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PACIFIC RUBIALES ENERGY CORP.
MANAGEMENT DISCUSSION AND ANALYSIS
November 8, 2012
Form 51-102 F1
For the three month period ended September 30, 2012

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 31.

This MD&A is management’s assessment and analysis of the results and financial condition of the Company, and should be read in conjunction with the accompanying interim condensed consolidated financial statements for the third quarter of 2012, and the 2011 audited annual consolidated financial statements and related notes. The preparation of financial information is reported in United States dollars and is in accordance with International Financial Reporting Standard as issued by the International Accounting Standard Board (“**IASB**”) unless otherwise noted. All comparative percentages are between the quarters ended September 30, 2012 and September 30, 2011, unless otherwise stated. The following financial measures: (i) EBITDA; (ii) funds flow from operations; and (iii) adjusted net earnings from operations, as referred to in this MD&A, are not prescribed by International Financial Reporting Standards (“**IFRS**”) and are outlined under “Additional Financial Measures” on page 29. All references to net barrels or net production reflect only the Company’s share of production after deducting royalties and the partner’s working interest. A list of abbreviations for oil and gas terms is provided on page 34.

In order to provide shareholders of the Company with full disclosure relating to potential future capital expenditures, we have provided cost estimates for projects that, in some cases, are still in the early stages of development. These costs are preliminary estimates only. The actual amounts are expected to differ and these differences may be material. For further discussion of the significant capital expenditures, see “Capital Expenditures” on page 17.

References to ”**we**”, “**our**”, “**us**”, “**Pacific Rubiales**”, “**PRE**”, or the “**Company**” mean Pacific Rubiales Energy Corp., its subsidiaries, partnerships and joint venture investments, unless the context otherwise requires. The 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, SIMEV at www.superfinanciera.gov.co/web_valores/Simev, BOVESPA at www.bmfbovespa.com.br and on the Company’s website at www.pacificrubiales.com. Information contained in or otherwise accessible through our website does not form a part of this MD&A and is not incorporated by reference into this MD&A.

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

2. Third Quarter Highlights

The Company continues to focus on implementing its defined strategy: meeting challenging operational goals and pursuing its ambitious exploration and production ("**E&P**") program, while delivering sustainable and profitable growth. As part of this strategy, a new and more robust company is beginning to emerge, not only from tackling the challenges of growing production from its existing fields in Colombia and building on the success of its exploratory program, but also through the strategic acquisition of new and promising assets. During the third quarter of 2012, the Company continued its expansion within Colombia and internationally by acquiring PetroMagdalena Energy Corp. ("**PetroMagdalena**") as well as interests in the offshore Brazilian assets of Karoon Gas Australia Ltd. ("**Karoon**") and the onshore Portofino block in Colombia of Petrolera Monterrico S.A. Sucursal Colombia ("**Petromont**").

Highlights of the Company's activities during the three months ended September 30, 2012 include:

- **Production Growth**. During the third quarter of 2012, the average net production after royalties in Colombia and Peru totaled 97,142 boe/d (243,820 boe/d total field production). In Colombia, average net production reached 95,748 boe/d (240,975 boe/d gross field production). Net production in Colombia has increased by 10% year-over-year, driven by more than 185 development wells drilled mainly in the Rubiales and Quifa SW fields, and the acquisition of PetroMagdalena. For further details with respect to how the Company's average daily production has been calculated, please see the section entitled "Production" starting on page 12.

  In Peru, average net production reached 1,394 bbl/d (2,845 bbl/d total field production) coming from the acquisition of a 49% participating interest in Block Z-1, effective January 1, 2012. Revenue and production from Block Z-1 will be recognized and adjusted as of the effective date, upon final closing of the transaction, which is subject to approval of the Peruvian authorities. The application for this approval has already been submitted and is being processed.

  Production in Colombia and Peru continues to grow, averaging 104,300 boe/d net production after royalties in the fourth quarter to date. As of November 6, 2012, production net after royalties reached aproximately 109,000 boe/d (270,000 boe/d gross field production), a 12% increase from the average net production reported for the third quarter of 2012.

- **Water Injection License for the Rubiales Field**. During the first half of 2012, the Rubiales field had an environmental permit for water disposal of up to approximately 1.9 million barrels of water per day (most of them re-injected to the subsurface), but which restricted the capacity to raise oil production. On August 8, 2012, the Company was granted a permit to inject an incremental 400 thousand barrels per day, which will allow the Company to expand total field oil production to a target of 190 Mbbl/d by the end of the year. A permit for an additional one million barrels per day is expected to be received during the fourth quarter of 2012, which will allow additional production growth going into 2013. Once the Company received the environmental permit to inject 400 thousand barrels per day, total gross production for the Rubiales field increased from 171,871 bbl/d, reported during the third quarter of 2012, to a current production of 188,180 bbl/d.

- **Strong Revenue Generation**. The Company increased revenues to $870 million ($2.84 billion for the nine months of 2012) compared to $828 million in the same period of 2011($2.37 billion for the nine months of 2011). Consolidated net earnings for the third quarter of 2012 were $69 million or $0.23 per common share, compared to $194 million, or $0.71 per common share during the third quarter of 2011; this is attributable to higher general and administrative expenses relating to the asset acquisitions, noncash losses on hedge contracts and losses on equity-accounted investments. Adjusted net earnings from operations before non-cash items for the third quarter of 2012 were $131 million compared to $163 million in the third quarter of 2011.

- **EBITDA and Cash Flow Continue to Grow**. EBITDA for the third quarter of 2012 totaled $483 million ($1.59 billion for the nine months of 2012), compared to $464 million for the same quarter in 2011 ($1.39 billion for the nine months of 2011). EBITDA for the third quarter of 2012 represented a 56% margin on total revenues for the period. Funds flow and cash flow from operations increased to $348 million and $418 million respectively, compared to $350 million and $305 million in 2011.

- **Improved Operating Netbacks**. Crude oil operating netback during the third quarter of 2012 remained strong at $64.70/bbl, 15% higher in comparison to the same period in 2011 ($56.12/bbl). Combined oil and gas netback was $61.42/bbl, 14% higher in comparison to the third quarter of 2011 ($53.68/bbl).

- **Commerciality of the Cajúa field and Extension of the Exploration Period in the Quifa North Block**. On August 15, 2012, the Company received commerciality approval from the Quifa Association Executive Committee, for a portion of the Quifa North block, to be called the Cajúa field.

- **Credit Agency Upgrade**. On October 31, 2012, Fitch Ratings raised its corporate credit rating to "BB+" from "BB". They also raised their rating on the Company´s senior unsecured notes to "BB+". Fitch also indicated that the Company's outlook is stable, citing the Company's continued production and reserves diversification, proven track record of increasing production, maintaining adequate reserve replacement ratios, and the lower business risk as a result of the completion of key infrastructure projects.

- **Positive Results in Colombia exploration drilling**. During the third quarter of 2012, exploration capital expenditures were $63 million and consisted of drilling a total of eight exploratory wells (seven appraisal and one stratigraphic), of which seven were successful. The year-to-date drilling success rate is 84%, as a result of drilling 49 exploration wells, 41 of them successful.

- **New CX-15 Corvina Platform at Block Z-1, Peru**. On September 25, 2012, the CX-15 platform was anchored at the West Corvina field location, one mile south of the existing CX-11 platform in offshore northern Peru. This platform will allow the development of 23 MMbbl of proved reserves at the Corvina field. Drilling of the first of the 24 planned wells will commence once the applicable environmental permits are granted by the Peruvian regulatory authorities. The Company's partner BPZ Resources, Inc. ("**BPZ**") is the operator of record for the block, while Pacific Rubiales has assumed the role of technical operations manager pursuant to an operating service agreement.

- **Total capital expenditures**. Capital expenditures during the third quarter of 2012 totaled $363 million ($277 million in 2011), excluding acquisitions. $133 million were invested in the expansion and construction of production infrastructure; $63 million went into exploration activities (including drilling, seismic, other geophysical activities) in Colombia, Peru and Guatemala; $55 million on surface facilities; $87 million for development drilling; and $25 million in other projects, including the Company´s Synchronized Thermal Additional Recovery ("**STAR**") pilot project at Quifa SW.

- **Portofino Acquisition.** On July 23, 2012, the Company entered into a participation assignment agreement with Petromont to acquire a 40% participating interest in the Portofino block, onshore Colombia. The transaction consists of a $23.5 million cash payment for past exploration costs, a $2.2 million carry of obligations related to an approved exploration work program, and an additional carry obligation to finance certain facilities and other activities required for the development of the block of up to $45 million. This carry obligation will be recovered from proceeds of production.

- **PetroMagdalena Acquisition**. On July 27, 2012, the Company completed the acquisition of PetroMagdalena for cash consideration of approximately C$227 million. The results of operations of PetroMagdalena since acquisition date are included in our third quarter results.

- **Karoon Acquisition**. On September 18, 2012, the Company entered into an agreement with Karoon to acquire a 35% net working interest in four exploration blocks with an option to acquire a 35% interest in one additional block, located offshore Brazil (the "Karoon Blocks"). Under the terms of the agreement, the Company paid Karoon $40 million in cash as consideration for the assignment and agreed to fund two wells up to $140 million and the option for a third well for $70 million in carried well costs.

- **Additional Investment in Puerto Bahia Project**. The Company invested an additional $70 million in Pacific Infrastructure Inc. ("Pacific Infrastructure"), increasing our equity interest to approximately 48%. This is a strategic investment for the Company as it will provide additional storage and export crude oil capacity in Cartagena on the Colombia Caribbean coast, as well as a new oil pipeline that will link the existing Coveñas crude oil terminal with Cartagena.

- **STAR tests at Quifa SW**. During the third quarter, the Company conducted various Nitrogen injection tests and finished implementation of the safety systems delaying startup of the air injection thermal phase, now expected in the fourth quarter of 2012.

- **Tax Incentive on Research and Development (R&D) projects**. During September 2012, the Colombian Government (Colciencias) granted the Company a tax incentive for its investments in R&D relating to the STAR technology. The resulting tax benefit on actual expenditures incurred is estimated to be $23 million, of which $14 million have been captured in the current year.

- **Cash dividend**. A cash dividend in the aggregate of approximately $32 million or $0.11 per common share was paid on September 28, 2012 to shareholders of record as of September 19, 2012.

- **New Revolving Credit Facilities**. On September 13, 2012, the Company entered into a $400 million revolving credit facility agreement and guaranty agreement with a syndicate of international lenders and Bank of America, N.A. and a Colombian peso equivalent revolving credit agreement equivalent to $300 million, with a syndicate of Colombian lenders and Sociedad Fiduciaria Bogotá, S.A., as administrative agent. These facilities provide the Company with significant advantages over the replaced former credit line, increasing operating flexibility, improving liquidity and will be used to finance ongoing working capital needs, capital expenditures and other general corporate purposes of the Company and its subsidiaries

- **Pacific Rubiales added to the Jantzi Social Index**. On September 14, 2012, the Company was added to the Jantzi Social Index, which consists of 60 Canadian companies that have met a standard of environmental, social, and governance rating criteria.

- **Pacific Rubiales awarded Purchasing, Policies and Procedures Certification.** The Chartered Institute of Purchasing & Supply (CIPS) from the United Kingdom has awarded the Company with the purchasing, policies and procedures certification, due to its continuous efforts on improving supply chain processes. The Company is now one of the 104 companies certified around the world; 16 of them from the energy sector.

3. Farm-in Agreements and Business Acquisitions

Farm-in Agreement in Brazil with Karoon

On September 18, 2012, the Company reached an agreement with Karoon to acquire a 35% net working interest in the Karoon Blocks. The transaction consisted of a $40 million cash payment to Karoon made on October 1, 2012, as consideration for the assignment, plus a carry of well costs of up to $70 million for each of the Kangaroo and Cassowary/Emu exploration wells for a total well carry cost of up to $140 million. After meeting up to the first $70 million costs for each of the first two wells, the Company will fund 35% of all costs thereafter.

The Company may elect to participate in the third well of the three well exploration commitment program, the Bilby well. If the option is exercised, Pacific Rubiales must carry up to the first $70 million in costs for the Bilby well and the 35% contribution of all costs thereafter.

One well is expected to be drilled at the end of this year, and the remaining two wells are expected to be drilled during 2013. Karoon will remain the operator of the Karoon Blocks until the completion of the three well exploration program and then Pacific Rubiales will be entitled to request the operatorship, subject to the Company meeting all regulatory and other legal requirements to the satisfaction of Brazil is Agencia Nacional de Petroleo (“ANP”).

Acquisition of PetroMagdalena

On July 27, 2012, the Company completed the acquisition of PetroMagdalena, an oil and gas exploration and production company with working interests in 19 properties in five basins in Colombia. The acquisition was completed pursuant to a plan of arrangement under the British Columbia Business Corporations Act. Under the arrangement, the Company paid C$1.60 for each of the 140,738,004 common shares of PetroMagdalena not already owned by the Company, for cash consideration of approximately C$227 million. Together with the 8,653,516 shares already owned prior to the arrangement, the Company owns 100% of the issued and outstanding PetroMagdalena shares. In addition, all of the unexercised share purchase warrants were cancelled under the terms of the arrangement for C$0.25 in cash for a total of approximately C$4.8 million. The Company also paid approximately C$0.1 million for any or all unexercised in-the-money stock options.

The results of PetroMagdalena’s operation since acquisition date have been included in the Company’s results for the third quarter 2012.

Acquisition of Participating Interest in Portofino Block

On July 23, 2012, the Company entered into a participation assignment agreement with Petromont to acquire a 40% participating interest in the Portofino block, onshore Colombia. The transaction consists of a $23.5 million cash payment to Petromont, which includes payment for past exploration costs, and a $2.2 million carry of their obligations related to an approved exploration work program. Under the terms of the agreement, there is an additional carry obligation to finance certain facilities and other activities required for the development of the block of up to $45 million. This carry obligation will be recovered from proceeds of production. As part of the transaction, the Company paid cash consideration of $3.7 million to Canacol Energy Ltd. to assume operatorship of the block. Pacific Rubiales will be transferred operatorship of the block following the drilling of the next four wells.

4. Update on Environmental Permits in Colombia

The following is an update with respect to the environmental permits the Company is currently working toward acquiring in Colombia with the ANLA.

Pacific Rubiales currently has twelve major licensing processes underway before the ANLA. All of these are in full compliance with the regulations and processes governing environmental licenses in Colombia. Five of the licenses have been granted and seven are pending or are in progress. Of note:

- In the CPO-12 exploration block, the Company obtained on October 24, 2012 the final approval of the environmental license allowing all exploratory activities for the block, enabling the Company to drill the three planned exploratory wells this year.

- In the Rubiales field, on August 8, 2012, the ANLA granted authorization to expand the water injection capacity by 400 Mbbl/d, reaching a total water injection capacity of approximately 2.3MMbbl/d for the field. This will allow the Company to increase total oil production in the field to a target of 190 Mbbl/d by the end of this year. The Company also has additional water injection permits pending which will allow further production increases in 2013 and which it expects to receive by year-end 2012.

- The Company is expecting to obtain the modification to the environmental license for the Quifa SW field by the end of 2012, allowing for the expansion of production facilities to increase production.

- In the CPE-6 E&P block, the Company continues to wait for the permits required to complete the planned drilling program of six exploration and appraisal wells and to conduct extended production testing of wells.

5. Financial and Operating Summary

Financial Summary

A summary of the financial results for the three and nine months ended September 30, 2012 and 2011 are as follows:

(in thousands of US$ except per share amounts or as noted)	**Three Months Ended September**		**Nine Months Ended September**	
	2012	**2011**	**2012**	**2011**
Oil and gas sales	**$ 870,369**	$ 828,285	**$ 2,838,073**	$ 2,369,343
EBITDA [(1)]	**483,108**	463,700	**1,589,354**	1,392,421
EBITDA Margin (EBITDA/Revenues)	**56%**	56%	**56%**	59%
Per share - basic ($) [(2)]	**1.64**	1.71	**5.41**	5.17
- diluted ($)	**1.60**	1.55	**5.25**	4.68
Net earnings [(3)]	**68,817**	193,720	**551,506**	473,502
Per share - basic ($) [(2)]	**0.23**	0.71	**1.88**	1.76
- diluted ($)	**0.23**	0.68	**1.82**	1.68
Cash Flow from Operations	**417,792**	305,451	**1,125,797**	741,527
Per share - basic ($) [(2)]	**1.42**	1.13	**3.83**	2.75
- diluted ($)	**1.38**	1.02	**3.72**	2.49
Adjusted Net earnings from operations	**130,707**	163,180	**614,688**	575,197
Per share - basic ($) [(2)]	**0.44**	0.60	**2.09**	2.13
- diluted ($)	**0.43**	0.55	**2.03**	1.93
Non-operating items	**61,890**	(30,540)	**63,182**	101,695
Funds Flow from Operations [(1)]	**348,325**	349,930	**1,156,012**	1,016,839
Per share - basic ($) [(2)]	**1.18**	1.29	**3.93**	3.78
- diluted ($)	**1.15**	1.17	**3.82**	3.42

Adjusted Net Earnings from Operations

Adjusted earnings from operations are a non-IFRS financial measure that represents net earnings adjusted for certain items of a non-operational nature, including non-cash items. The Company evaluates its performance based on adjusted net earnings from operations. The reconciliation "Adjusted Net Earnings from Operations" lists the effects of certain non-operational items that are included in the Company´s financial results and may not be comparable to similar measures presented by other companies.

Net earnings for the third quarter of 2012 totaled $68.8 million and include a number of non-operating and non-cash items totaling $61.9 million, mainly related to mark-to-market gain/losses on derivatives, from equity investments and foreign exchange gain/losses. These items may or may not materialize or reoccur in future periods. The adjusted net earnings from operations follow:

(in thousands of US$)	Three Months Ended September 2012	Three Months Ended September 2011	Nine Months Ended September 2012	Nine Months Ended September 2011
Adjusted earning from operations [2]	**$ 130.707**	$ 163.180	**$ 614.688**	$ 575.197
Non-operating items				
(Loss) gain on risk management contracts	**(26.806)**	63.027	**23.793**	55.289
Share-based compensation	**(1.036)**	(1.075)	**(32.049)**	(48.467)
Equity tax	**-**	-	**-**	(68.446)
Gain (loss) from foreign exchange	**3.929**	(44.271)	**(12.844)**	(41.841)
(Loss) gain from equity investments	**(37.977)**	12.859	**(42.082)**	1.770
Total non-operating items	**(61.890)**	30.540	**(63.182)**	(101.695)
Net earnings as reported	**68.817**	193.720	**551.506**	473.502

(1) See "Additional Financial Measures" on page 29.

(2) The basic weighted average number of common shares outstanding for the third quarter ended September 30, 2012 and 2011 was 295,022,739 (fully diluted – 302,872,969) and 270,967,710 (fully diluted – 298,413,561), respectively.

(3) Net earnings for the third quarter of 2012 include a net loss of $38 million of the equity investments as required for the IFRS accounting rules.

Operating Summary

The Company produces and sells crude oil and natural gas. It also purchases crude oil from third parties to be used as diluents as well as for trading purposes. The combined crude oil and gas operating netback improved during the third quarter of 2012 to $61.42/boe, 14% higher as compared to the same period of 2011. Crude oil operating netback during the third quarter of 2012 was $64.70/bbl, 15% higher in comparison to the same period in 2011 ($56.12/bbl). Natural gas operating netback was $34.27/boe, 0.4% higher in comparison to the third quarter of 2011 ($34.15/boe).

Total oil operating costs per barrel remains flat year over year in an average range of $35-$37 per barrel, despite the increase in water treatment costs and in-field transportation, due to optimizations resulting in other cost reductions.

Set out below is the operating netback for crude oil, gas and trading volumes the three months ended September 30, 2012.

Combined crude oil and gas (boe)	Three months ended September 2012 Oil	2012 Gas	2012 Combined [7]	2011 Combined
Average daily volume sold (boe/day)[1]	**89,045**	**10,775**	**99,820**	**101,553**
Operating netback ($/boe)				
Crude oil and natural gas sales price	101.61	41.49	95.13	88.66
Production cost of barrels sold [2]	13.89	3.97	12.82	5.29
Transportation (trucking and pipeline) [3]	14.56	0.03	13.00	11.08
Diluent cost [4]	9.17	-	8.18	14.44
Other costs [5]	(1.26)	2.85	(0.82)	2.23
Overlift/Underlift [6]	0.55	0.37	0.53	1.94
Operating netback crude oil and gas ($/boe) [8]	**64.70**	**34.27**	**61.42**	**53.68**

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

(2) Cost of production mainly includes lifting costs and other direct production costs such as personnel, energy, fuel consumption, security, insurance and others. Higher oil operating cost driven by cost of disposing associated water production at Rubiales and Quifa fields, which increases energy and fuel consumption; as compared to prior period of 2011.

(3) Includes the transport costs of crude oil and gas through pipelines and tank trucks incurred by the Company to take the products to the delivery points to customers.

(4) Net blending cost of Rubiales crude was reduced 39%, from $4.22 per bbl in the third quarter of 2011 to $2.56 per bbl in this period. This reduction is mainly due to the increase of usage of natural gasoline (92%) purchased at better prices than local crude oil used as diluents during 2011, blending rate improved to 14.6%, as indicated in the below table:

Adjusted Net Cost of Diluent	Three months ended September 2012 (US$/bbl)	2011 (US$/bbl)
Average diluent purchase price	106.92	104.80
Pipeline fees	12.29	7.76
Average Rubiales blend sales price	(101.67)	(93.97)
Net diluent cost per barrel	17.54	18.59
Average blending ratio	14.6%	22.7%
Net Blend cost per barrel	**2.56**	**4.22**

For the purpose of securing diluents for blending Rubiales crude oil, the Company purchased 9,201 bbl/d during the third quarter of 2012 vs. 10,687 bbl/d in the same period of 2011. The Company increased purchases of natural gasoline (82.1° API) to 8,587 bbl/d and continued local purchases (614 bbl/d) of light crude oils (40° API average). Blending cost was $2.56 per bbl of Rubiales crude (vs. $4.22/bbl in the same period of 2011).

(5) Other costs mainly correspond to royalties on gas production, external road maintenance at the Rubiales field, inventory fluctuation, storage cost and the net effect of the currency hedges of operating expenses incurred in Colombian pesos during the period.
(6) Corresponds to the net effect of the overlift position for the period amounting to $4.8 million, which generated a reduction in the combined costs to $0.53/boe as explained in "Discussion of 2012 Third Quarter Financial Results– Financial Position – Operating Costs" on page 19.
(7) The average daily volumes include volumes related to PetroMagdalena since acquisition date of July 27, 2012, representing a 65-day period.
(8) During the third quarter of 2012, the Company did not have crude oil trading activity.

The following is a reconciliation of volumes produced or purchased in Colombia vs. volumes sold during third quarter of 2012; including a breakdown of crude oil production and diluent and crude oil trading purchases:

Production and sales volumes (boe/day) [1]	**Three months ended September**			
		2012		**2011**
	Oil	**Gas**	**Combined**	**Combined**
Average total field production	229,570	11,405	240,975	219,136
Share before royalties and PAP	105,592	10,693	116,285	102,957
Average net production (after royalties and field consumption)	85,067	10,681	95,748	87,159
Beginning inventory (ending inventory June 30)	15,541	-	15,541	20,866
Average net production (after royalties and field consumption)	85,067	10,681	95,748	87,159
Acquisition Petromagdalena (Beginning inventory July 27, 2012)	292	-	292	-
Purchases of diluents and oil for trading [1]	12,884	-	12,884	22,322
Other inventory movements [1]	(1,320)	94	(1,226)	53
Ending inventory September 30.	(23,419)	-	(23,419)	(28,847)
Average daily volume sold (boe/day)	**89,045**	**10,775**	**99,820**	**101,553**

The following table provides a breakdown of sales volumes by crude oil produced, diluents and crude oil trading in Colombia during the third quarter of 2012:

Production and sales volumes (boe/day) [1]	**Three months ended September 2012**		
	Oil Production	**Diluent and Trading**	**Total**
Begining inventory (ending inventory June 30)	11,956	3,585	15,541
Average net production (after royalties and field consumption)	85,067	-	85,067
Acquisition Petromagdalena (Begining inventory July 27, 2012)	292	-	292
Purchases of diluents and oil for trading [1]	-	12,884	12,884
Other inventory movements [1]	(430)	(890)	(1,320)
Ending inventory September 30.	(16,938)	(6,481)	(23,419)
Average daily volume sold (boe/day)	**79,947**	**9,098**	**89,045**

(1) See additional detail in "Inventory Movements" on page 13. For further details with respect to how the Company's average daily production has been calculated, please see the section entitled "Production" starting on page 12.

In Peru, average net production reached 1,394 bbl/d (2,845 bbl/d total field production) coming from the acquisition of a 49% participating interest in Block Z-1, effective January 1, 2012. Revenue and production from Block Z-1 will be recognized and adjusted as of the effective date, upon final closing of the transaction, which is subject to approval of the Peruvian authorities. The application for this approval has already been submitted and is being processed.

Royalties and Volume Allocation

Royalties

The current royalty rates for hydrocarbons produced by the Company's Colombian assets range from 5% to 20% of volumes produced and the royalty rate for Peru is 5%. Royalties on production represent the entitlement of the respective states to a portion of the Company's share of production and are recorded using rates in effect under the terms of contract and applicable laws at the time of hydrocarbon discovery. In Colombia, royalties for oil may be payable in kind while for gas are payable in cash. In Peru, royalties for oil and gas are calculated using a 5% levy on total gross revenues and the government allows the companies to pay either in kind or cash; however the current practice is to pay the royalties in cash.

Additional Production Share in the Quifa SW

The Company's share of production before royalties in the Quifa SW field is 60%; however, this participation may decrease from time to time when the high-prices clause (the "**PAP**"), stipulated in the Quifa Association Contract, is triggered.

On September 27, 2011, Ecopetrol and the Company agreed on an arbitration process to settle differences in the interpretation of this PAP clause in the Quifa Association Contract and its effect on the production division. On April 12, 2012, the Company initiated the arbitration process before the Bogotá Chamber of Commerce. This arbitration process is estimated to take between six to twelve months in order to conclude.

While the arbitration runs its course, both companies have agreed to apply the formula that the Agencia Nacional de Hidrocarburos (the "**ANH**") uses in its contracts to assign the presumptive additional share to Ecopetrol, as from the activation of the additional production clause in April 2011.

The volumes corresponding to Ecopetrol as per the ANH formula from April 1, 2011 to September 30, 2012 have been completely delivered to Ecopetrol via reduced net production share.

6. Discussion of 2012 Third Quarter Operating Results

Exploration

During the third quarter of 2012, the Company conducted exploration activities in the Quifa, Sabanero, Arrendajo, Muisca, COR-15, COR-24 and Portofino blocks in Colombia, in the N-10-96 and O-10-96 blocks in Guatemala and in the 138, 135 and Z-1 blocks in Peru. The following is a summary of the exploration campaign during the third quarter of 2012.

Colombia

In the Quifa block, the Company drilled four appraisal wells in the prospects "F" and "Q" to complete the appraisal drilling campaign in this part of the block. As a result of the successful exploration drilling campaign accomplished during 2010-2012, on August 15, 2012, the executive committee of the Quifa Association Contract approved the commerciality for the Cajúa field in the northern section of Quifa, for a total area of 37,761 acres, where the Company expects to reach a production plateau of 15 Mbbl/d (total gross field production) during the upcoming year. With the Cajúa field, the Company has reached a new milestone in its strategy to continue incorporating new areas into production. Also, on the same date, the executive committee approved a two-year extension of the exploration period in the Quifa block, which will allow the Company to develop additional exploration activities to confirm the existence of new commercial fields in the area.

In the Sabanero block, Maurel et Prom Colombia B.V. ("Maurel et Prom"), the operator of the contract, drilled two appraisal wells in the Sabanero prospect and started the acquisition of 247 km of 2D seismic in the northern part of the block. The appraisal wells were successful and are now undergoing extended production tests.

In the Arrendajo block, the Company drilled and logged the Azor-2 appraisal well in the Azor prospect. The well found the Carbonera C-5 sand 19 feet down-dip of the Azor-1 exploration well and identified 15 feet of net pay with no indication of the oil-water contact. The well is currently under extended production tests, producing an average of 619 bbl/d of 34° API oil.

In the Muisca block, which is operated by Maurel et Prom, 250 km^2 3D seismic survey was started, in a populated area (approximately 20,000 properties are affected), with topographic and environmental challenges expected. This survey is expected to be completed by the end of 2012.

In the COR-15 block, which is operated by Maurel et Prom, the Company continued the interpretation of 176 km^2 of 3D survey. In the COR-15 and COR-24 blocks, the contracting of an aeromagnetic and aerogravity survey was completed, and the survey results are expected by the end of 2012.

In the Tacacho block, the Company has decided to reschedule the planned stratigraphic well, until evaluation of the new seismic to be acquired.

In the Portofino block, where the Company has a 40% working interest, Canacol Energy Ltd. ("**Canacol**"), the operator of the block, drilled the Achote-1 stratigraphic well, which found oil traces in the Mirador sands. Canacol is planning two additional stratigraphic wells in this block during the fourth quarter of 2012. Canacol continues the acquisition of 78 km of 2D seismic data in the northern and southern portion of the block and 45 km^2 of 3D seismic in the southern portion of the block.

Guatemala

In the Guatemala blocks (N-10-96 and O-10-96), the Company, through the operator (Compañía Petrolera del Atlántico S.A. ("CPA")), completed 324 km of 2D seismic survey, continued the 275 km^2 of a hyperspectral survey (85%) and also started the design and contracting for an exploration well, which is expected to be drilled during the second quarter of 2013.

Peru

On block 138, the Company is still working on the approval of the Environmental Management Plan required to drill the Yahuish 1 exploratory well. Approval is expected to be received by the end of this year. Civil works for the logistic base started in September 2012

On block 135, the Company expects to start the acquisition of a 789 km 2D seismic survey at the end of the year after receiving operating permits.

On block Z-1, the Company is processing and interpreting approximately 1,142 km^2 of 3D seismic data acquired recently by BPZ (the operator). An additional 462 km^2 of 3D seismic data will be acquired before the end of the year covering the whole block.

Brazil

In the five offshore blocks in Brazil, Karoon is requesting the permits to drill the Kangaroo 1 well, which is the first exploration well that will be drilled by the Company in the Santos Basin. The Company is also planning to drill two additional wells: the Emmu/Cassowary 1 and the Bilby 1 wells. The Kangaroo 1 well has multiple exploration targets at the post-salt play within several geological levels, including the Campanian, Maestrichtian, Eocene and Miocene aged rocks. The Kangaroo 1 well will satisfy with the minimum work commitments for blocks S-M-1101 and S-M-1165 and is planned to be spudded at the end of this year.

Papua New Guinea

During the third quarter of 2012, InterOil Corporation ("**InterOil**"), the operator of record of the block, tested gas and condensate gas in the upper section of the reservoir found in the Triceratops-2 exploration well, with average rates of 17.6 MMcf/d of gas and condensate rates of 13.6 to 16.3 bbl per MMcf. These test rates compare favorably to equivalent test intervals in the Elk/Antelope structure along trend. InterOil is planning to test the lower condensate zone during the first months of 2013.

After the results from the Triceratops-2 well, the Company is currently updating the geological and structural model in order to define the location for the planned Triceratops-3 exploration well.

The drilling results for the three and nine months ended September 30, 2012 and 2011 are as follows:

	Three Months Ended September		**Nine Months Ended September**	
	2012	**2011**	**2012**	**2011**
Succesful exploratory wells	-	4	1	6
Succesful appraisal wells [(1)]	7	10	33	30
Succesful stratigraphic wells	-	1	7	5
Dry wells	1	3	8	9
Total	8	18	49	50
Success rate	**88%**	**83%**	**84%**	**82%**

(1) Includes horizontal appraisal wells.

Detail of Exploratory/Appraisal Wells drilled during the third Quarter of 2012

No. of wells	Block	Area / Field / Prospect	Well Name	Type [2]	Total Depth TVDSS (feet)	Net Pay (feet) [2]
1	Quifa	Ambar Quifa North	AMBAR-25H	Appraisal HZ	2,616	958
2	Quifa	Ambar Quifa North	AMBAR-26HST	Appraisal HZ	2,637	745
3	Quifa	Ambar Quifa North	AMBAR-27H	Appraisal HZ	2,628	978
4	Quifa	Opalo Quifa North	OPALO-16H	Appraisal HZ	2,679	925
5	Sabanero [1]	Sabanero	SABANERO-6D1	Appraisal	2,447	23
6	Sabanero [1]	Sabanero	SABANERO-6D2	Appraisal	2,458	8
7	Arrendajo	Azor	AZOR-2	Appraisal	5,242	12
8	Portofino	Achote	ACHOTE-1	Stratigraphic	3,394	0

(1) The Company holds a 49.999% participation in Maurel et Prom, which indirectly owns a 49.999% working interest in the Sabanero block.
(2) Wells labeled "HZ" are horizontally drilled wells. "Net Pay" represents the total estimated net pay encountered in the horizontal (HZ) or vertical drilled sections.

Production

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

Colombia

Average net production after royalties reached 95,748 boe/d (240,975 boe/d total field production) representing approximately 10% growth year-over-year. Production growth was driven by the drilling of 129 producing wells at the Rubiales field and 51 producing wells at the Quifa SW field and 5 wells at the Cajúa field during the same period, as well as an increase in the capacity of production facilities at Rubiales and Quifa. Net production at Rubiales and Quifa increased 6% while the La Creciente natural gas field decreased by 5% as compared to 2011, the latter due to a scheduled three days shutdown in La Creciente gas plant for scheduled maintenance reasons.

After the Company received the environmental permit to inject 400 thousand barrels of water per day, total production for the Rubiales field increased from 171,871 bbl/d, reported in the third quarter of 2012, to 188,180 bbl/d as of November 6, 2012.

Oil production from Rubiales and Quifa SW fields and other producing fields increased in comparison to the second quarter of 2012. This is mainly the result of the license modification for the water disposal in Rubiales field, allowing for the injection of an additional 400 thousand barrels of water per day. The Company has received the environmental permits for disposing approximately 2.3 million barrels of water per day, most of which is re-injected to the subsurface. The Company has submitted a license modification for an additional 1 million barrels of water per day, which is expected to be granted by the end of this year.

At the Quifa block, a license to build additional production facilities is expected to be received by the end of this year, including additional water disposal permits. On August 15, 2012, commerciality for the Cajúa field in the northern area of the Quifa block was declared.

Net production after royalties contributed by the PetroMagdalena acquisition totaled 3,198 boe/d (total field production of 6,273 boe/d) as of September 30, 2012, representing 3.29% of the total net production after royalties reported by the Company during this quarter.

Peru

Production shown in the following table corresponds to the 49% deemed participating share of production attributable to the Company from Block Z-1 for the period pursuant to a Stock Purchase Agreement ("**SPA**") signed on April 27, 2012 between the Company and BPZ. Under the terms of the SPA: (i) at closing, operating revenues and expenses will then be allocated to each partner's respective participating interest; and (ii) once approvals by the relevant Peruvian authorities are granted, the Company shall receive a 49% interest in the production of hydrocarbons from the Z-1 Block effective as of January 1, 2012. No revenues or costs have been recognized yet in the Company´s financial results with respect to the production from Block Z-1 as its full entitlement is subject to approval of the applicable Peruvian authorities.

Net production for the third quarter of 2012 attributed from Block Z-1 averaged 1,394 bbl/d (total gross field 2,845 bbl/d). Production is expected to increase during the fourth quarter of 2012 through a program of five workovers in the Corvina field which started during the third quarter.

A new drilling and operation platform (CX15) arrived at the end of September and BPZ is in the process of obtaining the environmental permits to begin its operation in the fourth quarter of 2012. Upon the approvals of the applicable Peruvian authorities, revenues, expenses and production will be reflected in the Company's results according to the respective ownership interest basis.

The following table sets out the average production for the three months ended September 30, 2012 at all of the Company's producing fields located in Colombia and Peru:

	Average Q3 Production (in boe/d)					
	Total field production		Share before royalties and PAP[(1)]		Net share after royalties and PAP [(7)]	
Producing Fields - Colombia	**Q3 2012**	**Q3 2011**	**Q3 2012**	**Q3 2011**	**Q3 2012**	**Q3 2011**
Rubiales / Piriri	171,871	167,343	71,876	68,958	57,501	55,166
Quifa[(2)]	45,398	35,222	27,099	20,996	21,491	19,241
La Creciente [(3)]	10,498	11,053	10,318	10,860	10,316	10,857
Cubiro	4,312	-	2,741	-	2,522	-
Cajua	2,621	-	1,572	-	1,478	-
Abanico	1,525	2,082	430	656	412	633
Rio Ceibas	-	1,692	-	457	-	366
Sabanero [(4)]	1,500	-	736	-	692	-
Dindal / Rio Seco	1,083	1,279	653	740	535	620
Arrendajo	800	-	444	-	408	-
Other producing fields [(5)]	1,367	465	416	290	393	276
Total Production - Colombia	**240,975**	**219,136**	**116,285**	**102,957**	**95,748**	**87,159**
Producing Fields - Peru (See note below)						
Block Z-1 [(6)]	2,845	-	1,394	-	1,394	-
Total Production - Peru	**2,845**	**-**	**1,394**	**-**	**1,394**	**-**
Total Production Colombia and Peru	**243,820**	**219,136**	**117,679**	**102,957**	**97,142**	**87,159**

(1) *Share before royalties is net of internal consumption at the field.*

(2) *Includes Quifa SW field and early production from Quifa North prospects. The Company's share before royalties in the Quifa SW field is 60% and decreases according to a high-prices clause that assigns additional production to Ecopetrol.*

(3) *Royalties on the gas production from La Creciente field are payable in cash and accounted as part of the production cost. Royalties on the condensates are paid in kind, representing a small impact in the net share after royalties. The Company has completed 70% of the project to increase the process capacity to 100 MMcf/d at La Creciente Station.*

(4) *The Company holds a 49.999% participation in Maurel et Prom, which indirectly owns a 49.999% working interest in the Sabanero block.*

(5) *Other producing fields corresponds to producing assets located in Cerrito, Moriche, Las Quinchas, Arrendajo, Guasimo and Buganviles blocks. Also includes the recently acquired blocks from PetroMagdalena such as Carbonera, Carbonera La Silla, La Punta and Yamu blocks (La Punta and Yamu are not operated blocks). Subject to Ecopetrol´s and ANH´s approval, the Company has divested its participation in the Moriche, Las Quinchas, Guasimo, and Chipalo blocks.*

(6) *Block Z-1 includes Corvina and Albacora fields which are operated by BPZ in which the Company acquired a 49% undivided participating interest on April 27, 2012 subject to governmental approval. Once closing of the transaction occurs, the Company or any of its subsidiaries will be the technical operations manager under an Operating Services Agreement. The applicable royalties in Peru are paid in cash and are accounted as part of the production cost.*

(7) *The Company's average daily volumes include PetroMagdalena's average daily volumes from July 27, 2012 to September 30, 2012 (a 65 day period) of 3,198 boe/d (total field production of 6,273 boe/d), which has been calculated by dividing PetroMagdalena's aggregate production of 207,870 boe (total field production of 407,745 boe) over the 65 day period from acquisition. PetroMagdalena's average daily volume for the entire third quarter (calculated over 92 days) was 2,259 boe/d (total field production of 4,432 boe/d).*

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

Supply and Sales Balance

The following is the Company´s reconciliation of boe produced vs. boe sold for the three months ended September 30, 2012:

	Q3	
Inventory Movements	**Total boe Net**	**Aver. day Net**
Ending inventory as of June 30, 2012	1,429,756	
Transactions in Q3 2012		
Net oil and gas production [(1)]	8,722,288	95,748
Settlement of overlift position from June 30, 2012 [(2)]	(18,540)	(202)
Acquisition Petromagdalena (Begining inventory July 27, 2012)	12,660	292
Purchases of diluents	846,529	9,201
Purchases of oil for trading	338,865	3,683
Total sales production assets [(3)]	(9,149,023)	(99,820)
Total sales exploration assets [(4)]	(22,022)	(335)
Overlift position as of September 30, 2012 [(5)]	77,179	1,127
Volumetric compensation and operational gains (losses) [(6)]	(83,157)	(1,816)
Ending inventory as of September 30, 2012	**2,154,535**	
Permanent inventory (operational inventory)	(1,850,437)	
Ending inventory available for sale as of September 30, 2012 [(7)]	**304,098**	

(1) For further details with respect to how the Company's average daily production has been calculated, please see the section entitled "Production" starting on page 12.
(2) This volume corresponds to the settlement of the overlift position for crude oil as of June 30, 2012, which resulted in a lower volume of sales during the period it was settled.
(3) Includes the sales of crude oil and gas from producing fields plus diluents.
(4) Includes sales of crude oil produced from successful exploratory wells under extended testing. The sale of the extended testing volume is booked as a lower amount of the investment according to IFRS accounting rules.
(5) This volume corresponds to a net overlift position of 18,540 boe of crude oil and gas as of September 30, 2012, which will be settled during future periods.
(6) Includes inventory gain or losses for the period, as well as the effect of the calculation of the average daily volumens related to Petromagdalena since acquisition day of July 27, 2012, representing a 65-day period.
(7) Corresponds to crude oil inventory in tanks as of the end of September 30, 2012 at the fields and Coveñas Terminal as well as permanent inventory in the pipeline systems around 1.85 MMbbl.

Commercial Activity

2012 Third Quarter Market Overview

- In the third quarter of 2012, WTI crude oil prices were pressured downward moderately due to weaker global economic growth outlook prompted by increased concerns about the debt crisis in Europe and indications of a slowing growth in China, both of which could have an effect in other countries. The weak employment and housing macroeconomic data in the USA, led the Federal Reserve to ease its monetary policy in order to spur economic growth. On the other hand, ICE Brent prices increased due to geopolitical tensions in the Middle East and unexpected outages in the North Sea Forties production.

- According to the OPEC Report, the oil and gas market was affected by: high stock builds in the Atlantic Basin; lower demand levels in OECD economies and Chinese weak economic perspectives, which are affected by monetary policy. USA sweet crude purchases have decreased due to increases in domestic shale oil production. According to the EIA, even with Canadian crude oil production on the rise, most Canadian crudes have been directed to PADD V and PADD II refineries, allowing the placement of heavy Latin American crude oils in to the US Gulf Coast ("**USGC**"). The crude market changed from an oversupply situation in second quarter of 2012 to a balance in third quarter of 2012 and the refining margin weakened during the period. The US government kept pressure to relieve crude oil from the Strategic Petroleum Reserve.

- During the third quarter 2012, the effects of the EU and US sanctions on Iran caused a decrease in Iran's crude oil production to 2.8 MMbbl/d from 3.1 MMbbl/d in the second quarter of 2012. which in addition to the political instability in Syria, created upside price risks.

- Despite the reversal of the Seaway pipeline in the USA during June, Cushing stocks continued to grow; however, additional railing capacity has allowed some Cushing crudes to be moved into the US Gulf Coast. Additional capacity to the Seaway pipeline is not expected until the first half of 2013.

- Average WTI prices decreased by $1.15/bbl to $92.20/bbl in the third quarter of 2012 from $93.35/bbl in second quarter of 2012. In addition, WTI prices increased by $2.66/bbl as compared to the third quarter of 2011. On the other hand, Brent ICE prices increased in the third quarter 2012 by $0.66/bbl to $109.42/bbl as compared to $108.76/bbl in the second quarter of 2012, and decreased by $2.67/bbl as compared to the third quarter of 2011. The WTI Nymex - Brent ICE spread widened during this quarter by $1.81/bbl to $17.22/bbl vs. $15.41/bbl in the second quarter of 2012.

- Latin American crudes and USGC crudes prices slightly decreased in comparison to WTI. Mayan crude oil, which is used as a heavy crude reference, weakened in relationship to WTI by $0.66/bbl in the third quarter of 2012 to a positive $5.01/bbl compared to $5.67/bbl in the second quarter of 2012, and decreased by $3.92/bbl compared to a positive $8.93/bbl differential in the third quarter of 2011.

Prices and Sales Volume

Average benchmark crude oil and natural gas prices for the three months ended September 30, 2012 were as follows:

Average Crude Oil and Gas Prices	Q3 2012 ($/bbl)	Q3 2011 ($/bbl)	Q2 2012 ($/bbl)	°API
Domestic Market [1]	$103.32	$97.71	$93.23	12.5
WTI NYMEX (Weighted Average of PRE Parcels)	$92.32	$88.65	$93.70	38
Vasconia (Weighted Average of PRE Cargoes and Parcels) [2]	$103.45	$99.31	$104.68	24
Castilla (Weighted Average of Cargoes PRE) [3]	$101.67	$93.97	$102.50	19
Rubiales Blend Export. Barranquilla (Weighted Average Cargoes PRE) [4]	$94.99	$97.37	$91.60	12.5
Bunker (380 - 500) [5]	$98.96	-	$104.15	
Combined Realized International Oil Sales Price	**$101.20**	**$94.67**	**$102.36**	
PRE Natural Gas Sales ($/MMBTU)	**$7.36**	**$6.50**	**$7.38**	
Combined Realized Oil and Gas Sales Price	**$95.13**	**$88.66**	**$96.95**	
WTI NYMEX ($/bbl)	$92.20	$89.54	$93.35	
BRENT ICE ($/bbl)	$109.42	$112.09	$108.76	
Regulated Gas Price ($/MMBTU) [6]	$5.96	$3.96	$5.80	
Henry Hub average Natural Gas Price ($/MMbtu)	$2.89	$4.35	$2.35	

(1) Weighted average price of 129,158 bbls of Rubiales and Cubiro sold domestic market.
(2) Weighted average price of 22 parcels of Vasconia crude oil.
(3) Weighted average price of 7 Castilla crude oil cargoes.
(4) Weighted average price of 10 Rubiales 12,5 (Rubiales-Sabanero) small cargoes.
(5) Weighted average price of 14 Bunkers deliveries.
(6) The domestic natural gas sales price is referenced to MRP for gas produced in La Guajira field. The MRP is modified every six months based on the previous half-year variation of the US Gulf Coast Residual Fuel No.6 1.0% sulphur, Platts.

- As of June 2012, the Company began selling Castilla crude oil in terms of ICE Brent to allow international customers, especially in Europe and Asia, to have more flexibility in pricing the cargoes. This flexibility positively impacted our customer base and prices. All the offers received in terms of ICE Brent were changed to WTI Nymex

reference prices using over the counter market tools. Rubiales crude oil, which is sold mainly in the Caribbean area, is still sold relative to WTI which is the main crude oil reference for western hemisphere.

- In the third quarter of 2012, natural gas sales averaged 60.5 MMcf/d, mainly from La Creciente field, at an average price of $7.36/MMBtu (equivalent to $7.33/MMcf), representing a premium of 23% over the weighted domestic regulated price of $5.80/MMBtu in the month of July and $6.04/MMBtu for August and September. This volume was slightly lower to sales in the previous quarter, due to a three day scheduled maintenance shutdown in the La Creciente field.

Export Sales Volume

The Company during the third quarter of 2012 sold 9.1 MMbbl (oil and gas) of which 8.03 MMbbl (87%) were exported:

Export Destination

Destination	Volume (MMbbl)	%
Europe	1.95	24%
LATAM / Caribbean	2.09	26%
USA	1.54	19%
Asia	2.45	31%
Total Export	**8.03**	**100%**

Export Oil Reference

Type Oil	Volume (MMbbl)	%
Castilla Blend	6.28	78%
Vasconia Blend	0.9	11%
Bunkers	0.08	1%
Rubiales	0.77	10%
Total Export	**8.03**	**100%**

Transport of Hydrocarbons

During the third quarter of 2012, the Company transported 117,546 bbl/d through the different pipelines and trucking systems as following:

Transport of Hydrocarbons

Means of transport	Volume (Mbbl)
ODL-OCENSA pipeline system	66,256
Crude oil transported through the ODC pipeline	17,139
Crude oil transported through the trucking system	34,151
Total Transport of Hydrocarbons	**117,546**

- The Guaduas Facility pumped 30,036 bbl/d of crude oil from the Company and third parties. This operation handled 12,897 bbl/d, from third companies, generating an operational profit of $2.4/bbl and a total profit of $3 million, without any operational or environmental incidents during this quarter.

- Truck transportation costs were reduced by $6.40 million during the third quarter of 2012, due to a renegotiation of transport rates. These savings were calculated by applying the average reduced transportation rates of $2.56/bbl to the total volume of crude oil transported via trucks during this period.

7. Project Status

STAR Project in the Quifa Field

In March 2011, Pacific Rubiales and Ecopetrol agreed to advance with the STAR pilot project in the Quifa SW field as a preliminary step to expanding the technology. STAR is aimed at increasing the recovery in the Company's heavy oil fields in Colombia in the future. The project utilizes existing production facilities and infrastructure. The pilot test is currently underway in the field under the existing terms and conditions of the Ecopetrol Association Contract in Quifa.

All geological and reservoir studies have been completed with the exception of numerical simulations which are in final steps. Production and air compression facilities have been completed in the Quifa pilot area and both are fully operational. The Company constructed additional safety systems and auxiliary systems to manage second phase production and fluid treatment facilities have been commissioned. These necessary constructions have resulted in the delay of the startup of air injection.

A cluster of nine wells has been completed and a full primary production evaluation has been concluded as well as two key tests. The steam test was performed to determine the response of the reservoir to thermal process and a nitrogen test to create a minimum gas saturation in the wellbore in order to facilitate the upcoming air injection. Both tests indicated positive response from the reservoir and startup of the air injection is anticipated in the fourth quarter of 2012.

During September 2012, the Colombian Government (Colciencias) granted the Company a tax incentive for its investments in research and development of the STAR technology. The incentive will provide an additional 75% deduction for the amounts invested and the possibility to fully depreciate the asset in the first year. The benefit has a cap of $22.9 million depending on the actual amounts spent in the project. As of today, the benefit has been estimated at $14.3 million, which has been included in the current income tax calculation.

ODL Pipeline

The Company has a 35% interest in the ODL Pipeline with the balance of 65% owned by Ecopetrol. Since the ODL Pipeline began operation in 2009, a total of 191 MMbbl of diluted crude have been transported from the Rubiales field to the Monterrey and Cusiana Stations.

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 expansion is now completed. Booster stations on the pipeline are operated manually and automation is expected to be completed by the end of 2012.

For the nine months ended September 30, 2012, the ODL Pipeline transported a total of 59 MMbbl and 35% of this volume corresponds to the Company's crude oil share.

Carmentea – Araguaney Pipeline Project

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

As of September of 2012, the basic engineering for the pipeline was completed and the detailed engineering was started. Purchase of pipe is expected to take place at the end of the year. Environmental permits are still ongoing.

OBC Pipeline

In December 2010, the Company acquired a 32.88% equity interest in the OBC. OBC is a special purpose company promoted by Ecopetrol, which has 55.97% interest in the company and with the participation of other oil producers operating in Colombia who control the remaining 11.15% interest. OBC will be responsible for the financing, design, construction and operation of Colombia's newest oil pipeline transportation system, which will run from Araguaney, in the Casanare Department of central Colombia, to the Coveñas Export Terminal in the Caribbean.

The new pipeline will eventually add 450,000 bbl/d to the capacity of the existing pipeline systems, connecting the Eastern Llanos Basin to the export markets. The project, which will be constructed in phases, includes a new pipeline from Araguaney Station to Coveñas export terminal. Total extension of this new pipeline is estimated to be 976 km with different sections of 30, 36 and 42 inch diameter line.

Phase 1, which comprises a 230 km 42 inch pipeline from Araguaney to Banadía, is under construction. As of September 2012, 160 km of the pipeline have already been welded, the pumping station in Araguaney is currently under expansion and two tanks of 600,000 bbl capacity each are under construction in the Coveñas terminal. The construction progress for phase 1 is 60% as of September 2012. OBC is expected to start pumping during the second quarter of 2013.

Petroeléctrica de los Llanos ("PEL") – Power Transmission Line Project

The Company incorporated PEL, a wholly-owned subsidiary, in 2010. PEL is responsible for constructing and operating a new power transmission line of 230 kilovolts to connect the Rubiales field with Colombia's electrical grid. The new transmission line will originate at the 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 substations for the Rubiales and Quifa fields. The new power line will be able to supply up to 192 MVA that will be used in oil production and transportation activities. Field construction started in May 2012 and is expected to be completed by the third quarter of 2013, and will lead to reduction of operating costs by an estimated $0.07 per KWh. As of September 2012, the Chivor substation has progressed was 90% complete and 65 out of 534 towers have been installed.

Small Scale LNG project

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

The project comprises a planned 88 km, 18 inch gas pipeline from La Creciente to Tolú (Colombian Atlantic Coast, 15 km north east from Coveñas) and a Floating, Liquefying, Regasification and Storage Unit ("**FLRSU**"). The FLRSU will be connected to a Floating Storage Unit ("**FSU**") in order to allow FOB exports to standard carriers (145,000 CBM).

In March 2012, the Company signed a tolling agreement with Exmar. Under the terms of this agreement, the first gas liquefaction is targeted for late 2014. Environmental permitting for the onshore portion of the gas pipeline was granted. Construction of the FLRSU equipment is underway in mainland China. Environmental licenses for the offshore pipeline (3.5 km) and port concessions are in progress. Basic engineering for the gas pipeline and offshore jetty started in the third quarter of 2012.

8. Capital Expenditures

Excluding acquisition costs, capital expenditures during the third quarter of 2012, totaled $363.3 million ($276.7 million in 2011), of which $133.1 million were invested in the expansion and construction of production infrastructure in order to ensure and increase the production capacity in Quifa and Rubiales fields; $62.9 million went into exploration activities (including drilling, seismic, other geophysical activities) in Colombia, Peru and Guatemala; $55.6 million of capital expenditures was spent on surface facilities and others; $87.1 million for development drilling; and $24.6 million in other projects including the STAR project. Details on the capital expenditure program for 2012 and 2011 are as follows:

(in thousands of US$)	Three Months Ended September 2012	Three Months Ended September 2011	Nine Months Ended September 2012	Nine Months Ended September 2011
Production facilities	$ 133,057	$ 124,936	$ 356,213	$ 295,290
Exploration drilling including seismic acquisition (1) (2)	62,960	64,487	216,196	223,238
Early facilities and others (2)	55,604	-	103,313	-
Development drilling	87,114	52,903	208,087	158,917
Other projects (STAR, Gas export, PEL)	24,561	34,402	63,031	68,478
Total capital expenditures	**363,296**	**276,728**	**946,840**	**745,923**

(1) Includes the drilling, seismic and other geophysical in Colombia, Peru and Guatemala

(2) Includes exploration investment, seismic acquisition and surface facilities of $56 million in Maurel et Prom in which the Company holds a 49.999% participation and indirectly owns a 49.999% working interest in the Sabanero block.

The following table shows the capital expenditures on acquisitions executed during the third quarter of 2012. Acquisitions were primarily funded by internal generated cash flow from operations:

(in thousands of US$)	Three Months Ended September 2012	Three Months Ended September 2011	Nine Months Ended September 2012	Nine Months Ended September 2011
Acquisition costs of Petromagdalena exploration blocks	226,598	-	226,598	-
Z1 Block (Peru) [1]	35,202	-	181,448	-
Portofino Block (Colombia)	18,395	-	21,395	-
PPL37 Block (Papua New Guinea)	20,000	-	40,077	-
Total capital expenditures for new acquisitions	**300,195**	**-**	**469,518**	**-**

(1) Acquisition of a 49% participating interest in Block Z-1, effective January 1, 2012. Revenue and production from Peru will be recognized on closing of the Block Z-1 transaction, which is subject to approval of the applicable Peruvian authorities.

9. Discussion of 2012 Third Quarter Financial Results

Revenues

(in thousands of US$)	Three Months Ended September 2012	Three Months Ended September 2011	Nine Months Ended September 2012	Nine Months Ended September 2011
Net crude oil and gas sales	$ 870,369	$ 828,285	$ 2,838,073	$ 2,369,343
$ per boe oil and gas	95.13	88.66	98.43	88.71

Total crude oil and gas sales revenues in the third quarter of 2012 were $870.4 million, $42.1 million higher than the same period of 2011. Net sales increased by 5% despite the slight decrease in volume sold, as the Company was able to realize a higher combined price. Revenues include an amount of $7.3 million corresponding to the acquisition of PetroMagdalena completed on July 27, 2012. For additional details related to oil and gas sales, please refer to section 4 – Commercial Activities.

Following is an analysis of the revenue drivers for the third quarter of 2012 as compared to the same period of 2011:

	Q3 2012	Q3 2011	Q3 Differences	Q3 % Change
Total of boe sold (Mboe)	9,149	9,343	(194)	-2%
Avg. Combined Price - oil & gas and trading ($/bbl)	95.13	88.66	(6.47)	7%
Total Revenue (000$)	870,369	828,285	42,084	5%

Revenue increase due to the change in volume and price for the third quarter of 2012 in comparison to the same period of 2011 is as follows:

Drivers for the revenue increase (000$):		
Due to Volume	(17,184)	-41%
Due to Price	59,268	141%
	42,084	

Operating Costs

(in thousands of US$)	Three Months Ended September 2012	Three Months Ended September 2011	Nine Months Ended September 2012	Nine Months Ended September 2011
Oil and Gas Operating Costs	$ 303,564	$ 308,612	$ 1,071,407	$ 859,371
(Underlift) Overlift	4,847	18,061	(25,059)	12,770
Total Cost	**308,411**	**326,673**	**1,046,348**	**872,141**
$ per boe crude oil and gas	33.18	33.04	37.16	32.18
$ per boe Under/Overlift	0.53	1.94	(0.87)	0.48
$ Total average Cost per boe	**33.71**	**34.98**	**36.29**	**32.65**

Operating cost totaled $308 million, lower by 6% as compared to the same period of 2011. However, the Company maintained the same level of operating costs per boe produced during this quarter at $33.18 (excluding trading and overlift), compared to $33.43 for the second quarter of 2012, and $33.04 for the third quarter of 2011. During this quarter, there was no trading activity and the level of overlift was significantly lower in comparison to the same period of 2011. Total oil operating costs per barrel remains flat year over year in an average range of $35-$37 per barrel, despite the increase in water treatment costs and in-field transportation, due to optimizations resulting in other cost reductions.

Depletion, Depreciation and Amortization

(in thousands of US$)	Three Months Ended September 2012	Three Months Ended September 2011	Nine Months Ended September 2012	Nine Months Ended September 2011
Depletion, depreciation and amortization	$ 247,782	$ 147,787	$ 646,144	$ 482,826
$ per boe	27.08	15.82	22.41	18.08

Depletion, depreciation and amortization ("**DD&A**") costs for the third quarter of 2012 were $247.8 million ($147.8 million in the same period of 2011). The increase of 68% over 2011 was primarily due to additions to oil and gas properties that are subject to depletion, including the assets acquired as part of the PetroMagdalena acquisition, and an increase in production.

General and Administrative

(in thousands of US$)	Three Months Ended September 2012	Three Months Ended September 2011	Nine Months Ended September 2012	Nine Months Ended September 2011
General and administrative costs	$ 78,850	$ 37,912	$ 202,371	$ 104,781
$ per boe	8.62	4.06	7.02	3.92

General and administrative expenses for the third quarter of 2012 were $78.9 million, representing a $40.9 million increase from the same period in 2011. The increase in G&A costs were primarily due to:

- About half of the G&A increase is generated by the higher number of direct and indirect employees in 2012 due to the significant increase in the exploratory and producing activities of the Company. Total employees as of september 30, 2012 were 1,973, compared to 1,492 in the same period in 2011, a 32% increase.
- The remaining increase were mainly due to additional professional fees related to various asset acquisitions in Colombia, Brazil, Peru and Papua New Guinea, and increase in the cost of back office, office rental, field personnel and technical assistance to support the growth of production and exploration activities.

Share-Based Compensation

(in thousands of US$)	Three Months Ended September 2012	Three Months Ended September 2011	Nine Months Ended September 2012	Nine Months Ended September 2011
Share-based compensation	$ 1,036	$ 1,075	$ 32,049	$ 48,467
$ per boe	0.11	0.12	1.11	1.81

Share-based compensation decreased by $0.04 million or 3.6% to $1.04 million as compared to $1.08 million for 2011.

Finance Cost

(in thousands of US$)	Three Months Ended September 2012	Three Months Ended September 2011	Nine Months Ended September 2012	Nine Months Ended September 2011
Finance costs	$ (26,634)	$ (24,038)	$ (66,966)	$ (70,968)
$ per boe	(2.91)	(2.57)	(2.32)	(2.66)

Finance cost includes interest on bank loans, Debentures, Senior Notes, revolving credit commitment fees, finance leases and fees on letters of credit. For the third quarter of 2012, interest expense totaled $26.6 million compared to $24.0 million for the same period of 2011. The increased in finance costs is due to interest on the new senior notes and revolving credit facilities, as well as interest on PetroMagdalena's notes.

Equity Tax Expense

(in thousands of US$)	Three Months Ended September 2012	Three Months Ended September 2011	Nine Months Ended September 2012	Nine Months Ended September 2011
Equity Tax	$ -	$ -	$ -	$ (68,446)
$ per boe	-	-	-	(2.56)

On December 29, 2010, the Colombian Congress passed a law that imposes a surcharge on the existing equity tax levied on Colombian companies. This surcharge increased the equity tax rate for the Company from 4.8% to 6% and is applied on the net taxable equity as of January 1, 2011. The Company's total equity tax payable for the years 2012 to 2014 is $45.3 million, to be paid in four equal installments. Nevertheless, the Company has recognized the full equity tax payable on the consolidated statement of financial position with a corresponding expense in 2011. The amount recognized is calculated by discounting the eight future equity tax payments by the Company's weighted cost of capital at 10.8%.

Foreign Exchange

(in thousands of US$)	Three Months Ended September 2012	Three Months Ended September 2011	Nine Months Ended September 2012	Nine Months Ended September 2011
Foreign exchange (loss) gain	$ 3,929	$ (44,271)	$ (12,844)	$ (41,841)
$ per boe	0.43	(4.74)	(0.45)	(1.57)

Foreign exchange gains or losses primarily result from the movement of the Colombian peso (COP) against the U.S. dollar which is the Company's functional currency.

Foreign exchange gain for the third quarter 2012 was $3.9 million compared to a loss of $44.3 million for the same period 2011, primarily due to the unrealized gain/loss related to foreign currency hedging contracts.

Income Tax Expense

(in thousands of US$)	Three Months Ended September 2012	Three Months Ended September 2011	Nine Months Ended September 2012	Nine Months Ended September 2011
Current income tax	$ 82,594	$ 108,388	$ 346,301	$ 326,759
Deferred income tax	(11,531)	18,539	(94,260)	(68,167)
Total	**71,063**	**126,927**	**252,041**	**258,592**
$ per boe	7.77	13.59	8.74	9.68

The income tax rate in Canada was lowered to 26.5% for 2012 compared to 28.25% for 2011, and the tax rate remained at 33% in Colombia.

Income tax expense decreased during the third quarter of 2012, which is in line with earnings from operations. The effective tax rate on earnings from operations was 30% in the third quarter of 2012 (28% year-to-date) compared to 40% for the third quarter of 2011 (30% nine months 2011). The effective tax rate differs from the statutory rate of 33% in Colombia primarily due to foreign exchange effect in deferred income taxes and non-deductible (non-taxable) items.

During September 2012, the Colombian Government (Colciencias) granted the Company a tax incentive for its investments in R&D on the STAR technology. The incentive will provide an additional 75% deduction the expenditures incurred and the possibility to fully depreciate the asset in the first year. The resulting tax benefit on actual expenditures incurred is estimated to be $22.9 million, of which $14.3 million have been captured in the current year.

Current income tax represents the estimated provision and taxes paid for the period. Current income tax decreased to $82.6 million from $108.4 million during the same period of 2011 in line with a lower net taxable income.

Net Earnings

(in thousands of US$)	Three Months Ended September 2012	Three Months Ended September 2011	Nine Months Ended September 2012	Nine Months Ended September 2011
Net earnings	$ 68,817	$ 193,720	$ 551,506	$ 473,502
$ per boe	7.52	20.73	19.13	17.73

Net earnings for the third quarter of 2012 totaled $68.8 million compared to a net earnings of $193.7 million in 2011. Net earnings for the third quarter of 2012 were primarily impacted by higher DD&A as compared to the same period of 2011, as well as by a number of non-cash items totaling $61.9 million. These non-cash items are related to share-based compensation of $1.04 million, foreign exchange gain of $3.9 million, losses from equity investments of $38 million and loss on risk management contracts of $26.8 million. These non-cash items may or may not materialize in future periods. Excluding these items, the Company's adjusted net earnings were $130.7 million ($163.2 million in 2011) or $0.44 per basic common share ($0.60 in 2011).

Cash Flow from Operations

(in thousands of US$)	Three Months Ended September 2012	Three Months Ended September 2011	Nine Months Ended September 2012	Nine Months Ended September 2011
Cash flow from operations	$ 417,792	$ 305,451	$ 1,125,797	$ 741,527
$ per share, basic	1.42	1.13	3.83	2.75
$ per share, diluted	1.38	1.02	3.72	2.49

The Company continued to generate positive cash flow from operations as a result of the increase in production together with the increase in the combined realized oil and gas price. The cash flow from operations during the third quarter of 2012 totaled $417.8 million. This increase is primarily attributable to the 14% increase in the combined net back in 2012 as compared to the same period in 2011 ($61.42 per boe in 2012 versus $53.68 per boe in 2011).

Financial Position

EBITDA

Despite the drop in international crude oil prices during the quarter, the Company continues to deliver strong EBITDA.

EBITDA for the third quarter of 2012 totaled $483.1 million, which represents an increase of 4.2% compared to $463.7million in 2011. The increase is attributable to increased revenue, mainly generated from international oil sales (90%); EBITDA from gas and domestic sales contributed 9% and 1%, respectively. EBITDA in the third quarter of 2012 represents a 56% margin in comparison to total revenues for the period (56% margin in 2011).

Cumulative EBITDA for the nine months of 2012 totals $1,589.4 million, which is 14% higher than the EBITDA reported for the same period in 2011 of $1,392.4 million.

Debts and Credit Instruments

During the fourth quarter of 2011, the Company restructured its convertible debentures and senior notes, lowering the overall cost of borrowing and also providing the flexibility and capacity required for the Company to continue executing its business strategies. The Company was compliant with all of its debt covenants during the third quarter of 2012. The following debts are outstanding as at September 30, 2012.

2009 Senior Notes

The 2009 Senior Notes are direct, unsecured subordinated obligations with maturity dates of November 10, 2014 (33.3%), November 10, 2015 (33.3%), and November 10, 2016 (33.4%) and an interest rate of 8.75% payable semi-annually. The 2009 Senior Notes are on the Official List of the Luxembourg Stock Exchange and trade on the Euro MTF. The principal amount outstanding on the 2009 Senior Notes as at September 30, 2012 was $91 million.

2011 Senior Notes

The 2011 Senior Notes, due December 12, 2021, are direct, unsecured, subordinated obligations with an interest rate of 7.25% payable semi-annually. The 2011 Senior Notes are on the Official List of the Luxembourg Stock Exchange and trade on the Euro MTF. As the September 30, 2012 the principal outstanding on the 2011 Senior Notes was $712 million.

Revolving Credit Facility

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

These revolving credit facilities have an interest rate determined in accordance with the ratings assigned to the Company's senior debt securities by Standard & Poor's Ratings Group, Moody's and Fitch Inc. Based on the Company's credit rating as at December 31, 2011 and March 31, 2012, the interest rate was LIBOR plus 3.00% under the U.S. Dollar facility and DTF + 2.50% under the Colombian Peso Facility. In addition, the Company is required to pay commitment fees of 0.95% on the unutilized portion under the U.S. Dollar Facility and 0.40% under the Colombian Peso Facility of any outstanding commitments under the two facilities. As at September 30, 2012, the Company has drawn down $273 million on the U.S. Dollar Facility and $24.4 million on the Colombian Peso Facility. With the credit upgrade rating by Fitch from October 31, 2012 the new interest rate according with the credit agreement are LIBOR plus 2,75% under the U.S. Dollar facility and DTF + 2.25% under the Colombian Peso Facility.

Convertible Debentures

The Company has outstanding convertible unsecured subordinated debentures due August 29, 2013 (the "**Debentures**") of C$2.7 million in face amount as at September 30, 2012. The Debentures bear interest at 8% annually and are payable semi-annually. The outstanding Debentures are convertible into common shares of the Company at the rate of C$12.83 (2011 – C$12.83) per share, being equivalent to 77.9423 (2011 – 77.9423) common shares per C$1,000 face amount of Debentures, subject to adjustments pursuant to the indenture. As at September 30, 2012 the principal outstanding on the Debentures was C$2.7 million.

Letters of Credit

As at September 30, 2012, the Company has issued letters of credit and guarantees for exploration and operational commitments for a total of $232 million, out of which $7.1 million has outstanding collaterals.

Outstanding Share Data

Common Shares

As at September 30, 2012, 295,231,613 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, 2012, nil warrants to acquire an equal number of common shares were outstanding and exercisable and 25,235,665 stock options were outstanding, of which all were exercisable.

Liquidity and Capital Resources

Liquidity

Funds provided by operating activities for the third of quarter of 2012 totaled $417.8 million ($305.5 million in 2011). The increase in cash flow in 2012 was the result of the increase in production and higher combined crude oil and gas sale

prices. The Company has been generating cash flows from operations from the sale of crude oil and natural gas and continues to plan for increased future production.

As of September 30, 2012, the Company had working capital of $179.4 million, mainly comprised of $272.8 million of cash and cash equivalents, $715 million of account receivables, $156 million of inventory, $40.9 million of income tax receivable, $1.2 million of prepaid expenses, $849.3 million of accounts payable and accrued liabilities, $129.5 million of income tax payable, $7.2 million of current portion of long term debt and $20.5 million of finance lease obligations.

As at September 30, 2012, the Company has drawn down $273 million under the available $400 million U.S. Dollar Facility and has drawn down $24.4 million under the available $300 million Colombian Peso Facility.

The Company believes it has adequate resources to fund its capital plan for 2012, with the Company's cash flows from operations and current debt facilities. With respect to the Company's broader integration strategy, the Company will pay for the expansion plan with its own cash flow. However, if additional resources are required, there are possible sources of funds available to the Company to finance additional capital expenditures and operations including the revolving credit facility, existing working capital incurring new debt, and the issuance of additional common shares, if necessary.

10. Commitments and Contingencies

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

Disclosure concerning the Company's significant commitments can be found in Note 19 to the interim consolidated financial statements. The Company has no off-balance sheet arrangements.

11. Risk Management Contracts

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

Commodity price risk

Commodity price risk is the risk that the cash flows and operations of the Company will fluctuate as a result of changes in commodity prices. Significant changes in commodity prices can also impact the Company's ability to raise capital or obtain additional debt financing. Commodity prices for crude oil are impacted by world economic events that dictate the levels of supply and demand. From time to time the Company may attempt to mitigate commodity price risk through the use of financial derivatives. The Company recognizes the fair value of its derivative instruments as assets or liabilities on the statement of financial position. None of the Company's commodity price derivatives currently qualify as fair value hedges or cash flow hedges, and accordingly, changes in their fair value are recognized in earnings.

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

As at September 30, 2012

Asset

Instrument	Term	Volume (bbl)	Floor/ceiling or strike price ($/bbl)	Benchmark	Fair value
Zero cost collars	October 2012 to June 2013	6,716,646	70-75 / 121.50	WTI	$ 2,540
	Total				$ 2,540
	Current				2,540
	Total				$ 2,540

Liabilities

Instrument	Term	Volume (bbl)	Floor/ceiling or strike price ($/bbl)	Benchmark		Fair value
Call option	October to December 2012	3,210,000	120	WTI	$	(404)
Sold put	October to December 2012	3,210,000	61.5-64	WTI		(108)
Swap	October 2012	3,515,000	(14.46) / (19.44)	WTI		(9,244)
	Total				$	(9,756)
	Current					(9,756)
	Total				$	(9,756)

As at December 31, 2011

Instrument	Term	Volume (bbl)	Floor/ceiling or strike price ($/bbl)	Benchmark		Fair value
Call option	February 2012 to December 2012	8,790,000	109.50 -120	WTI	$	(29,353)
Sold put	August 2012 to December 2012	5,350,000	61.5 - 64	WTI		(8,732)
Zero cost collars	January 2012 to December 2012	10,051,404	70-80 / 115-121	WTI		(1,798)
	Total				$	(39,883)
	Short-term				$	(39,883)
	Total				$	(39,883)

For the three and nine months ended September 30, 2012, the Company recorded a loss of $26.8 million and a gain of $23.8 million (2011: gain of $63 million and $55.3 million) on commodity price risk management contracts in net earnings. Included in these amounts were $18.9 million of unrealized loss and $31.7 million of unrealized gain (2011: unrealized gain of $65.6 million and $60.2 million) representing the change in the fair value of the contracts, nil and $7.9 million and $8.9 million (2011:$2.6 million and $4.9 million) of realized loss resulting from premiums paid.

If the forward WTI crude oil price estimated at September 30, 2012 had been $1/bbl higher or lower, the unrealized gain or loss on these contracts would change by approximately $3 million (2011: $1.9 million).

Foreign currency exchange risk

The Company is exposed to foreign currency fluctuations against the U.S. dollar, the Company's functional currency. Such exposure arises primarily from expenditures that are denominated in currencies other than the functional currency. The Company monitors its exposure to foreign currency risks. To reduce its foreign currency exposure associated with operating expenses incurred in Colombian pesos ("**COP**"), the Company may enter into foreign currency derivatives to manage such risks. The Company has the following currency risk management contracts outstanding that qualify for cash flow hedge accounting:

As at September 30, 2012

Asset

Instrument	Term		Notional amount	Floor-ceiling (COP/$)		Fair value
Currency collar	October to December 2012	$	138,450	1815-1975	$	3,580
Currency collar	January to December 2013		415,000	1825-1930		9,126
		$	553,450		$	12,706
			Current		$	11,566
			Non-current			1,140
			Total		$	12,706

Liabilities

Instrument	Term	Notional amount	Floor-ceiling (COP/$)	Fair value
Currency collar	January to December 2013	$ 140,000	1825-1887	$ (1,154)
		$ 140,000		$ (1,154)
		Current		$ (447)
		Non-current		(707)
		Total		$ (1,154)

As at December 31, 2011

Instrument	Term	Notional amount	Floor-ceiling (COP/$)	Fair value
Currency collar	January to December 2012	$ 650,400	1805 - 1975	$ (27,504)
Currency collar	January to December 2013	120,000	1870 - 1930	(5,397)
		$ 770,400		$ (32,901)
		Current		$ (27,504)
		Non-current		(5,397)
		Total		$ (32,901)

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 as production and operating expenses in net earnings in the same period as the hedged operating expenses are incurred. During the three and nine months ended September, 2012, $2.3 million loss and $61 million gain respectively (2011: $24 million and $3.9 million unrealized losses) of unrealized loss and gain were initially recorded in other comprehensive income, and $3.9 million and $14.3 million (2011: $4.8 million and $12.4 million unrealized gains) were subsequently transferred to production and operating cost when the gains became realized. The Company excludes changes in fair value due to the time value of the investments 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, 2012, $5.4 million and 22.8 million (2011: $36.5 million and $41.4 million) of ineffectiveness was recorded as foreign exchange loss.

12. Selected Quarterly Information

	2012			2011				2010
(in thousands of US$)	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Financials:								
Net sales	$ 870,369	$ 1,035,854	$ 931,850	$ 1,011,476	$ 828,285	$ 957,509	$ 583,549	$ 516,731
Net earnings (loss) for the period	68,817	224,344	258,345	80,834	193,720	349,375	(69,593)	61,370
Earnings (loss) per share								
- basic	0.23	0.76	0.88	0.29	0.71	1.30	(0.26)	0.23
- diluted	0.23	0.74	0.85	0.28	0.65	1.17	(0.26)	0.22

13. Related-Party Transactions

Parties are considered related if one party has the ability to control (financially or by share capital) the other party or have significant influence (management) on the other party in making financial, commercial and operational decisions.

Related party transactions are measured at the carrying amount, unless it is in the normal course of business and has commercial substance or, if it is not in the normal course of business, the change in the ownership of interests in the item transferred or the benefit of a service provided is substantive and the exchange amount is supported by independent evidence. In these instances, related party transactions are measured at the exchange amount ($ thousands, or unless otherwise stated):

a) The Company leases office space in Bogota from an entity controlled by Blue Pacific Assets Corp. (“**Blue Pacific**”). Three directors and officers of the Company control, or provide investment advice to the holders of, 67.2% of the shares of Blue Pacific. The monthly rent under the lease agreement is $0.4 million.

b) As at September 30, 2012, the Company had trade accounts receivable of $4.5 million (December 31, 2011: $2.4 million) from Proelectrica, in which the Company has a 20.2% indirect interest and which is 31.49% owned by Blue Pacific. The Company's and Blue Pacific's indirect interests are held through Pacific Power Generation. Revenue from Proelectrica in the normal course of the Company's business was $8.1 million and $27.1 million for the three and nine months ended September 30, 2012 (2011: $7.1 million and $17.4 million).

c) During the three and nine months ended September 30, 2012, the Company paid $13.8 million and $30.1 million (2011: $12 million and $36.3 million) to Transportadora del Meta S.A.S. ("**Transmeta**") in crude oil transportation costs. In addition the Company has accounts receivable of $2.6 million to September 30, (December 31, 2011: $3.2 million) from Transmeta and accounts payable of $5.3 million (December 31, 2011: $5.5 million) to Transmeta as at September 30, 2012. Transmeta is controlled by a director of the Company.

d) Loans receivable in the aggregate amount of $346 (December 31, 2011: $490) are due from three management directors and three officers of the Company as at September 30, 2012. The loans are non-interest bearing and payable in equal monthly payments over 48 months. The loans were issued to these individuals in connection with costs incurred by them as a result of their relocation.

e) The Company has entered into aircraft transportation agreements with Petroleum Aviation Services S.A.S., a company controlled by a director of the Company. During the three and nine months ended September 30, 2012, the Company paid $3.8 million and $11.1 million (2011: $1.2 million and $5 million) in fees as set out under the transportation agreements. As at September 30, 2012, the Company has no accounts payable to Petroleum Aviation Services S.A.S., (December 31, 2011: $0.2 million).

f) During the three and nine months ended September 30, 2012, the Company paid $35.5 million and $80.9 million to ODL (2011: $31.1 million and $55.6 million) for crude oil transport services and has accounts payable of $21.2 million to ODL as at September 30, 2012 (December 31, 2011: Nil). The Company received $0.4 million and $0.8 million from ODL during the three and nine months ended September 30, 2012 (2011: Nil and $1.6 million) with respect to certain administrative services and rental equipment and machinery.

g) The Company will make loans to OBC for up to $237.3 million, with the principal being repaid in 10 equal semi-annual installments over a five-year term. The loans carry an annual interest rate of 7.32% with semi-annual interest payments. As at September 30, 2012 the balance of loans outstanding to the Company under the agreement is $32 million, (December 31, 2011: $102.3 million). The Company has accounts receivable of $2.1 million as of September 30, 2012 (2011: Nil) with respect to certain administrative services and rental equipment and machinery. Interest of $3.2 million and $5.2 million was paid on the loans during the three and nine months ended September 30, 2012.

h) The Company has accounts receivable of $0.5 million as at September 30, 2012 (December 31, 2011: $0.5 million) from Oil Aviation Services, a company controlled by a director of the Company, for aircraft transportation expenses.

i) As at September 30, 2012, the Company has accounts payable of $0.1 million (December 31, 2011: $0.4 million) to Helicopteros Nacionales de Colombia ("**Helicol**") with respect to air transportation services and paid during the three and nine months ended September 30, 2012 $0.1 million and $2.2 million for this service (2011: nil). Helicol is controlled by a director of the Company.

j) During October 2012 the Company entered into an agreement and consent with Pacific Coal, Blue Advanced Colloidal Fuels Corp. ("Blue ACF"), Alpha Ventures Finance Inc. ("Alpha"), and an unrelated party whereby the Company acquired from Pacific Coal a right to a 5% equity interest in Blue ACF for cash consideration of $5 million. Blue ACF is a company engaged in developing colloidal fuels, and is currently 100% owned by Alpha which is controlled by Blue Pacific. As part of the purchase Pacific Coal has also assigned to the Company the right to acquire up to an additional 5% equity interest in Blue ACF for an additional investment of up to $5 million. The Company currently has a 14% equity interest in Pacific Coal.

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

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

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.

The Company's corporate internal audit department provides support to the Board of Directors, Audit Committee, and management, and contributes to the continuous improvement strategies of the organization. The corporate audit process provides reasonable assurance over the:

- Evaluation of design and operating effectiveness of internal controls over financial reporting and disclosure controls and procedures as promulgated by NI 52-109 as issued by the CSA,
- Effectiveness and efficiency of operations,
- Reliability of internal and external reporting, and
- Compliance with applicable laws and regulations.

On a quarterly basis, Corporate Audit evaluates the effectiveness of the DC&P and ICFR, encompassed within the requirements of NI 52-109. During this quarter the evaluation was performed for 212 controls over 21 corporate processes.

From this evaluation the Company concluded that there are no material weaknesses or significant deficiencies in the design and effectiveness of the controls evaluated. The identified control deficiencies and opportunities to improve the ICFR are in the following main areas:

- Contracting management procedures
- System access control
- Operatational equipment maintenance program

During the third quarter of 2012, Corporate Audit continued activities focused on identifying, evaluating, and addressing critical and material risks for the organization. Following are some of the most significant risks reviewed, as well as the actions initiated by management to mitigate them:

- Regulatory compliance: Some of the activities included the review and update of the governance programs, which included the Corruption of Foreign Public Officials Act ("**CFPOA**"), anti-money laundering training program, and the update of all regulatory obligations the Company has in different countries.
- Price and exchange rate volatility: The review was focused on hedging process and strategies, improving the automated environment to gain greater control of the Cash Flows at Risk.
- Potential increased fraud risk: Fraud risk assessment was performed to identify fraud risks schemes related to asset misappropriation, corruption and financial fraud and included employee fraud awareness training to help maintain fraud-resistance. The results were used to prioritize fraud detection efforts toward key current fraud risks, and review of segregation of duties controls and other fraud controls.
- Data security and privacy protection: The review was focused on the implementation of tools to protect the access to the network and the implementation of application security, the use of tools for continuous auditing and monitoring, and the strengthening of the IT control environment in accordance with the standards.
- Stakeholder relations: The Company has established a secure support and understanding among multiple stakeholders preparing and managing emerging issues.
- Security: The analysis and understanding of the security issues that has increased in different areas where the Company has operations initiated the implementation of programs to mitigate them.

15. Outlook

The Company will continue working on increasing its reserves base, production and transportation capacity. Capital spending in 2012 is focused on: (1) expanding the Company's production in its flagship Rubiales/Piriri and Quifa SW oil fields; (2) growing production at the newly commissioned Cajúa commercial area in Quifa North and in the Sabanero oil blocks; (3) advancing its CPE-6 and Quifa North property toward commercial oil production; (4) acquisition of exploration and production assets in Colombia; (5) continuing drilling and seismic activities on its extensive high impact exploration portfolio in Colombia, Peru and Guatemala.

Highlights of the fourth quarter 2012 program include:

- A ramp-up of oil production in the Rubiales, Quifa SW and Quifa North areas driven by the receipt of the environmental license for incremental water injection at Rubiales and commerciality approval for the Cajúa field in the Quifa North area, targeting an exit rate of 250,000 bbl/d gross field production.

- Total capital expenditures of $592 million, a small increase over 2011, with exploration accounting for approximately 26% of the total budget. The capital program is expected to be entirely funded from internally generated funds and cash on hand in an expected oil price environment of $95 WTI.

- Exploration expenditures of $93 million, includes drilling an additional 10 exploratory wells, seismic data acquisition and early facilities. In the total drill program, approximately nine exploration wells are targeting high impact prospects, including wells in the CPO-1, CPE-6, CPO-12, CPO 17, Quifa and Sabanero blocks.

- $218 million drilling a planned 285 gross (141.75 net) development wells, a significant increase over 2011, with activity driven by development of the Quifa SW field, the Quifa North and Sabanero blocks, and on-going infill drilling at Rubiales/Piriri.

- $270 million facilities expenditure, with approximately 35% directed to Quifa, 29% to Rubiales/Piriri, 8% to Sabanero, 7% to CPE6; 6% to Project Star and the remainder to other projects.

16. Additional Financial Measures

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

a) Funds Flow

The following table shows the reconciliation of funds flow from operations to cash flow from operating activities for the three and nine month periods ended September 30, 2012 and 2011:

	Three Months Ended September		Nine Months Ended September	
(in thousands of US$)	**2012**	**2011**	**2012**	**2011**
Cash flow from operating activities	417,792	305,451	1,125,797	741,527
Changes in non-cash working capital	69,467	(44,479)	(30,215)	(275,312)
Funds flow from operations	**348,325**	**349,930**	**1,156,012**	**1,016,839**

b) EBITDA

A reconciliation of Net Earnings to EBITDA follows:

(in thousands of US$)	Three Months Ended September 2012	Three Months Ended September 2011	Nine Months Ended September 2012	Nine Months Ended September 2011
Net earnings	**$ 68,817**	**$ 193,720**	**$ 551,506**	**$ 473,502**
Adjustments to net earnings				
Income taxes expense	71,063	126,927	252,041	258,592
Foreign exchange loss (gain)	(3,929)	44,271	12,844	41,841
Finance cost	26,634	24,038	66,966	70,968
(Gain) loss on risk management contracts	26,806	(63,027)	(23,793)	(55,289)
(Gain) loss from equity investment	37,977	(12,859)	42,082	(1,770)
Other expense	6,922	1,768	9,515	4,838
Share-based compensation	1,036	1,075	32,049	48,467
Equity tax	-	-	-	68,446
Depletion, depreciation and amortization	247,782	147,787	646,144	482,826
EBITDA	**483,108**	**463,700**	**1,589,354**	**1,392,421**

c) Adjusted Earnings

Adjusted earnings from operations are a non-IFRS financial measure that represents net earnings adjusted for certain items of a non-operational nature including non-cash items. The Company evaluates its performance based on adjusted net earnings from operations. The reconciliation “Adjusted Net Earnings from Operations”, lists the effects of certain non-operational items that are included in the Company´s financial results and may not be comparable to similar measures presented by other companies.

17. Sustainability Policies

The Company has established guidelines and management systems to comply with the laws and regulations of Colombia and other countries in which it operates, and beyond that to ensure sustainable development is one of the Company’s priorities. In the past, the Company has engaged with its various stakeholders to ensure that as the Company grows, its consideration for the environment, its employees, and other stakeholders also continues. The Company devotes significant time and resources to achieve its environmental, social, transparency, human rights, and safety performance goals, among others.

The Company is committed to the promotion and respect of human rights in its operations, and with this in mind, the Company has initiated activities related to strengthen and align security process and systems with the key elements for managing potential Human Rights. The Company has also initiated Human Rights training for private security in Bogotá and it’s different fields around Colombia and has created a Gender Committee at a managerial level, responsible for leading the process of integrating a gender perspective in policies, programs, processes and systems of the Company, and implementing best practices.

In June 2011, the Company announced its support for the Extractive Industries Transparency Initiative (the “**EITI**”). The EITI is an international non-profit organization formed in 2002 at the World Summit for Sustainable Development in South Africa. The EITI supports improved governance in resource-rich countries through the verification and full publication of company payments and government revenues from oil, gas and mining. Currently, more than fifty of the largest oil, gas and mining companies have chosen to become EITI supporting companies. Pacific Rubiales is the first company in Colombia internationally committed to the EITI standards and is focusing efforts in taking a leading role in the implementation of EITI in Colombia by collaborating with all stakeholders within the EITI. In Canada, which is an EITI supporting country, and Peru and Guatemala, which are EITI candidate countries, Pacific Rubiales is committed to actively supporting EITI processes.

With respect to how the Company manages the impacts of climate change, in 2012 Pacific Rubiales disclosed information in the Carbon Disclosure Project. Accordingly, Pacific Rubiales would integrate into its business strategy the need to document, control and eventually reduce carbon emissions.

In 2011, the Board of Directors appointed a Sustainability Committee to assist the Board of Directors in carrying out the Company’s corporate sustainability policies, including environmental, social, health, safety and ethical matters. This

Committee is responsible for advising the Board of Directors, committees of the Board of Directors and executive management on such matters.

The Jantzi Social Index of the Canadian Stock Market added Pacific Rubiales Energy on September 24, 2012. The JSI, a socially screened, market capitalization-weighted common stock index modeled on the S&P/TSX 60 consists of 60 Canadian companies that pass a set of broadly based environmental, social, and governance rating criteria.

This inclusion recognizes that the Company has demonstrated strong policies and management systems to mitigate the risks associated with operating in high risk countries, emphasizing that:

Pacific Rubiales became a signatory to the UN Global Compact in January 2011 and is a founding member of a regional network supporting the Global Compact in Latin American and the Caribbean.

Pacific Rubiales commits to engaging with indigenous groups prior to the formal consultation process to ensure informed consent. Pacific Rubiales' human rights policy includes commitments to respect the rights of all individuals indirectly and directly affected by its operations and to educate employees on human rights. The Company also discloses initiatives to align security processes with its human rights standards.

The Company has an integrated health, safety, environment, and quality management system which is certified to ISO 14001, ISO 9001, and OSHAS 18001 and has developed a management and monitoring program for atmospheric emissions and air quality.

By September 24, 2012, the company is also a component of the STOXX® Global ESG Leaders indices – an innovative series of environmental, social, and governance (ESG) equity indices that are based on a completely transparent selection process.

This index model allows investors to understand which factors determine a company’s ESG rating and why these factors are important.

In addition, on September 21, 2012, the Chartered Institute of Purchasing and Supply (CIPS) from the United Kingdom and member of the Royal Charter, has awarded the Company with the Purchasing, Policies and Procedures (PPP) Certificate, after a professional evaluation and analysis on best practices and continuous improvement in the Supply Chain Management processes and procedures. PRE is now one of the 104 companies certified around the world in different industries; 16 of them in Energy.

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

18. Legal Notice – Forward-Looking Information and Statements

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

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

properties may not reflect the same confidence level as estimates of reserves and future net revenue for all properties, due to the effects of aggregation.

19. Risks and Uncertainties

The business 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;
- Payment of dividends;
- Environmental licenses & required permits;
- Security;
- Partner relationship;
- Oil & gas transportation;
- Availability of diluents;
- Water disposal;
- Talent attraction & retention;
- Labor relations;
- HSE works;
- Community relations;
- Fraud;
- Foreign exchange rate fluctuation;
- Business continuity;
- Regulatory compliance; and
- Shareholder relations.

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

20. Advisories

Finding Costs

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

Boe Conversion

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

21. Abbreviations

The following list of abbreviations is used in this document

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