pilot project. This is an increase of $471 million over the 2009 capital expenditures and $394 million over the previously projected 2010 budget. As of a September 30, 2010, a total of $416.6 million of capital investments had been made.

The Company's broader integration strategy (see "Strategy" section on page 6), requires a minimal investment, with the exception of the exploration and production capital expenditures (discussed immediately above) and the Bicentennial Pipeline project. The latter will have its own financing through a special purpose vehicle (SPV) project financing structure.

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, some of which are already reflected as liabilities in the consolidated financial statements as of September 30, 2010. The principal commitments of the Company are ship or pay arrangements on crude oil and gas transportation, asset retirement obligations, debt repayments, service contracts with suppliers in relation with the exploration and operation of oil properties and engineering and construction contracts, among others. Commitments as of September 30, 2010 are summarized in the following table:

	2010	2011	2012	2013	2014	Subsequent to 2014	Total	
Operating leases	$ 773	$ 1,710	$ 840	$ -	$ -	$ -	$ 3,324	(a)
Transportation and processing commitments	11,745	46,980	46,980	46,980	46,980	124,740	324,405	(b)
Minimum work commitments	136,671	52,511	1,850	-	-	-	191,032	(c)
Accounts payable	456,517	-	-	-	-	-	456,517	(d)
Abandonment obligations	2,331	1,180	393	106	2,402	32,758	39,170	(e)
Long-term debt and bank indebtedness	949	-	-	-	149,985	300,015	450,949	(f)
Convertible debentures - principal	-	-	-	233,183	-	-	233,183	(g)
Obligations under capital lease	2,850	11,306	11,337	11,306	11,306	16,944	65,049	(h)
Total	$ 611,836	$ 113,687	$ 61,400	$ 291,575	$ 210,673	$ 474,457	$ 1,763,629	

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

a) Operating leases of $3.3 million mainly related to office rental in Bogota until the end of 2010. For 2011 and onwards, the office rental agreements do not include future payment commitments and can be terminated on three-months' notice with no penalty.

b) Ship or pay contracts totaling $324.4 million as follows: $301.4 million signed with ODL for the transportation of crude oil from the Rubiales field to Colombia's oil transportation system, and $23 million signed with Promigas for gas transportation from the La Creciente field to connect the Cartagena gas pipeline to deliver the product to customers´ facilities.

c) Minimum capital investments agreed in contracts with Ecopetrol and ANH that include acquisition and processing of seismic data and drilling exploration wells in Colombia.

d) This amount corresponds to the balance as of September 30, 2010 that will be paid in October and November 2010, in accordance with our accounts payable terms and procedures.

e) The amount of the asset retirement obligation of $39.2 million considers the present as well as the undiscounted future obligations on drilling of wells or construction of facilities.

f) Debt repayment of $450.9 million on the short and long term debt, details of which are in the "Liquidity and Capital Resources" section on page 22. This amount includes the future repayment of the Notes of $450 million with maturity dates of November 10, 2014 (33.3%), November 10, 2015 (33.3%), and November 10, 2016 (33.4%).

g) This amount corresponds to convertible debentures, which are payable semi-annually in arrears on June 30 and December 31. The debentures have been classified into their debt and equity components.

h) This amount corresponds to a capital lease on a BOOMT (Built, Operate, Own, Maintain and Transfer) contract signed with Energy International Corp. for power generation at the Rubiales and Piriri fields until June 2016. This amount corresponds to the share on the contractual minimum lease payments recognized by the Company as a capital lease. Operational rates include the maintenance and service fees as well as the cost of the equipment throughout the life of the contract.

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

10. Risk Management Contracts

The Company has the following commodity price risk management contracts outstanding:

Assets as of September 30, 2010

Instrument	Term	Volume	Floor/Ceiling ($/bbl)	Benchmark	Fair value
Zero cost collars	Oct 1, 2010 - Dec 31, 2010	525,000	75/102	WTI	$ 528
Zero cost collars	Jan 1, 2011- Mar 31, 2011	525,000	75/100	WTI	987
	Total	**1,050,000**			**$ 1,515**

Liabilities as of September 30, 2010

Instrument	Term	Volume	Floor/Ceiling ($/bbl)	Benchmark	Fair value
Zero cost collars	Oct 1, 2010 - Dec 31, 2010	525,000	65/88	WTI	$ (432)
Zero cost collars	Oct 1, 2010 - Dec 31, 2010	525,000	65/88	WTI	(420)
Zero cost collars	Oct 1, 2010 - Dec 31, 2010	525,000	65/88	WTI	(414)
Zero cost collars	Jan 1, 2011- Dec 31, 2011	1,842,000	70/98	WTI	(967)
Zero cost collars	Jan 1, 2011- Dec 31, 2011	1,842,000	70/98	WTI	(888)
Zero cost collars	Jan 1, 2011- Dec 31, 2011	1,842,000	70/98	WTI	(1,060)
Zero cost collars	Apr 1, 2011- Dec 31, 2011	2,070,000	75/102	WTI	(6,909)
Zero cost collars	Apr 1, 2011- Dec 31, 2011	2,739,000	70/98	WTI	(2,153)
	Total	**11,910,000**			**(13,243)**

Instrument	Term	Volume	Strike Price ($/bbl)	Benchmark	Fair value
Call option	Nov 1, 2010 - Nov 30, 2010	166,667	89.50	WTI	$ (105)
Call option	Dec 1, 2010 - Dec 31, 2010	300,000	95.30	WTI	(221)
	Total	**466,667**			**(326)**

Instrument	Term	Volume	Strike Price ($/bbl)	Premium ($/bbl)	Fair value
Put option	Oct 1, 2010 - Dec 31, 2010	300,000	40	2.45	(735)
Put option	Oct 1, 2010 - Dec 31, 2010	292,500	40	1.91	(558)
Put option	Jan 1, 2011 - Jul 31, 2011	700,000	40	2.45	(1,664)
Put option	Jan 1, 2011 - Jun 30, 2011	585,000	40	1.91	(1,086)
	Total	**1,877,500**			**(4,043)**
	Total				**$ (17,612)**
	Short-term				(11,868)
	Long-term				(5,744)
	Total				**$ (17,612)**

For the three and nine months ended September 30, 2010, the Company recorded losses of $10.6 million and $0.5 million respectively (September 30, 2009 - $7.3 million and $15 million in gains) on commodity price risk management contracts in net income. Included in these amounts were $9.5 million of unrealized losses and $9.2 million of unrealized gains (September 30, 2009 - $7.3 million in gain and $15.4 million in losses) representing the change in the fair market value of the contracts, and $1.1 million and $9.6 million of realized losses (September 30, 2009 - $0.3 million loss and $0.4 million gain). The fair market value of the contracts includes any deferred premiums outstanding as of the period.

If the forward WTI crude oil price estimated at September 30, 2010 had been $1/bbl higher or lower, the unrealized loss on these contracts would change by approximately $1.5 million (2009 – $1.7 million) and would be reflected in the statement of operations of the Company.

Foreign currency derivatives

To reduce its foreign currency exposure associated with operating and general and administrative expenses incurred in Colombian Pesos, the Company decided to enter into currency risk management contracts such as foreign exchange forwards, options, and costless collars. The Company had the following currency risk management contracts outstanding as at September 30, 2010 that qualify for cash flow hedge accounting:

Instrument	Expiration Date	Amount	Floor / Ceiling (COP/$)	Fair value ($'000)
Currency collars	October 25,2010	38,825,000.00	2000-2050 and 2000-2060	4,280
Currency collars	November 26,2010	40,131,000.00	2000-2050 and 2000-2060	4,423
Currency collars	December 23,2010	41,653,000.00	2000-2050 and 2000-2060	4,587
Currency collars	December 23,2010	44,366,000.00	2000-2050 and 2000-2060	4,885
	Total	**164,975,000.00**		**18,175**

The effective portion of the change in the fair value of the above currency hedges is recognized in other comprehensive income as unrealized gains or losses on cash flow hedges. The effective portion is reclassified from other comprehensive income to operating expenses in net income in the same period as the hedged operating expenses are incurred. During the three and nine months ended September 30, 2010, $11.7 million and $21.7 million of unrealized gains were recorded in other comprehensive income respectively, and $10.5 million and $12.2 million (2009 – nil) of realized hedge gains were reclassified against operating expenses. The Company excludes changes in fair value due to the time value of options and records these amounts along with hedge ineffectiveness in foreign exchange gains or losses in the period that they arise. During the three and nine months ended September 30, 2010, $4.7 million and $5.7 million of ineffectiveness respectively were recorded as foreign exchange losses (2009 - nil).

11. Selected Quarterly Information

(In thousands of US$ except per share amounts or as noted)	Q3 2010	Q2 2010	Q1 2010	Q4 2009	Q3 2009	Q2 2009	Q1 2009	Q4 2008
Financials:								
Net sales	405,421	359,700	380,523	211,650	156,557	160,994	110,000	123,216
Net income (loss) for the period	32,826	47,928	32,125	(24,563)	(63,107)	(118,540)	52,636	12,971
Capital expenditures	198,868	133,636	43,617	120,071	88,141	83,640	100,823	123,652
Funds flow from operations (1)	160,013	154,836	150,727	68,382	55,677	38,934	31,548	40,810
Earnings (loss) per share (3)								
- basic	$ 0.12	$ 0.18	$ 0.13	$ (0.12)	$ (0.29)	$ (0.56)	$ 0.25	$ 0.06
- diluted	$ 0.11	$ 0.16	$ 0.13	$ (0.12)	$ (0.29)	$ (0.56)	$ 0.25	$ 0.06
Operations:								
Operating netback ($/boe) (2)								
Crude oil and natural gas sales price	60.91	61.45	64.35	55.94	55.31	50.12	35.65	43.23
Costs of Production	4.10	5.05	3.74	7.09	7.61	5.16	3.75	6.38
Transportation	6.13	5.65	6.59	10.90	11.18	10.46	6.76	7.08
Upgrading cost (diluent including transportation)	11.72	10.59	12.85	8.27	7.73	6.19	5.91	8.55
Other costs	(0.93)	0.80	(0.14)	(2.04)	0.10	2.85	(0.93)	3.21
Overlift/Underlift	(0.20)	0.18	(0.82)	0.37	(7.89)	6.05	(0.21)	4.08
Operating netback	40.09	39.18	42.14	31.35	36.58	19.41	20.37	13.94
Average daily crude oil sold (Bbl/day)	57,009	54,291	55,734	32,429	24,438	30,405	25,755	24,549
Average daily natural gas sold (Boe/day)	9,464	10,038	9,968	9,145	6,669	5,283	8,528	6,770
Average daily oil and gas sold (Boe/day) (4)	66,473	64,329	65,702	41,574	31,107	35,688	34,283	31,319

(1) Calculated based on cash flow from operations before changes in non-cash operating working capital.
(2) Combined operating netback data is based on weighted average daily production sold.
(3) On May 9, 2008 subsequent to the quarter end the Company consolidated its common shares on a 1:6 basis by issuing one common share for every six common shares outstanding. All references to earnings per share, weighted average number of common shares outstanding, common shares issued and outstanding and authorized common shares have been adjusted to reflect the share consolidation.
(4) Operating netback data based on weighted average daily production sold.

The following discussion highlights some of the significant factors that impacted the results in the eight most recently completed quarters as of September 30, 2010:

During the third quarter of 2010, net sales totaled $405.4 million, which were higher by $45.7 million over the prior quarter of 2010, due to an increase in production and better realized crude oil and gas prices. Production continued to increase reaching an average of 56,404 boe/d during the third quarter of 2010; the volume of sales during this period was higher by 2,144 boe/d (3%) as compared to the prior quarter of 2010. Additionally, the operating costs in the third quarter of 2010 slightly reduced to $20.89 per barrel, or 5%, mainly attributable to the increase in the production and the net effect of the currency hedge recognized during this period.

During the second quarter of 2010, net sales totaled $359.7 million, which were lower by $20.8 million over the prior quarter of 2010, due to a reduction of 5% in realized price due to market conditions which put downward pressure on crude oil prices. Although production continued to increase during the second quarter of 2010, the volume of sales during this period was lower by 59,200 boe (1%) as compared to the prior quarter of 2010. Additionally, the operating costs in the second quarter of 2010 slightly increased to $23.46 per barrel, or 1.8%, mainly attributable to the increase in the production and higher dilution cost used to upgrade Rubiales crude oil.

During the first quarter of 2010, net sales totaled $380.5 million, which were higher by $168.8 million over the fourth quarter of 2009, due to the increase in both the combined realized price of $8.41 per barrel (a 15% increase) as well as the volume of sales from 41,574 boe/d in the fourth quarter of 2009 to 65,702 boe/d in the first quarter of 2010. a 58% increase. Additionally, the operating costs in the third quarter of 2010 slightly increased to $23.04, per barrel, or 1%, mainly attributable to the increase in the production and higher diluents cost as light crude oil used to upgrade Rubiales crude oil is linked to the WTI NYMEX reference price.

During the fourth quarter of 2009, net sales totaled $211.7 million, which were higher by $55.1 million over the previous quarter, due to the $0.63 increase (a 1% increase) in both the combined realized price and the average daily volume of oil and gas sold from 41,574 boe/d in the third quarter of 2009 to 31,107 boe/d in the fourth quarter, a 34% increase. This increase in the volume of sales in the fourth quarter is the result of the drilling program initiated during the second quarter of 2009 and the optimization of field facilities to improve the storage and transport capacity at the Rubiales field.

Operating netback was reduced by $5.22 boe to $31.35, in comparison to the prior quarter, primarily due to the increase in other production costs and upgrading costs in the fourth quarter and the effect of the overlift position recognized in the third quarter.

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

During the second quarter of 2009, net sales totaled $161.0 million, which were higher by $50.9 million over the previous quarter, due to the increase in both the combined realized price of $14.47 per barrel (a 41% increase) as well as the volume of sales from 34,283 boe/d in the first quarter of 2009 to 35,688 boe/d in the second quarter of 2009, a 4% increase. Additionally, the operating costs in the second quarter of 2009 totaled $27.62 per barrel, which was negatively affected by the overlift position of 455,000 boe as of June 30, 2009 amounting to $19.4 million, or $5.44 per barrel.

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

Revenue in the fourth quarter of 2008 fell by $79.1 million to $123.2 million in comparison to the previous quarter in 2008, primarily due to significantly lower international oil and gas prices realized, in part compensated by higher crude oil production from the Rubiales field. Combined average oil and gas selling prices fell by $47.88/boe over the fourth quarter to $43.23/boe (53%) when compared to the prior quarter, due to the strong reduction in oil prices. The average daily volume of oil and gas sold in the fourth quarter increased to 31,319 boe/d from 24,408 boe/d in the prior quarter, as a result of the drilling program initiated during 2008 and the optimization of field facilities to store, load and transport the crude oil from the Rubiales field. Operating netback was significantly reduced by $44.26/boe to $13.94/boe, in comparison to the prior quarter primarily due to the reduction in realized prices in the fourth quarter over the third quarter and higher production costs.

12. Outstanding Share Data

Issued and Fully Paid Common Shares

As at September 30, 2010, 266,537,238 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 September 30, 2010, 611,682 warrants to acquire an equal number of common shares were outstanding and exercisable (27,910,343 – December 31, 2009) and 22,254,206 stock options were outstanding (19,223,131– December 31, 2009), of which all were exercisable.

13. New Accounting Pronouncements

Adopted

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

In January 2009, the CICA issued Handbook Sections 1582, “Business Combinations” (“Section 1582”), 1601, “Consolidated Financial Statements” (“Section 1601”) and 1602, “Non-controlling Interests” (“Section 1602”). Section 1582 replaces CICA Handbook Section 1581, “Business Combinations”, and establishes standards for the accounting for business combinations that are equivalent to the business combination accounting standard under IFRS. Section 1582 is applicable prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011, with early adoption permitted. Section 1601 together with Section 1602 replaces CICA Handbook Section 1600, “Consolidated Financial Statements”. Section 1601 establishes

standards for the preparation of consolidated financial statements and Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. Sections 1601 and 1602 are applicable for interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011, with early adoption permitted. An entity must adopt Section 1582, 1601 and 1602 at the same time. The Company has adopted these standards effective January 1, 2010 and the adoption did not have a material impact on the results of operations or financial position.

b) Intangible Assets

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

c) Segment Disclosures

During the three months ended September 30, 2010, the Company entered into a new business of purchasing and marketing third-party crude oil (crude trading business). The Company purchases light crude oil from local producers and markets the products in the international markets. The Company recognizes revenues on the sale of crude oil when these are delivered and the title passes to the buyers and collection is reasonably assured. The crude trading business is identified as a reportable segment as of September 30, 2010, with revenue and operating expenses presented in the statement of operations.

Future accounting changes

International Financial Reporting Standards

In February 2008, the AcSB confirmed the convergence of Canadian GAAP with International Financial Reporting Standards (IFRS) will be required for interim and annual financial statements effective for fiscal years beginning on or after January 1, 2011, including comparatives for 2010.

The Company has established a dedicated IFRS Project team to address the conversion to IFRS that reports regularly to a steering committee and a complete discussion of the Company's IFRS conversion project was referred to in the second quarter 2010 interim MD&A. As of September 30, 2010, the IFRS conversion project continues to progress according to the changeover plan and timetable established by management and the following key issues are reviewed and concluded to have the most significant impact on the results of operations, financial position and disclosures:

IFRS 1 Exemptions (*ongoing – to be finalized before IFRS reporting in 2011)*

The Company has decided to use the oil and gas full cost "deemed cost" exemption as allowed under IFRS 1. Under this exemption, the development and producing assets (D&P) are to be allocated to each cash generating unit ("CGU") based on reserves volumes or reserves values, and are required to perform impairment review at the transition date. Management has anticipated CGU will be determined at the field level and has elected that allocation at the CGU level will be performed based on reserves values.

The Company is also considering electing the IFRS 1 exemptions related to business combination, stock based payments, cumulative foreign currency translation differences, among others.

The Company continues to determine the impact of the IFRS accounting policies on its opening balance sheet as at January 1, 2011. Management believes that IFRS may have a significant impact on income taxes presented within the Company's opening balance sheet specifically relating to the deferred taxes previously recorded on special tax deduction in Colombia and the impact of adoption of IAS 12.

Control environment (ongoing to first quarter 2011 reporting)

The Company continues to work with advisors to understand the practical application of the IFRS principles which will affect the quantification of IFRS retrospective adjustments as at January 1, 2011 and the subsequent IFRS Consolidated Financial Statements. The Company will also continue to monitor standards development as issued by the IASB and the AcSB as well as regulatory developments as issued by the Canadian Securities Administrators (CSA), which may affect the timing, nature or disclosure of its adoption of IFRS.

Training and Communication (ongoing to first quarter 2011 reporting)

The Company has scheduled to conduct further training with finance and other area's staff on the key impacts of IFRS accounting policies in November 2010.

IT Systems (ongoing to 2011 year end reporting)

In October 2010, the Company commenced system modifications required to support IFRS reporting for the first quarter of 2011.

Critical Accounting Policies and Estimates

The Company's financial statements are prepared in accordance with Canadian GAAP, which requires management to make judgments, estimates and assumptions, which may have a significant impact on the financial statements. A summary of the Company's significant accounting policies can be found in Note 1 to the Company's 2009 consolidated financial statements. The following is a discussion of those accounting policies and estimates that are considered critical in the determination of the Company's financial results.

Property, Plant and Equipment – Full Cost Accounting

The Company follows the full cost method of accounting. Under the full cost method of accounting, capitalized costs are subject to a country-by-country cost centre impairment test.

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

Reserve Estimates

Reserve estimates can have a significant impact on net income and the carrying value of capital assets. The process of estimating reserves requires significant judgment based on available geological, geophysical, engineering, and economic data, projected rates of production, estimated commodity price forecasts and the timing of future expenditures, all of which are subject to interpretation and uncertainty. Reserve estimates impact net income through depletion expense and the application of impairment tests. Revisions or changes in reserve estimates can have either a positive or a negative impact on net income and can impact the carrying amount of capital assets.

Future Income Taxes

The Company recognizes a future income tax liability based on estimates of temporary differences between the book and tax value of its assets. An estimate is also used for both the timing and tax rate upon reversal of the temporary differences. Actual differences and the timing of reversals may differ from estimates, impacting the future income tax balance and net income.

14. Related-Party Transactions

a) In June 2007, the Company entered into a 5-year lease agreement with Blue Pacific Assets Corp. ("Blue Pacific"), a British Virgin Islands corporation, for administrative office space in one of its Bogota, Colombia locations. Monthly rent expense of $55,000 is payable to Blue Pacific under this agreement. Three directors and officers of the Company control, or provide investment advice to the holders of 75% of the shares of Blue Pacific. In addition, the Company has a receivable of $15,000 from Blue Pacific related to certain administrative costs paid by the Company on behalf of Blue Pacific.

b) As at September 30, 2010, the Company had trade accounts receivable of $1.7 million (December 31, 2009 - $10.5 million) from Promotora de Energia Electrica de Cartagena & Cia, S.C.A. ESP ("Proelectrica"), in which the Company has a 21.7% indirect interest and which is 31.49% owned by Blue Pacific. The Company's and Blue Pacific's indirect interests are held through Ronter Inc. Revenue from Proelectrica in the normal course of the Company's business was $2.3 million and $12.5 million for the three and nine months ended September 30, 2010, respectively (September 30, 2009 - $5.9 million and $10.5 million respectively).

c) On April 19, 2010 the Company acquired a 9.4% interest in PII for $3.5 million. The consideration consisted of a previous $3.5 million advance to PII, which is executing a project to develop land in Colombia into a port, an industrial park and free trade zone. In September 2010, the Company acquired an additional 4% interest in PII for $2 million. As of September 30, 2010, the total interest in PII held by the Company directly and indirectly is 18.75%, or $5.5 million.

d) During the nine months ended September 30, 2010, Transportadora Del Meta S.A. ("Transmeta"), a variable interest entity indirectly 100% owned by a director of the Company, paid a dividend of $2.2 million to its shareholder. The Company does not own any shares in Transmeta, but is the primary beneficiary and therefore consolidates Transmeta. The Transmeta dividend is included in other expense on the statement of operations.

e) The Company has an accounts receivable in the amount of $127,000 (December 31, 2009 – $173,000) from Medoro Resources Ltd., a company related by way of a director and one officer in common. The receivable balance is related to the Company's share of general and office expenses, including administrative support and office premises in Canada. This amount was repaid in full in October 2010.

f) Loans receivable from related parties in the aggregate amount of $481,000 (December 31, 2009 – $290,000) are due from two directors and four officers (December 31, 2009 – two officers) of the Company. The loans are non-interest bearing and payable in equal monthly payments over a 48-month term.

g) During the three months ended September 30, 2010, the Company acquired a 19.05% equity interest in Pacific Coal S.A., a company controlled by Blue Pacific, for $24 million. Four directors and one officer of the Company are also directors of Pacific Coal.

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

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

The Pacific Rubiales internal audit system, which is embedded in all operations, provides assurance to the Board of Directors, Audit Committee, and Management, and contributes to the continuous improvement strategies of the organization without impairing its objectivity and independence. The internal auditor`s role involves providing guidance and expertise in areas including, but not limited to, corporate governance, risk management, fraud policies and prevention, and information technology systems, in addition to the area of internal controls. The internal audit process delivers reasonable assurance over the:

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

The Chief Corporate Auditor reports the results of the audit activities to the Audit Committee on a quarterly basis. The internal audit activities for the third quarter of 2010 approved by the Audit Committee included the following activities:

- Evaluation of the effectiveness of internal controls, encompassed within the requirements of National Instrument 52-109 ("NI 52-109") issued by the Canadian Securities Administrators (CSA), over the design and operating effectiveness of the ICFR (Internal Controls Over Financial Reporting). The evaluation of 502 controls was performed during this quarter, to ensure that the information required to be disclosed by the Company is accumulated and communicated to management for timely assessment and certification by the Chief Executive Officer and Chief Financial Officer.
- Seven audit reports were completed by the internal audit team during the quarter. Another audit project was started and is still in progress at the time of this report. These audit reports included the evaluation of operational effectiveness, controls of core and support business processes in each of the following areas: Finance, Exploration, Security, Human Resources, Related Parties, and Information Technology infrastructure. The results were reported to management and the Audit Committee and action plans of improvement were agreed to with business process owners.
- The implementation of a Governance, Risk and Compliance (GRC) solution is still in progress. This solution will streamline governance programs, improve accountability and communication, ensuring adoption of corporate governance principles and best practices, and providing a systematic framework for documenting and assessing risks, defining controls, managing audits, identifying issues and implementing recommendations and remediation plans, and it provides an integrated approach to meet cross-industry mandates and regulations.
- As part of the risk management activities the internal audit performed a Fraud Risk Assessment through the organization. As a result of the assessment, management is implementing plans to mitigate the fraud risks identified. Internal audit provides coaching and coordinates Risk Management activities.

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

- To improve timeliness of financial reporting,
- To strengthen compliance of the Company`s Purchasing Manual among all personnel,
- To strengthen monitoring skills and capabilities of the Technology, Information and Communication staff, and
- To continue to assess the reliability of SAP data integration and information produced.

The Company will continue to review its processes and procedures in 2010, including the integration of new resources hired and improvement in the use of SAP reporting tools.

Regulatory Policies

Certification of Disclosures Filings

In accordance with NI 52-109, the Company issues, on a quarterly and annual basis, a Certification of Filings ("Certification"). The Certification requires certifying officers to state that they are responsible for establishing and maintaining disclosure controls and procedures ("DC&P") and ICFR.

The Certification requires certifying officers to state that they designed DC&P, or caused it to be designed under their supervision, to provide reasonable assurance that: (i) material information relating to the Company is made known to the certifying officers by others; (ii) information required to be disclosed by the Company in reports filed with, or submitted to, securities regulatory authorities is recorded, processed, summarized and reported within the time periods specified under Canadian securities legislation. In addition, the Certification requires certifying officers to state that they have designed ICFR, or caused it to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes.

16. Outlook

The Company will continue working on increasing its production and transportation capacity. Expansion of current facilities will allow the Company to double its production with a target for the end of the year of 225,000 boe/d (gross) and significantly reduce its transportation costs. In addition, the recently announced broadening of the Company's growth strategy, including downstream integration and participation in infrastructure projects, is anticipated to complement the continued growth of the Company and provide it with secure and stable access to profitable markets.

The Company will continue to sell crude in the international markets, as well as in the domestic market. In the fourth quarter of 2010, the Company expects to increase its sales to an average of 90,000 boe/d total for the Company,

including 75,000 bbl/d transported via the ODL that allows for transportation of all the Company's production from the Rubiales oil field to Monterrey, where it is connected to the main Colombian pipeline system.

The Company will also concentrate on increasing its gas sales from the La Creciente field, and in order to achieve this, is currently negotiating with gas transporters the commercial terms for an expansion of the latter's infrastructure in the area.

The exploration activities will continue at a steady pace during the remainder of 2010 and the Company is on schedule to complete its program for the year, which includes drilling 27 exploratory wells in Colombia: eleven more wells in the Quifa block (seven exploratory and four appraisal), and sixteen exploratory wells in the rest of the blocks. The campaign also includes the final acquisition of 13,133 km of high resolution magneto-gravimetric airborne data in four blocks in Colombia and the acquisition of 2,279 km of 2D seismic and 694 km^2 of 3D seismic in 14 blocks: 12 in Colombia and 2 in Peru.

17. Non-GAAP Financial Measures

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

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

The following table shows the reconciliation of funds flow from operations to cash flow from operating activities for the third quarter 2010 as compared with the third quarter of 2009:

	Q3		Year to Date	
	2010	2009	2010	2009
Funds flow from operating activities	230,244	64,583	579,351	107,796
Changes in non-cash working capital	70,231	8,906	113,775	-18,363
Funds flow from operations (non-GAAP)	160,013	55,677	465,576	126,159

B) Reconciliation of Net (Loss) Income to EBITDA

	Three months ended September 30		Nime months ended September 30,	
	2010	2009	2010	2009
Net (loss) income	32,856	-63,107	112,909	-129,011
Adjustments to net (loss) income				
Income taxes expense	61,212	20,673	157,951	26,218
Foreign exchange (gain) loss	20,373	69,279	41,557	93,582
Interest expense	21,382	11,284	55,783	25,194
Realized and unrealized gain on risk management contracts	10,639	-7,282	478	15,399
(Income) loss from equity investment	-1,553	0	80	0
Other expense (income)	3,493	4,590	5,769	15,317
Stock-based compensation	652	351	73,327	662
Depletion, depreciation and amortization	70,549	46,898	204,199	133,432
EBITDA	219,603	82,686	652,053	180,793

EBITDA was redefined in 2009 upon the completion of the offering of the Notes. The redefined EBITDA represents the EBITDA used in and defined in the covenants of the senior Notes offering. The previous period's EBITDA has been recalculated to conform to the current year's definition.

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. Boe may be misleading, particularly if used in isolation. A Boe conversion ratio of 6 mcf:1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Estimated values of future net revenue disclosed do not represent fair market value.

19. Risks and Uncertainties

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

- fluctuating oil and gas prices;
- cash flows and additional funding requirements;
- global financial conditions;
- exploration and development;
- operating hazards and risks;
- reserve estimates;
- transportation costs;
- disruptions in production;
- political risk;
- environmental factors;
- title matters;
- dependence on management;
- changes in legislation;
- repatriation of earnings;
- enforcement of civil liabilities;
- competition; and
- payment of dividends.

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. Glossary

1P Proven reserves (also known as P90).

2D seismic Shows a single cross-section through the earth along a relatively straight line.

2P Proven reserves + Probable reserves.

3D seismic 3D seismic is shot similar to 2D, except the “shotpoints” are much closer together and are laid out on a grid, instead of in a straight line. The geophones that receive the reflected sound waves are also laid out in a grid.

3P Proven reserves + Probable reserves + Possible reserves.

Appraisal well Exploration well drilled near a well already in production as part of an appraisal campaign, which is carried out to determine the physical extent and likely production rate of a field.

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

Core sampling At depths of interest, the drill bit is replaced by a hollow one that will extract a cylinder of several meters of rock. Confirms rock type, fluid content, dip, porosity and permeability.

Density Also known as the oil’s gravity – measured in ÅãAPI and indicative of what products the crude can be refined into. The higher the gravity, the lighter the oil.

Development well A production well drilled to begin production after a reservoir has been discovered and defined. Usually takes place over the area with the largest pay thickness in the reservoir.

Diluent The addition of a diluent enables the diluted fluid to meet pipeline specifications in order for it to be efficiently transported. Typical diluents in this application are naphtha or light oil used with very heavy oil or bitumen.

Dip The slant of a reservoir.

Discovery well An exploration well that has encountered hydrocarbons.

Mcf thousand cubic feet

Mcf/d thousand cubic feet per day

Mbbl thousand barrels

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

Net reservoir thickness/net pay or oil zone Reservoir vertical extent – thickness measured in feet of the productive portion of a reservoir.

Mw Megawatts

Netbacks Total of revenues from oil/gas, less all costs associated with getting oil/gas to market. These costs can include importing, transportation, production and refining costs and royalty fees.

NGL natural gas liquids

Permeability Measured in millidarcies (mD), measures how connected the pores are within the rock, indicating how easily oil will flow through it.

Porosity Percentage of void space versus solid rock, which is the space where oil is potentially trapped.

Possible reserves Estimates with a probability of 10%-49% under present technical and economical conditions. Also known as P3 when referred to as an individual component.

Primary recovery Extraction of oil using methods and mechanisms of natural lift or artificial lift.

Probable reserves Estimates with a probability of 50%-89% under present technical and economical conditions. Also known as P2 when referred to as an individual component.

Term	Definition
Dry hole	A well that is drilled does not encounter hydrocarbons.
Farm-out agreements	The “farmor” agrees to assign acreage to a second company (the “farmee”) in return for the second company performing specified drilling and testing obligations, with the farmor also reserving an interest in the acreage assigned and in the production from the wells drilled by the second company.
Geophysics	See Gravity survey – Magnetic survey – Seismic survey.
Gravity survey	A study of the earth’s gravity, which varies with changes in density of subsurface rock.
Gross pay	Average thickness of the entire reservoir.
Heavy crude	Oil with a low gravity density (generally <25Åã API).
km	kilometers
Light crude	Oil with a high gravity density (generally >30Åã API).
Magnetic survey	A study of the earth’s magnetism. Most oil is contained in nonmagnetic sedimentary rocks (igneous & metamorphic rocks are magnetic and contain no oil).
Mbbl	thousand barrels
Proven reserves	Estimates with a probability of 90% or greater under present technical and economical conditions. Also known as P1 when referred to as an individual component.
Recovery factor	Maximum percentage of oil in place which is technically recoverable.
Reservoir rock	A porous and permeable rock for hydrocarbons to accumulate in.
Secondary recovery	Involves “push” mechanisms that attempt to maintain or increase reservoir pressure when primary recovery production rates fall. Water flooding is the most commonly used method.
Seismic survey	Works on the principle of the time it takes for reflected sound waves to travel through rock of varying densities. 2D or 3D seismic surveys create virtual images of what a reservoir looks like.
Service contracts	Flat fee paid by mineral rights owner to E&P company to carry out the E&P. Only paid if production takes place.
Source rock	Rich in dead, organic material (kerogen) buried deep enough for heat and pressure to change it into hydrocarbons.
Spudding	Initial stage of drilling.
Stratigraphic traps	Stratigraphic traps form when other beds seal a reservoir bed or when the permeability changes within the reservoir bed itself. Examples of stratigraphic traps are a) unconformity traps, b) pinchout traps, and c) lens traps.
Structural traps	Structural traps form because of a deformation in the rock layer that contains the hydrocarbons. Examples of structural traps are a) anticlinal traps, b) fault traps, and c) salt dome.
Tcf	trillion cubic feet
US$	United States dollars
Viscosity	Inside the reservoir, viscosity is measured in poise (P); outside the reservoir, measured in centistoke (cS). Viscosity indicates how easily oil will flow.
WTI	West Texas Intermediate index