FINAL TRANSCRIPT

Pacific Rubiales Energy Corp.

Third Quarter Financial Results

Event Date/Time: November 7, 2013 - 9:00 a.m. E.T.

Length: 98 minutes

(edited for consistency and language)

CORPORATE PARTICIPANTS

Ronald Pantin
Pacific Rubiales Energy Corp. – Chief Executive Officer

José Francisco Arata
Pacific Rubiales Energy Corp. – President

Carlos Perez
Pacific Rubiales Energy Corp. – Chief Financial Officer

Roberto Puente
Pacific Rubiales Energy Corp. – Senior Manager, Investor Relations

CONFERENCE CALL PARTICIPANTS

Nathan Piper
RBC Capital Markets – Analyst

Frank McGann
Bank of America – Analyst

Paula Kovarsky
ITAUBBA – Analyst

Caio Carvalhal
JP Morgan – Analyst

Diego Usme
Ultrabursatil – Analyst

Marcus Sequeira
Deutsche Bank–Analyst

Justin Anderson
Solomon Partners – Analyst

David Popowich
Macquarie – Analyst

David Guardiola
Larrainvial – Analyst

Sebastian Gallego
Corredores Asociados – Analyst

Laura Salamanca
Helm – Analyst

David Dudlyke
Dundee Capital Markets – Analyst

Pedro Medeiros
Citi Group – Analyst

Omar Escorcia
Asesores en Valores – Analyst

Sergio Conti
Goldman Sachs – Analyst

PRESENTATION

Operator

Good morning. My name is Jonathan and I will be your conference facilitator (audio interference). At this time, I would like to welcome everyone to the Pacific Rubiales Energy Third Quarter 2013 conference call. This call is scheduled for 90 minutes. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question and answer period. If you would like to ask a question during this time, please press star, followed by the number one, on your telephone keypad.

This call contains forward-looking statements which reflect the current expectations or beliefs of the Company based on information currently available to the Company. Forward-looking statements are subject to a number of risks and uncertainties that may cause the actual results of the Company to differ materially from those discussed in the forward-looking statements. Factors that could cause actual results or events to differ materially from current expectations are disclosed under the heading Risk Factors and elsewhere in the Company's Annual Information Form dated March 14th, 2013. Any forward-looking statement speaks only as of the date on which it is made and the Company disclaims any intent or obligation to update any forward-looking statements.

Thank you. Mr. Pantin, you may begin your conference.

Ronald Pantin – Chief Executive Officer, Pacific Rubiales Energy Corp.

Good morning everyone. We're very proud to announce a new record quarter for the Company. This quarter we achieved approximately 30 percent growth in all the financial and operational indicators which will help us to achieve, what we expect to be, the best ever year for Pacific Rubiales in 2013. We had net production of 127,000 – very close to 128,000 – with growth of 31 percent; that's above the high-end of our annual guidance for growth of 30 percent over 2012 levels. We also have a very strong revenue generation of $1.1 billion, a 28 percent increase over last year, and EBITDA of $640 million; that is a 27 percent increase over last year, with a 55 percent margin on total revenues. $455 cash flow from operations; that was also a 31 percent increase over last year and record netback of $65, almost $66 per barrel, that's 4 percent higher than the second quarter. A reduction of diluent to $3.83 per barrel; that's a 40 percent reduction over the second quarter of this year.

We also have the licence, the environmental license, for CPE-6 and Guama that we think is a very important step for the Company's plans to keep increasing production next year; and last but not least is that Pacific Rubiales has been included in the Dow Jones index for social responsibility.

In the next graph you can see that Pacific Rubiales is a company that, during 6 years, has had a compound gross annual growth rate of 62 percent on average gross field production. Right now we are producing over 310,000 barrels per day. Our guidance for the year was for production of between 270,000 to 303,000 barrels gross total field per day, so we have surpassed guidance for this year up until now, for the first nine months of 2013. In the case of net production after royalties we are producing 128,000 barrels per day; again above our guidance for between 113,000 to 127,000 barrels per day for the year. Our net 2P reserves have grown at an annual compound rate of 40 percent from 2007 to 2012—we are not yet able to comment on reserves for this year, but we have important discoveries and also our acquisition of Petrominerales.

For adjusted EBITDA, we have had a compound annual growth rate of 114 percent from 2007 to 2012; that's very significant. For the first nine months of this year, we have $1.9 billion and we are projecting around $2.6 billion for this year. Netbacks,you can see that right now we have a 13 percent compound growth rate from 2007; and for the first nine months of the year our netback was $61.29. So, we can see that the Company is an E&P company with the largest growth worldwide.

On the next graph, you can see our production profile, from the third quarter of 2012 to the third quarter of 2013. Gross total field production has increased from 244,000 barrels in the third quarter of 2012 to 311,000 barrels in the third quarter of this year and our net production has also increased from 97,000 barrels in the third quarter of 2012 to 128,000 this quarter. That is important—it is important to mention that the Company had to substitute very close to 7,000 barrels per day that we have been paying in PAP; that's the additional volume that we are paying to Ecopetrol for the resolution of the arbitration process. Despite accommodating for this, our net production for the year, for the first nine months, is over our guidance of 30 percent growth over 2012 levels.

In the third quarter, the market saw the continued narrowing between the WTI and Brent differentials, down to $3.84/bbl; however, we have a very good price. Realization prices for the Company during the quarter were $103 per barrel. That was done because when we saw the trend that WTI was increasing, we changed our indexes for trading from Brent to WTI.

Our cargos have gone mainly to the US and Europe and also a little bit to Latin America and Asia. You can see our sales during the quarter were 11.4 million barrels, and we had one million barrels that was left behind and that's due to the premium of the Bicentenario pipeline, and also, as I mentioned before, the payment of very close to 7,000 barrels per day to Ecopetrol.

We have always said cash is king for the Company. We have seen, from the third quarter of 2012 to the third quarter of this year, a growth in revenues, a very important growth in revenues, increasing from $870,000 to $1.1 billion this year. You can also see that we have very strong EBITDA. In the first quarter, we generated $695 million but then this quarter we had in the order of $612 million of EBITDA. As I mentioned before, during the quarter we left one million barrels that we used for the filling of the Bicentenario pipeline and also for the payment of the PAP settlement with Ecopetrol. If we had sold those volumes, our revenues would be over $1.2 billion and our EBITDA $670 million. I mention that because the filling of the pipeline ended in the third quarter and the PAP settlement will end in the first quarter of next year.

In the case of netbacks, we had a record netback of $65.73 for the quarter. You can see that we had record prices of $103 for this year, but we also get our costs down. I have to give you some explanation. We have reduced our dilution cost significantly, as I mentioned before, 40 percent. We increased our transportation cost and the reason for that is that—as you remember, in the second quarter, we had an agreement with Total. That agreement ended in the third quarter. In the fourth quarter, we will have a structural change because of the Bicentenario pipeline, that entered into operation one month ago, and also the additional capacity that we will have from the acquisition of Petrominerales.

STAR is looking beautiful. STAR is increasing. Every day it's producing and we've seen the recovery increase. Right now, we have more than doubled the recovery factor at Quifa. The normal recovery factor on primary production in Quifa is less than 14 percent, with the application of STAR, we are getting a recovery of close to 30 percent. We have conducted independent analysis certification of STAR, and also, we have received two patents here in Colombia for the exclusive use of STAR technology for 20 years. With that, we expect to go to commercial production at Quifa and we are doing so now, we are using STAR, extending that to the neighbouring clusters in Quifa SW.

With that, we will have enough information to go immediately to a commercial scale in the Quifa block.

Very important news we received this week, that is the environmental license for CPE-6. CPE-6, as you know, is a very important block. We have explored around 300 square kilometres and we found oil in all of the block, and we booked last year 44 million barrels of 2P reserves and we have 137 million barrels of best case prospective resources. Right now, we are immediately moving into the block. We are moving three rigs. With potential plans to move three more rigs. We did have a delay in the permit process, as you know, of more or less one more month longer than what we were promised, but now we have it. We have been pre-manufacturing all of the facilities for water and oil treatment, so we'll be moving very quickly into the block. We have a one month delay with our oil project, but we are moving very quick to be able to test the wells, but also to bring production immediately from CPE-6; that will be a very good news to the market.

On the infrastructure side, as you know we have all the assets for transportation and mid-stream. As you know, we have now 5 percent of OCENSA and very close to 10 percent of Bicentenario coming from the acquisition of Petrominerales. Our plan, as we mentioned before, is to monetize both assets. In the case of OCENSA, we have some indicative offers that we'll be acting on immediately after closing, very good offers, and in the case of Bicentenario, the 10 percent that comes from Petrominerales, we will add it to our midstream spin-out projects. Those spin-out assets, we consider to have a value of $1.2 billion to $1.4 billion, and that includes 35% of ODL, around 33.3% initially from Bicentenario, close to 9.65% coming from Petrominerales and 100% of PEL. The idea is for a spin-out of around 40 percent. We have already had some indicative offers; very good offers but still the process is underway.

Let me talk about the acquisition of Petrominerales. Everything is going just fine. We have, as you know, covered some of the regulatory aspects, so we are really optimistic that we will have the closing at the end of this month. Remember that this is a great acquisition and strategic fit between Pacific Rubiales and Petrominerales. We are adding nine blocks increasing to 76; 58 from the Pacific Rubiales and 18 from Petrominerales in Colombia, and in Peru, we have five blocks, plus Petrominerales' four, for a total of nine. Production, we have 128, as we have mentioned. For the quarter, Petrominerales increased their production to around 23, so if we add the two productions, it's 151,000 barrels of net production afterroyalties. And in the case of reserves, we have 551 2P reserves (combined year-end 2012). One very important aspect is—yes, that's for the year production that will be part of 2014, —and in the case of reserves, we expect to have the report, as I mentioned, at the end of this year.

One very important thing is the added value that we will have in the financing. We are projecting for next year $3.4 billion EBITDA, plus $405 million, and that's more or less a prediction, not increasing the actual production of Petrominerales, that we think that we will be able to increase immediately, plus some synergies that will give us a prediction in EBITDA for next year of $4 billion. That is a very important for the Company.

Petrominerales, it's an excellent acquisition. As you know, we have all this light oil production that we'll be using as a diluent with a very important cost saving in dilution, as we have proven this year, going from very close to $13 dilution down to less than $4.00 dilution. We will continue with this, reducing the dilution cost. It also brings, as I mentioned before, transportation capacity in OCENSA and also in the Bicentenario that we will keep—even though we plan to monetize some of the assets, we will keep the transportation through some agreements with the funds that are interested to buy these assets, and so it's bringing a lot of synergies to the Company.

We see that in Petrominerales, right now as I mentioned it is producing 22,000 barrels, we see a very important increase, not only in the recent discoveries that are happening but also in Rio Ariari. I would like to talk about Rio Ariari, is that this is a very important block. It has a license, environmental license for exploration. Petrominerales drilled there 30 wells with very good net pays between seven and 53 feet, and we have now one rig waiting after closing to enter into Rio Ariari. We think that Rio Ariari will be an important heavy oil block here in Colombia, and with the addition of CPE-6, we are very comfortable that the production and reserves coming from CPE-6 and Rio Ariari will more than substitute the Rubiales field.

In Peru, Petrominerales has five exploration blocks and that's very important because they had a very interesting discovery in Sheshea, and that we are planning to increase and to do the appraisal wells and also to develop that well. José Francisco will talk more about Peru.

On the cost reduction initiatives, we have the electric line, which is also arriving into Rubiales and Quifa.We are ready to start energizing to this line in the next two weeks and that will result in huge saving on energy cost. And remember that in Rubiales right now, we have a power plant that consumes Rubiales crude and the cost saving will be 50 percent, but we also have almost 50 percent of the energy in the field in small plants that use diesel oil, and the saving for that is over 80 percent. So, we will be reducing significantly the cost of energy; that is around 40 percent of our production cost. As I mentioned before, we also expect to continue reducing our dilution cost. We have come from $15 to less than $4.00 and we'll be reducing that to minimum because we will need to buy in the short-term, natural gasoline that, as you know, is very costly.

In transportation, we already have—with the acquisition of Petrominerales, we will have additional capacity in the Bicentenario and OCENSA pipelines, so we reduce our need to truck more oil to the coast. That is very expensive, as you know. We saw during the second quarter, a very important reduction in transportation, as I mentioned before, we reduce that agreement with Total, but now we have the Bicentenario that is operating. Actually, we have already sent a cargo from the Bicentenario a cargoe of Vasconia to Coveñas.

And the water disposal irrigation project is going well. At the palm plantation we already have over 1,500 hectares planted, and will increase this to over 4,000 hectares next year and the plant of reverse osmosis are right now under construction. So, we expect to have it by the first quarter of next year and we will start having those reductions in cost for water disposal.

Another very important news is the Puerto Bahia Terminal. That's going very well. Actually, as you know, we signed with the IFC; that's the World Bank, and we had over 56 percent equity. We have now diluted down to 41 percent. We will report in the fourth quarter, a very important capital gain because we've entered, as promoters of this port with a surprise that is around (inaudible), and as you know, right now, the team with IFC was over above our investment. So, we will be reporting an important capital gain in the Puerto Bahia investment. So, this is going very well. You see in the picture the tanks are nowunder construction and some tanks are ready. We have also a very important, not only the IFC, but the interest of Shell and others, where we have a contract from them for the use of the terminal, and also some very important contracts with Ecopetrol for the use, not only of the pipeline that connects Coveñas to Puerto Bahia and the refinery, but also with the use of the use of the terminal.

And last but not least and then I will pass the presentation to José Francisco, is the LNG project. That LNG project is going very well. We have signed with Gazprom – that is the largest gas company in the world – a very good contract, and actually, it's a heads of agreement where we have a very good price based on Brent. The contract is for five years – 0.5 million tons per year. So, that project is going very well, and is on time and will increase significantly the netbacks of our natural gas. It might, very close to double the netbacks that we have in the present production.

Now I will turn the call over to José Francisco.

José Francisco Arata – President, Pacific Rubiales Energy Corp.

Thank you, Ronald. Good morning to everybody. During the third quarter, the Company continued with its exploration activities in Colombia, Guatemala and Peru, which included the drilling of three exploration wells and the acquisitions and the interpretation of geophysical data, including seismic, aeromagnetic and aerogravimetric surveys. All three of the exploration wells in the third quarter were drilled in Colombia and resulted all in new discoveries. For the first nine months of 2013, the Company has invested $447 million in exploration, consisting of $56 million in seismic, $376 million in drilling and $15 million in other geological and geophysical studies.

Now, regarding the three discoveries in Colombia, the first one is located in the Quifa block, in the southeast prospect. The Quifa QFE-S-1X exploration well was drilled in the northeastern part of the Quifa block and it encountered 8.53 feet of net pay oil in the basal sand unit of the Carbonara formation, and a new discovery from this portion of the block. Production testing of the well is currently underway. Also, we are presently acquiring 721 square kilometers of 3D seismic in the northwestern portion of the block that will help us, not only to continue with the exploration, but also with the development plan of this portion of the Quifa block.

The second exploratory well was drilled in the Cubiro block in the Llanos Basin. The Copa C-1 exploration was drilled in the Cubiro block and encountered 21 feet of net pay in the C-5 and C-3 units of the Carbonara formation; a new pool discovery along the Copa trend. As you recall, we have been drilling in this Copa trend with significant discoveries during the whole year. The well was completed with an initial production rate of 380 barrels per day of 40 API degrees, with a low water cut from the C-5 unit.

The LCI-1X new exploration well was drilled in the lower Magdalena Basin in our La Creciente block. The well exploration encountered 63 feet of net pay and tested gas from the Cienaga de Oro formation at a rate of 13.1 million cubic feet per day, confirming a new commercial gas discovery in this block. An additional potential zone was found in the Porquero Medio formation and this portion will be tested in the next few weeks. In the same La Creciente block, we are presently drilling the LCH-1X exploration well, which just recently reached a TDof 11,200 feet and we are expect to evaluate during the following days.

In the Guama block, also located in the lower Magdalena Basin, the Company commenced the operations to fracture, stimulate and test potential gas and condensate zones in the previously-announced CAPURE-1X exploration well that was drilled last quarter.

Now going to Brazil, the Company is expecting regulatory approval from the Agencia Nacionale to Petroleo Gas Naturale e Biocombustiveisfor the evaluation plan submitted as a part of the ongoing appraisal of the oil discovery made in the Santos Basin earlier this year. The Company expects this approval during this month and plans to drill two wells; one exploratory and one appraisal well in the Kangaroo discovery during the second quarter of 2014. This well, as you can see in the picture, is going to be one to appraise the discovery that will be at the beginning of this year and the other one will be to test the West Kangaroo prospect located on the other side of the prospect. And two contingent wells also is planned to be drilled to appraise the Bilby discovery that it was drilled—the Bilby discovery was drilled immediately after the Kangaroo well.

Now, the Company and its partner, we have various ongoing geophysical operations in the Quifa, CPE-6 and CPO-14 blocks in the southern Llanos Basin, also in the Caguan-5, Caguan-6, Tacacho and Terecay blocks in the Putumayo Basin and also in the Cor-15 and the Muisca blocks, located both in the Cordillera Basin.

Going to Peru, as you know, information in the previous conference, data information, from both the well and the block 158 are currently being used to update an evaluation of the block prospectivity and results of this technical study are expected to be concluded by the first quarter of 2014. In the block 116, in the Santiago Basin of northern Peru, Pacific Rubiales, which is now the new block operator, just finished the preparation for the drilling of the Fortuna 1X well and the rig is currently being mobilized and we expect to start the well during the first days of December of this year.

In the block 135, the Company completed interpretation of the 2013 3D seismic survey and the exploration portation of this block is currently also under evaluation. In the blockZ-1, located on the offshoreTumbes Basin, the Company is completing with the process and interpretation of the 1,442 square kilometres of 3D seismic data. Preliminary exploratory well location has been identified and will be used to support the environmental permitting process that is going to start soon. Also, we'll be integrating all of the Petrominerales exploration activities in the blocks that Ronald previously mentioned within our portfolio of projects fornext year, 2014.

And finally, in Guatemala, we are presently drilling the Balam-1X exploratory well, with the Cretaceous Coban formation as the main exploratory objective. The total depth of this well is 12,650 feet. We expect it to be reached in December. We are presently drilling at 9,300 feet and we hope to be on schedule to reach 3D at the beginning of December.

As you can see, we will have a good flow of news during the fourth quarter coming from the exploration drilling of the 2,000 wells that we plan to drill during the fourth quarter.

And now, I'll pass the presentation to Carlos Perez, our CFO, who will discuss the financial results.

Carlos Perez – Chief Financial Officer, Pacific Rubiales Energy Corp.

Thank you, José Francisco, and good morning, everyone, I will talk about the financial results, as Ronald mentioned at the beginning of the presentation. We had revenues above $1.0 billion, exactly $1.1 billion. These represent a significant increase, an importance increase of $240 million compared with the same period of last year. Year-to-date revenues totaled $3.4 billion and we are approaching the goals for this year and we're expecting to have very good results in the fourth quarter.

Regarding the operating costs, they reached $422 million. Production costs represented 42 percent of this amount but 7 percent went to transport and the big one represented only 9 percent. As Ronald mentioned before, we are embarking in these cost reduction initiatives and the diluent was one of the most important elements of that, and we are now getting those savings in our financials. The remaining OPEX is related to the trading costs mainly and will talk about this later in the presentation. It is important to highlight the G&A. The G&A of $76 million is in line with our estimates and we are keeping a great effort on that G&A expenses. Now, that these represents 1 percent less than last year and it is important to highlight that we are a bigger company but we are not growing our G&A.

The adjusted EBITDA after deducting these costs was $612 million, representing a 55 percent margin, very healthy margin, and the year-to-date EBITDA is $1.9 billion, so we are approaching again, our goal for this year, in 2013. Regarding the DD&A, it was $384 million. Half of this amount is related to the Rubiales field. Now we are evaluating different options to make structural changes to this, as we are evaluating different options of a—as a lease and buyback, figures to optimize our future CAPEX share in Rubiales, and that is something we are evaluating and later, we will have, some news about this which will have an important impact on the DD&A and in the future.

After deducting all these other expenses detailed in the graph, most of them non-cash, we reached a net income of $82 million and the funds flow was $455 million, representing $1.41 per share, very similar to prior quarters of this year. The total year-to-date funds flow is $1.4 billion. It's a significant amount as well, and we are meeting the goals for this year.

Looking at the details of the—of our revenues, as I mentioned before, the total was $1.1, including $41 million in trading. It's important to stress that in the trading, we generated a profit of close to $1.50 per barrel and 11.12 million barrels were sold during the third quarter of this year; 2.2 million barrels more than the volume we sold in the third quarter of 2012; an important increase. This happened despite the one million barrels Pacific Rubiales used for filling the Bicentenario pipeline and for paying the PAP payment, mentioned there before.

Going to the detail of the operating cost, our crude oil sales averaged $103 per barrel, being the highest realized price this year, in the three quarters of this year. The combined price was $97.29 per barrel and the total cost, excluding the oil cost and the over and under lift was $36.84, slightly higher compared with the second quarter of the same period last year and $0.28 lower than the first months comparable with the second quarter this year and $0.28 lower than the same period in 2012.

The crude operating netback, as it was mentioned before, represented a record for the Company, close to $66 and the combined was close to $63. It's important to keep in mind, as Ronald said, in the fourth quarter we are going to capture from this quarter, some important savings from the initiatives we are developing now such as the power transmission power line, the Bicentenario and now, the OCENSA as well is included in this scheme because we will be able to reduce significantly, the transportation cost.

Finally, Pacific Rubiales continues to deliver very strong financial results, as we've seen during the presentation, which are reflected in these key financial ratios, detailed in the table. I want to stress that debt to adjusted EBITDA is less than the one and we are keeping control of our debt, as you had the opportunity to see in the presentation with the EBITDA we are going to generate, we are expecting to keep our ratios similar to this after the Petrominerales acquisition is completed. And the other indicators are very healthy and that means, that the Company has room for growth, for financing organic growth and for for future opportunities.

In summary, Pacific Rubiales is on its way to meet the 2013 goals. Thank you. Now, I think we can open the Q&A session.

Q&A

Operator

This is the conference Operator. At this time, I would like to remind everyone that due to the large volume of callers, we would ask that you keep your question brief and only ask one question maximum to allow others a chance to ask a question as well. You may ask a question or make a comment by pressing star, followed by the number one on your telephone keypad. Again, if you would like to ask a question, please press star and the number one. We'll now pause for just a moment to compile the Q&A roster.

Your first question comes from Nathan Piper with RBC Capital Markets. Your line is open.

Nathan Piper – Analyst, RBC Capital Markets

Thank you and good morning. I've only got one question; I'll try and stick to that. So, given all the progress you're making on LNG, CPE-6, the Petrominerales acquisition and, indeed, the upcoming production increases from Quifa Norte, by my reckoning, you can replace the production you're going to lose from Pacific Rubiales. So, looking out to 2015, is that accurate, that between those four different sources of new production, you can replace the roughly 75,000 barrels a day in after royalty that you're going to lose from Rubiales?

Ronald Pantin – Chief Executive Officer, Pacific Rubiales Energy Corp.

Nathan, I'm sure of that and we have been planning for that. We think that Rubiales will be only around 10 percent of our reserves for the reserve report at the end of the year, and that's due to all the discoveries and also the acquisitions that we have made and the organic growth that we have had in our blocks. Now, we have CPE-6 that, as you know, is a block that could be as important as Rubiales, but a good surprise for us was Rio Ariari. Rio Ariari is something that is very important, as you have seen Petrominerales drilled 30 wells with very good net pays and so we consider that that's something that we'll be able to develop very quickly.

However, I also would have to say that we continue negotiations with Ecopetrol. The idea is to use STAR in the Rubiales field and I'm very optimistic about that. I hope to be able to give some news about this by the beginning of next year, where we will have some sort of new agreement based on secondary recovery for Rubiales. Still, we're in conversations but we think that this is a win-win situation, not only for Rubiales and Ecopetrol but also for Colombia.

Nathan Piper – Analyst, RBC Capital Markets

Can I just check then that you've made a formal request to extend the Rubiales—extend your participation in Rubiales field? I understand from Ecopetrol today in London that they received a formal request from you in March this year. Is that correct?

Ronald Pantin – Chief Executive Officer, Pacific Rubiales Energy Corp.

It's not an extension. What we are doing is we are saying, "Okay, Ecopetrol, you keep your primary production" and what we will do is when we see that all these wells will have higher water cut and in time when they will not be economic, but with STAR, we have proven that at Quifa with the pilot project, we will be able to revive those wells with a very low cost of capital. We have learned enough from the pilot project in Quifa, so we are very optimistic that we are going to get that. It's different—it would be a different contract and it's not going to be an extension.

Nathan Piper – Analyst, RBC Capital Markets

That's clear. Thank you very much.

Operator

Your next question comes from Frank McGann with Bank of America. Your line is open.

Frank McGann – Analyst, Bank of America

Hello, good morning. Just thinking about sales in the fourth quarter next year, last quarter, you had an inventory adjustment or, you know, an issue with sales. This quarter, you've got the sales related to filling the OBC pipeline, as well as the PAP amount. I'm just wondering, how should we think about sales relative to production as we look in the fourth quarter and into next year?

Ronald Pantin – Chief Executive Officer, Pacific Rubiales Energy Corp.

Fourth quarter, it's going to be a very important quarter for the Company. Remember that we expect to close the Petrominerales deal at the end of this month, so we will have to add for December, all the production coming from Petrominerales. Plus, and you know that's very good because we blended up with our heavy oil and selling Castilla that have very good prices nowadays. This quarter, as you mentioned, Frank, last month, we left behind from the second quarter about one million barrels, but we used that for this quarter filling the pipeline; that is only one time that we expect to do that so we don't need to do it again, and we will end up the settlement of the past debt, with the PAP, with Ecopetrol in the first quarter of next year. So, fourth quarter is going to be very strong. We see that our production is growing, and we have to add the production of Petrominerales for one month.

Carlos Perez – Chief Financial Officer, Pacific Rubiales Energy Corp.

Frank, the remaining amount we will pay Ecopetrol is 1.1 million barrels total. We are paying in December and—well, in the full quarter and January, and it's—important for to know about.

Frank McGann – Analyst, RBC Capital Markets

Then it should be about the same amount as you have in the third quarter this year in both of those two quarters?

Carlos Perez – Chief Financial Officer, Pacific Rubiales Energy Corp.

Approximately, yes, approximately.

Frank McGann – Analyst, RBC Capital Markets

Okay. Thank you very much.

Operator

Your next question comes from Paula Kovarsky with ITAU BBA. Your line is open.

Paula Kovarksy – Analyst, ITAU BBA

Hi, guys. I just wanted to check a few things on this deal with Gazprom regarding LNG for the Caribbean. So, as far as we could understand, the plan is to sell the 70 mmcf a day, which is the difference between capacity and production in La Creciente, so the first question is does the deal with Gazprom substitute in any way, any of the markets—any of the target markets in the Caribbean, and if not, what's exactly the total amount of gas sales that you guys forecast from 2015 onwards?

And also, if you could, perhaps give us a bit more colour on what's the status of the sales agreements that you guys might have already signed or intend to sign with those clients sitting in the Caribbean? If I remember correctly, the idea was to substitute diesel for power generation, so perhaps you could also comment on how does that differ with the deal with Gazprom or the indexation to Brent? So just for us to be able to better understand what exactly this potential deal means.

Ronald Pantin – Chief Executive Officer, Pacific Rubiales Energy Corp.

Yes, Paula. What we did, we did a beauty contest between about ten companies that came to bid for that contract and Gazprom had the best conditions and also the highest price. And it's a very good contract so we'll be sending to Gazprom FOB and I don't know where they are going to take that natural gas. They might do it here in the Caribbean or they might sell it to other markets. The contract is based on the Brent, so it's a percentage of Brent, and we are really very enthusiastic. We have the most important natural gas players in that beauty contest and we are very pleased with the result of that bidding process.

Paula Kovarsky – Analyst, ITAU BBA

So just to make sure I got it, so Gazprom is going to be the off-taker of the entire production of the FSU, is that correct? So PRE is not going to sell directly into the Caribbean clients, is that right?

Ronald Pantin – Chief Executive Officer, Pacific Rubiales Energy Corp.

That is right. That contract will be 100 percent of our production and it's going to beFOB. We will it sell it to Gazprom and they will sell it in the market.

Paula Kovarsky – Analyst, ITAUBBA

Okay and then if I could just do a quick follow-up question on sales for the coming quarters, you mentioned the importance of Petrominerales and the additional production, so if you could perhaps helps us understand how much of the production of Petrominerales you intend to sell and how much of the production goes into the idea of reducing diluents costs, just to help us forecast sales?

Ronald Pantin – Chief Executive Officer, Pacific Rubiales Energy Corp.

All will be sales when you blend it —in Colombia, we just can sell into two commercial benchmarks. One is Castilla and the other one is Vasconia, so we will be blending the Petrominerales crude into those segregations, either in Castilla, that, we sell Castilla; that is a blending of Rubiales with the light crude, or either Vasconia; that is also blending Rubiales and Quifa with light crude but in a higher amount. Castilla is 18.5 degrees API blend and Vasconia is 24 degrees API blend. We will be playing with that, with the margins. Sometimes it's very good to sell Castilla and other times it's better to sell Vasconia, and now we have the operational capacity to go one way or the other.

Paul Kavorsky – Analyst, ITAUBBA

Okay. Thank you.

Operator

Your next question comes from the line of Caio Carvalhal with JP Morgan. Your line is open.

Caio Carvalhal – Analyst, JP Morgan

Thank you. Hi, good morning. I'd like to understand a little bit about the strategy behind the spinoff of the midstream assets. In the release you mentioned that you expect from the short term the sale of the 5 percent of the OCENSA pipeline you bought from Petrominerales and, at the same time, we see in the presentation that you plan to spin off $1.2 billion to $1.4 billion of the remaining assets, so my question here is twofold. One of them is why OCENSA is being dealt outside of the spinoff transaction, what is the rationale behind it? And second, how did you get this $1.2 billion to $1.4 billion estimate? Is this your own in-house assumption, or are these are based on some independent or third party opinion? And that's it, thank you.

Ronald Pantin – Chief Executive Officer, Pacific Rubiales Energy Corp.

Okay. In the case of OCENSA, that's something we have been approached by different firms and we like the numbers that we have seen but we cannot do anything until closing for Petrominerales, and the idea is to sell the equity and transportation rights but keeping under an agreement, a long-term agreement, the capacity for Pacific Rubiales use, and that's something that will happen almost immediately after closing with Petrominerales.

In the case of the remaining of assets that we have, the numbers that you have there between 1.2 and 1.4 is the total value of the assets, and that's a number that has come from the valuations that we had done internally, and we are planning to go for a private placement for 40 percent of that. It's not that we are going to be selling 100 percent of that; it will be 40 percent of that and so suppose that if, let's say 1.2 or 1.4 billion, so 40 percent of that we'll be able to monetize and also to keep on the special purpose vehicle that we will have for the midstream. So t in the case of Petrominerales, we will sell immediately the—that 5 percent and that, the idea is to reduce the debt on the acquisition, and we have seen very good numbers; and in the case of the midstream spinoff, it's mainly to add more value to our shareholders. As you know, the multiples that midstream companies have to cash flow are much better than the multiple that E&P companies have nowadays.

Caio Carvalhal – Analyst, JP Morgan

Okay. Thank you.

Operator

Your next question comes from the line of Diego Usme with Ultrabursatil. Your line is open.

Diego Usme – Analyst, Ultrabursatil

Good morning and thank you for taking my call, I have two questions. The first one is related with the slide number 24, in which you talk about exploration activity. It shows your forecast for the last quarter in CPE-6 is six wells forecasting exploration, but I have a little doubt between that information, and plus what you said in the press release, you say that you are expecting just one exploration for CPE-6 for the rest of the year.

And the second one is about the arbitration that Petrominerales has with ANH. Are you going to assume then the possible arbitration with around $2320 millions of these projects?

José Francisco Arata – President, Pacific Rubiales Energy Corp.

Okay, Diego, let's start with the exploration activity in CPE-6. As we mentioned, we plan to drill six wells, and we are ready to move the rigs. We're preparing all the logistics in order to achieve that. Initially, there will be three rigs but we plan to bring more rigs in order to expedite the exploration activity. Among these six wells there will be one exploratory well, so the—what we mentioned is one well versus the six wells is that the other wells are going to be appraisal wells; in some cases, we're going to do the entries of some of the wells that were previously drilled but were not tested. So our idea is to try to expedite testing some of the wells that were drilled previously and drill some appraisal wells in order to move the probable reserves that we booked previously there into the proven category and drill one exploratory well in order to test a new anomaly, one of two that we haven't drilled yet.

In regards to your other question Ronald is going to answer it.

Ronald Pantin – Chief Executive Officer, Pacific Rubiales Energy Corp.

Okay, in the arbitration process between the ANH and Petrominerales, it's a matter of an interpretation—if it pass, it will be applied to the blocks or the oilfields. That is not only a problem for Petrominerales but for all the companies here in

Colombia. We think that the interpretation of Petrominerales is the right interpretation and I think what's going to happen and actually is happening right now, there will be some sort of a negotiation, but it's an industry problem; it's not a Petrominerales problem. So if you see the contracts with ANH, you will see that it states that when you reach over five million barrels in an oilfield, then you start paying the PAP. The interpretation says that it's on the block but in the contract, it says very clearly that it is on the oilfield.

Diego Usme – Analyst, Ultrabursatil

If you let me—can you give me a little bit explanation about CPE-6 first. My first question is, are you are still expecting to produce around 3,000 barrels per day with that exploration campaign?

José Francisco Arata – President, Pacific Rubiales Energy Corp.

We will be moving those targets into the first quarter next year. As Ronald mentioned, we had a delay in receiving the license and, therefore, with that delay, we won't be able to have, that target of 3,000 barrels per day by the end of the year, but that target will move it to next year in the first quarter.

Diego Usme – Analyst, Ultrabursatil

Okay. Thank you.

Operator

Your next question comes from the line of Marcus Sequeira with Deutsche Bank. Your line is open.

Marcus Sequeira – Analyst, Deutsche Bank

Thank you. Good morning. Just one question about transportation costs during the quarter. They were a bit higher than what you guys had expected back in April. I just wanted to know the reason, and also if you—since the end of the quarter, if you've seen an increase in pipeline disruption because of any attacks? Thank you.

Ronald Pantin – Chief Executive Officer, Pacific Rubiales Energy Corp.

Okay. Yes, as I mentioned before, we had an agreement with Talisman and Total for the use of OCENSA, and we had that in the—part of the first quarter and the second quarter but we didn't have it in the third quarter. So due to that, and we didn't have the Bicentenario pipeline ready, we had to truck oil to the coast, and that's why we have an increase in the transportation cost. However, now we have two very good things that are structural changes for the Company. One is the Bicentenario; it's now operating, and as I mentioned before, we have already have a cargo coming from Bicentenario and that's operating normally, and we have additional capacity, around 30,000 barrels more coming from the transaction of Petrominerales for their share in OCENSA. So now, in the fourth quarter, we are using Bicentenario, and after closing on the end of this month, the closing with Petrominerales, we will have that additional capacity coming from OCENSA. So you will see that we will not be transporting more oil using trucks to the coast, so then you will have a significant reduction in cost, even lower than in the second quarter of this year.

Regarding the bombing of pipelines, remember, we have never had a problem in OCENSA or the ODL, or to Bicentenario to the Colombia, and we have not ever, from the beginning of this Company, delayed any cargos due to bombing of pipelines.

Marcus Sequeira – Analyst, Deutsche Bank

Perfect. Thank you very much.

Operator

Your next question comes from Justin Anderson with Solomon Partners. Your line is open.

Justin Anderson – Analyst, Solomon Partners

Yes, hey, guys. I just was hoping to have you speak to Quifa production in the quarter, Quifa's southwest production and Cajua, they were down slightly quarter-over-quarter, and also just wanted to get some guidance on those fields over the next 12 months, where you see them going. And then the second question is just on the total cost of the exploration well on Block 138 that was drilled in Peru.

Ronald Pantin – Chief Executive Officer, Pacific Rubiales Energy Corp.

Okay, I will answer on the production of Quifa. Quifa's growing. Quifa's producing more than 50,000 barrels per day now and it's growing. Now north Quifa as you know, we call Cajua, it's increasing production every day, and also, as you know, we've made—we bought the 50 percent of Sabanero; that is also increasing because we are using different production techniques to get the oil out. So you will see, from Quifa southwest, from the Cajua, that is Quifa north, and from Sabanero an important increase, even for next year, but this year, we will see some of that.

José Francisco Arata – President, Pacific Rubiales Energy Corp.

And regarding the cost of the wells, the Yahuish well, it was in the order of $60 million.

Justin Anderson – Analyst, Solomon Partners

Okay, and just—appreciate that, but just on the decline, or the slight drop in production, is that anything—you're expecting that production to come back and grow from here?

José Francisco Arata – President, Pacific Rubiales Energy Corp.

Decline in where, Justin?

Justin Anderson – Analyst, Solomon Partners

Oh just—sorry, Cajua and Quifa southwest, production was just down a little bit from Q2.

José Francisco Arata – President, Pacific Rubiales Energy Corp.

No, right now, as I mentioned, it's up. Right now, we are producing more from Quifa. It's a record production. We are over 60,000, almost 61,000 barrels, at this moment.

Justin Anderson – Analyst, Solomon Partners

Right, okay. So today, you're producing that.

José Francisco Arata – President, Pacific Rubiales Energy Corp.

Yes.

Justin Anderson – Analyst, Solomon Partners

Okay, that's it. Thanks.

Operator

Your next question comes from the line of David Popowich with Macquarie. Your line is open.

David Popowich – Analyst, Macquarie

Yes, I just had a question on STAR. Just referring to slide 15 in your current presentation, you say 2P reserves can now be booked at STAR. Is there anything really preventing you guys from booking reserves, for at least part of Quifa at the end of this year? And just as a follow-up to that, I was just wondering what recovery factor is ?

José Francisco Arata – President, Pacific Rubiales Energy Corp.

Yes, David, as you know, we had three different independent parties checking the oil in place and certifying the oil in place in the pilot area in the pilot area in the Quifa block, so therefore, with that information, we'll be able by the year end with our independent certifiers, to certify these additional reserves since we have been producing more than double what has been estimated, as you recall, so we'll be able to add those kind of reserves in the pilot area, and then we will start extrapolating for the rest of the block according to what's going to be the developing commercial plan for the application and the implementation of STAR with the rest of the block. You are going to see year-over-year an increase in the reserves by the way we start implementing commercially STAR in Quifa, so therefore, it's not going to be one chunk of increasing reserves but it's going to be gradually year-over-year that you will start to see an increase due to secondary recovery in the Quifa field.

David Popowich – Analyst, Macquarie

All right, and then just generally speaking, what is the recovery factor that the Quifa field is currently booked on?

José Francisco Arata – President, Pacific Rubiales Energy Corp.

It's based on 14 percent.

David Popowich – Analyst, Macquarie

Okay, thank you.

Operator

Your next question comes from the line of Daniel Guardiola with Larrainvial. Your line is open.

Daniel Guardiola – Analyst, Larrainvial

Hi, guys. Thank you for the call. I have a couple of questions. First of all, regarding the STAR technology and its implementation large scale in Quifa. I do understand you guys need to change details of the actual producing licence, and I would like to know if you could please share with us your expected timing for the approval of this change in the term of the licence?

My second question is regarding the tax rates, because, during the last two quarters, we have seen very high implicit tax rates, and I would like to know what kind of measures you are putting in place to actually reduce these high tax rates. Thank you.

Ronald Pantin – Chief Executive Officer, Pacific Rubiales Energy Corp.

We don't need a new license for Quifa. What we need is a change, a minor change for that. Remember that in the case of STAR, we use the same wells. We use the same facilities, so we don't have any impact on the environment, and we are using also several plants to treat the gases that come from the wells. However, we need a minor change that now is allowed into the Colombia new regulations, so it will be something that we can do probably very, very easily.

Then Carlos Perez is going to answer you about the tax.

Daniel Guardiola – Analyst, Larrainvial

Yes, sorry, and do you have any expected timing regarding the change in the terms of the license?

Ronald Pantin – Chief Executive Officer, Pacific Rubiales Energy Corp.

Let me tell you, right now, we are—in addition to the pilot project, some neighbouring wells that we have seen a reaction on STAR and that's something that we'll be doing, and then after—with Ecopetrol, we see the final results, we will put a program for the commercial development using STAR in Quifa, and in one of the steps is just that, to ask for this final change, I would say, with the Quifa environmental license.

Carlos Perez – Chief Financial Officer, Pacific Rubiales Energy Corp.

Regarding tax, as you know, the real rate in Columbia is 34 percent, and in Canada, it is roughly 27 percent. Our effective tax rate is higher than that and the main reason is because we have some expenses abroad - are not deductible here in Colombia, but what we are doing is we moved some of the holding companies, intermediate holding companies from Panama to Switzerland with a super holdco in Luxembourg in order to take advantage and to get some additional deductible amounts. That is now completed, and the main reason we picked Switzerland is they have an income tax treaty and now we are going to be able to deduct some expenses spent or executed abroad. For instance, all the interest payments to the bondholders, they're not deductible now. For the first time, in the fourth quarter, we are going to deduct some amounts of that and we expect to do more and more like this in order to reduce this effective rate in the future.

Daniel Guardiola – Analyst, Larrainvial

Okay. Thank you, guys.

Operator

Your next question comes from the line of Sebastian Gallego with Corredores Asociados. Your line is open.

Sebastian Gallego – Analyst, Corredores Asociados

Hi, thanks for the presentation. I just have one question on cost of operations. We have been seeing that costs are growing higher faster than revenues and given then some of the projects have had some delays, especially like the water treatment and PEL, if I'm correct, when can we expect that cost of operations are going to reduce the pace of growth? Thank you.

Ronald Pantin – Chief Executive Officer, Pacific Rubiales Energy Corp.

Okay, Sebastian, as I mentioned before, the electric line is getting into Rubiales and Quifa in a couple of weeks and when we use that, the efficiency coming from hydro will result in a saving of around 50 percent in the case when we use Rubiales crude and over 80 percent when we use diesel oil, and remember that 40 percent of our production cost is energy, so we will have an important saving.

And then for the water disposal, we are planning to have the reverse osmosis plants ready in the first quarter of next year and the saving will be, instead of disposal, we have right now, in the order of $0.30 per barrel of water that will be reduced to $0.14 per barrel of water. So we will see a very important decrease in—and a structural decrease in the production cost.

Sebastian Gallego – Analyst, Corredores Asociados

All right. Thank you.

Operator

Your next question comes from the line of Laura Salamanca with Helm. Your line is open.

Laura Salamanca – Analyst, Helm

Good morning. Thank you for the call. My questions have been answered, thank you.

Your next question comes from the line of Pedro Medeiros with Citi Group. Your line is open.

Pedro Medeiros – Analyst, Citi Group

I actually had three quick questions. The first one is on the spinoff plan for Pacific Infrastructure. Is the plan for that going to be a secondary or a primary equity sale, and depending on that format, is there a chance that we would see an increased dividend or an extraordinary dividend on the back of that sale?

Secondly, can you talk more about the plans for commercial scale cast for storing at Quifa southwest? Is the plan for—to deploy another cast in one cluster, or should we see multiple clusters being deployed in 2014?

And lastly, on exploration, can you give us a little bit more colour on Quifa Prospect S in terms of perhaps unrisked and risked volumes estimate?

Carlos Perez – Chief Financial Officer, Pacific Rubiales Energy Corp.

Well, regarding the first question, some clarification because we are not going to spin off Pacific Infrastructure it is Pacific Midstream. Pacific Infrastructure is apart from the spinoff. What we are planning is to spin off Pacific Mid-steam, which has an interest in ODL, PEL and Bicentenario, and in this first step, what we are planning is to have a private equity transaction. In the future something that will be happening in two or three years, we will have the opportunity to go to the market, to the capital market, but not for the time being. Pacific Infrastructure could be incorporated after completion of construction, but that is something that has to be discussed among the partners.

Regarding the dividend, well, that is something we will have to present to the Board. We don't have any proposal yet. Talking about this additional gain, for this transaction and mentioned by Ronald with IFC. That is something that has to be submitted to the Board for concideration and authorization.

Ronald Pantin – Chief Executive Officer, Pacific Rubiales Energy Corp.

Okay, on the clusters for Quifa and STAR, the way that we are working that is we have some central production facilities for STAR. In those facilities, we have the tank, , compressors and the plants the start of plans to treat the gases. So what we do is that we have that plant and then we have all these clusters that are around these plants, and from there, we send the gas, the air that we injected and we'll receive in this central processing facility for STAR, we'll receive all the crude and natural gases. So the way that we have developed this is a centralized facility for the compressing and for the treating of oil and natural gas, and then the clusters are the same clusters that we have right now in Quifa. We don't have to re-enter the wells. What we might have to drill some slim holes for the monitoring of the power plant.

José Francisco Arata – President, Pacific Rubiales Energy Corp.

Regarding your exploration question about the Quifa S exploratory well, we plan to drill an appraisal well starting at the beginning of next year; however, keep in mind that this is a new area which is located in the same trend from Sabanero to Quifa southwest. We haven't booked any reserves associated to this prospect previously and, therefore, the preliminary analysis that we're doing, we estimate that the potential reserves related to this prospect could be in the order of 20 million to 30 million barrels of oil, but we need to drill then the appraisal wells in order to complete the evaluation of the prospect.

Pedro Medeiros – Analyst, Citi Group

Okay, thank you.

Operator

Your next question comes from the line of David Dudlyke with Dundee Capital Markets. Your line is open.

David Dudlyke – Analyst, Dundee Capital Markets

Okay, good morning. Yes, my question was regarding operating cost. You've got this target of a $8.00 per barrel reduction in your oil operating costs. I look at the third quarter costs and they're in the $37 per barrel range, whether I look at the core costs or include other and overlift, not much unchanged from that of average the full year 2012. Within that, I see you've made dramatic and substantial reductions in your diluent costs, and obviously, those have been offset by increases in production and transportation. I then look at your slide 20 and I look at what you hoped to deliver in terms of power cost reductions and water disposal, and so I guess my question's quite simple. Given the dramatic reduction in diluent cost to date, how much further capacity is there to deliver against your $8.00 target give that, on an overall basis, you're more or less in line with that of last year?

Ronald Pantin – Chief Executive Officer, Pacific Rubiales Energy Corp.

Okay, David. Yes, when we said the pro forma $8.00, it was for a total cost; it was not only for production cost. We have been able to reduce significantly the cost of the dilution, as you know, and we will continue reducing that. Probably in the fourth quarter, it will be around—less than $2.00, and that's for the use of light crude instead of natural gasoline. Transportation cost we'll also be reducing because now we have the pipeline capacity coming from Petrominerales form OCENSA, plus the transportation capacity that we have in the Bicentenario pipeline, and with that, we will not truck oil to the markets, to the coast anymore. So again, there, we will have an important reduction in transportation cost.

And then in production, we will have in the order of $3.00 per barrel reduction and--$3.00 to $4.00 per barrel reduction based on energy. Remember that, as I mentioned before, 40 percent of the production cost is energy and we have a reduction, a very important reduction of 50 percent of the energy that we use, we have a saving of 50 percent and the other 50 percent, we have a saving of 80 percent. And then on top of that, for next year, we will have then the water disposal cost, that right now to inject the water into the reservoirs and we need approximately $0.30 per barrel of water, and in this case, we will be using only $0.14 per barrel of water. So we think that with the $8.00 pro forma that we mentioned, we're going to see it with no problem, but remember, it's not only in the production cost; it's also from the total cost.

David Dudlyke – Analyst, Dundee Capital Markets

Okay, and so you're confident delivering that against $8.00 despite the sort of—the creeping increased cost of water—dealing with water separation and—because you're going to have increased water cuts.

Ronald Pantin – Chief Executive Officer, Pacific Rubiales Energy Corp.

We will have increasing water cuts but we will have a very important reduction in energy and also a very important reduction in water disposal.

David Dudlyke – Analyst, Dundee Capital Markets

Okay. Well, just one quick follow-on question. If we're looking at Q4 specifically rather than next year, how much of that cost reduction do you think you can recognize in the fourth quarter against the $37?

Ronald Pantin – Chief Executive Officer, Pacific Rubiales Energy Corp.

Okay. As I mentioned, the electric line is probably the most important thing that we have. That will be in the operational at the end of this month, and so we will have only one third of that saving, but we will in transportation cost a very important saving because in the fourth quarter, we have Bicentenario almost from the very beginning, and for December, we will have also the additional capacity coming from Petrominerales and OCENSA. So—that will be an important thing.

The other thing is we are also reducing the purchase of natural gasoline. With the acquisition of Petrominerales, we have more light crude and we expect to reduce the dilution cost to less than $2.00 for this quarter.

David Dudlyke – Analyst, Dundee Capital Markets

Great. Okay. Thank you very much.

Ronald Pantin – Chief Executive Officer, Pacific Rubiales Energy Corp.

Thank you, David.

Operator

Our next question comes from the line of David Popowich with Macquarie. Your line is open.

David Popowich – Analyst, Macquarie

Yes, thanks, guys. I just had follow-up question about transportation costs. I mean, if I just do the simple math, adding up your guys' various pipeline capacity, I don't see how we can get to kind of 120,000 barrels a day of transportation capacity on your pipeline, so I'm just wondering if it's realistic to expect, you know, zero truck production in 2014.

Ronald Pantin – Chief Executive Officer, Pacific Rubiales Energy Corp.

Yes. Okay, we have right now—in OCENSA, the agreement that we have originally was 60,000 barrels. With Petrominerales, we're adding 30,000 barrels more, and with Bicentenairo, we have forty three percent more of 120,000 so it will be around 50,000 more. So we have around 140,000 plus transportation capacity by pipeline that the cost is in order of $12 compared to $20 to $25 if we use trucks.

David Popowich – Analyst, Macquarie

And so the 60,000 barrels a day on OCENSA, that is after you guys have ended the Total and Talisman deal then?

Ronald Pantin – Chief Executive Officer, Pacific Rubiales Energy Corp.

Yes, yes. That's it the one that we have from many years ago. We have 60,000 of OCENSA but remember that we have been transporting through OCENSA with this agreement that we have with OCENSA and we bought capacity back in 2009.

David Popowich – Analyst, Macquarie

Okay, and when does that agreement terminate, or is that indefinite?

Ronald Pantin – Chief Executive Officer, Pacific Rubiales Energy Corp.

That's an agreement that ends in 2016 and—but it can be renewed.

So we do not see any problem with that.

David Popowich – Analyst, Macquarie

Okay, thank you.

Ronald Pantin – Chief Executive Officer, Pacific Rubiales Energy Corp.

So David, we are the only company that has extra capacity, transportation capacity by pipeline, and we'll be using that for trading since we can buy crude with very good discounts and then with that, we'll be able to also add some value through trading.

David Popowich – Analyst, Macquarie

Okay. Thanks, Ronald.

Operator

Your next question comes from the line of Omar Escorcia with Asesores en Valores. Your line is open.

Omar Escorcia – Analyst, Asesores en Valores

Good morning. Thank you for the call. My question is very simple. I just would like to know what is the latest update that Ecopetrol has in the STAR project in order for them to evaluate your proposal on the extension of the operations contract? Thank you.

Ronald Pantin – Chief Executive Officer, Pacific Rubiales Energy Corp.

Okay. Ecopetrol is our partner and they're our partner in Quifa, and they have all the information. I'm going to tell you more or less that—what we have as a group, as a team, Ecopetrol and us, what results we have. The most important thing is that we have more than double the recovery factor. Another thing that is important is that we have been able to harness the fire front, so we can move the fire front. Another thing is that we have been able to reduce the water cut or, in some cases, to stop increasing the water cut.

We have had also some operational problems that we're solving, problems, for example, with a metallurgical wells when this was in the inner wells, getting to the power plant that we will need to change the steel because it's at very high temperatures. Remember that those are the monitoring wells that we've been drilling in every cluster, so those wells we will have to drill in every cluster that we'll be using different type of steel. And also, we had a problem with some emulsions that we are also solving. so we have had some operational problems that we are solving or we have solved, but the most important things is the doubling results, doubling the recovery factor. The other thing is that maneuvering the power plant where we can switch all the reservoirs and the reduction in water cut and increasing production.

Omar Escorcia – Analyst, Asesores en Valores

Thank you very much.

Operator

Your next question comes from the line of Sergio Conti with Goldman Sachs. Your line is open.

Sergio Conti – Analyst, Goldman Sachs

Thanks, Ronald. Thanks, José Francisco. Just two very quick questions, the first one on CPE-6. If I understood you on the call, you mentioned a target or a reference for the beginning of the year of production at CPE-6 of 3,000 barrels per day and the initial activities in the area with three wells. My question is, I don't know if you can provide it at this moment, but if you can reference for the exit of 2014 the number of production wells that expect you expect in CPE-6 by year end 2014? That's the first one.

The second one is about Peru, we've been seeing the production at Z-1 pretty much stable for the past two years, since you acquired the asset, and so my question is how should I think about your offshore production in Peru for 2014 and 2015? In your release you are informing that you have just filed for additional regulatory approvals, environmental approvals to start drilling in the area, so should I assume it is still stable for 2014 and potentially going up in 2015 onwards; in other words, how you are seeing Peru offshore production? So these are the two questions. Thanks.

José Francisco Arata – President, Pacific Rubiales Energy Corp.

Okay, let's start with CPE-6, Sergio, and we cannot provide yet the guidance for the production for next year. We're still working on the development plan for CPE-6, how many wells we're going to drill and what kind of production we're going to get, for sure by the year end, we will come out with the corporate guidance for our whole production. We will have a better number on how much production we're going to expect by the exit of next year in CPE-6. However, we had a plan already that we are discussing with our partner to at least drill 20 development wells in the area, but again, we're still discussing the budget for next year in the development program, and as soon as we get the number and the guidance for next year, we will provide you with that number.

Ronald Pantin – Chief Executive Officer, Pacific Rubiales Energy Corp.

Sergio, regarding the Z-1 block in Peru, as you know, we had a problem with the CS-15 platform when we got there). It had some design problems that were solved. Right now, we already drilled one well from the CS-15. It's producing and increasing production. It's over 600 barrels but we estimate that it could go up to between 800 and 1,000 barrels per day. We are right now drilling an oil well in Albacora on the oil platform. We expect to have that well producing by December, and we are now drilling the second well in Corvina in the CX-15. So we expect to have, by the end of this year, in the order of 5,000 barrels coming from Z-1. From there, we will be drilling two wells at a time, one from Albacora and one from CS-15, and the drilling campaign will stay during the whole 2014, so we will see important increases in production in the Z-1 block.

Also, as you mentioned, we are also asking for some expedited permits to drill in the Piedra Redonda and also in the other exploration prospects. They are looking very good and we are looking for rigs to drill those wells.

Sergio Conti – Analyst, Goldman Sachs

Just a follow-up. When you provide reference of 5,000 barrels per day, you are talking about your 49 percent share or 100 percent?

Ronald Pantin – Chief Executive Officer, Pacific Rubiales Energy Corp.

One hundred percent.

Sergio Conti – Analyst, Goldman Sachs

Okay. Thank you.

Operator

There are no further questions at this time. Please go ahead, Mr. Pantin.

Ronald Pantin – Chief Executive Officer, Pacific Rubiales Energy Corp.

Thank you very much. We have an E&P company with the largest growth internationally. Again this year we expect growth of around 30 percent, which we already saw in this quarter and what we expect as we go through the fourth quarter.. Approximately 30 percent growth in all the financials and in production, for a company our size, is very important.

Next year, we will also have all the additions from the acquisition of Petrominerales that, as I mentioned before, is not only what Petrominerales has and the new discovery, but also Rio Ariari that we see as a very important block. Also, we have now CPE-6, so we see that the Company will continue its trend of increasing growth similar to previous years. The Company is here to grow and will be growing next year, mainly through organic growth. We have enough blocks to concentrate on that, and we have also been very aggressive adding value to the Company, using for example, the financial engineering in the case of our assets, transportation assets and infrastructure assets. So our confidence on the fundamentals of the Company couldn't be better.

Thank you very much.

Operator

This concludes today's conference call. You may now disconnect.