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PACIFIC RUBIALES ENERGY CORP.

MANAGEMENT DISCUSSION AND ANALYSIS
May 8, 2013
Form 51-102 F1
For the three month ended March 31, 2013

1. Preface

This Management Discussion and Analysis ("**MD&A**") contains forward-looking information and is based on the current expectations, estimates, projections and assumptions of Pacific Rubiales Energy Corp. This information is subject to a number of risks and uncertainties, many of which are beyond the Company's control. Users of this information are cautioned that actual results may differ materially. For information on material risk factors and assumptions underlying our forward-looking information, see page 35.

This MD&A is management's assessment and analysis of the results and financial condition of the Company, and should be read in conjunction with the accompanying consolidated financial statements for the first quarter of 2013, and the 2012 audited annual consolidated financial statements and related notes. The preparation of financial information is reported in United States dollars and is in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("**IASB**") unless otherwise noted. All comparative percentages are between the quarters ended March 31, 2013 and March 31, 2012, unless otherwise stated. The following financial measures: (i) EBITDA; (ii) funds flow from operations; and (iii) adjusted net earnings from operations, as referred to in this MD&A, are not prescribed by International Financial Reporting Standards ("**IFRS**") and are outlined under "Additional Financial Measures" on page 33. All references to net barrels or net production reflect only the Company's share of production and after deducting royalties. A list of abbreviations for oil and gas terms is provided on page 38.

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 19.

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

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

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

2. First Quarter 2013 Highlights

During the first quarter of 2013, the Company continued its trend of production growth and exploratory success, leveraging its technical know-how and operational expertise. The results for this quarter underline the strength of the Company's assets, operational activity, capacity to increase production and delivery of robust financial results. Management is focused on meeting challenging operational goals, pursuing an ambitious exploration and production ("**E&P**") program, while delivering on its paramount strategic focus: Growth.

Highlights of the Company's activities during the first quarter ended March 31, 2013 include:

- **37% increase in daily net production**. During the first quarter of 2013, the average net production after royalties and internal consumption in Colombia and Peru totaled 127,889 boe/d (307,138 boe/d total field production), up by 37% compared to the same quarter of 2012. In Colombia average net production reached 126,428 boe/d (304,156 boe/d total field production) and reached 1,461 bbl/d (2,982 bbl/d total field production) in Peru.

- **55% increase in certified Prospective Resources**. On April 15, 2013, the Company announced the results of an independent resource assessment for 37 of the Company's blocks in Colombia (24), Peru (4), Brazil (5), Guyana (1), Guatemala (2) and Papua New Guinea (1), with an effective date of September 30, 2012. This resource report shows that the best-case estimate of total gross Prospective Resources attributed to the Company has grown to 4.3 Bboe from 2.8 Bboe in 2011. Also, the Company obtained certified best-case estimate Contingent Resources of 168 MMboe total gross, compared to 4 MMboe in 2011.

- **35% increase in revenue**. Revenue for the first quarter of 2013 increased to $1,259 million from $932 million in the same period of 2012 due to higher production. Consolidated net earnings for the first quarter of 2013 were $122 million or $0.38 per common share, compared to $258 million, or $0.88 per common share in 2012. Adjusted net earnings from operations before non-cash items for the first quarter of 2013 were $147 million compared to $290 million for the same period in 2012.

- **EBITDA higher by 28%**. EBITDA for the first quarter of 2013 totaled a record amount of $695 million, compared to $542 million during the first quarter of 2012. EBITDA for the first quarter of 2013 represented a 55% margin on total revenues for the period. Funds flow and cash flow from operations increased to $506 million and $623 million compared to $392 million and $576 million in 2012, respectively.

- **Strong operating netbacks**. Combined oil and gas netback for the first quarter of 2013 was $60.88/boe, 31% higher than in the fourth quarter of 2012 ($46.44/boe). Crude oil operating netback during the first quarter of 2013 was $63.34/bbl or 33% higher in comparison to the fourth quarter of 2012 ($47.61/bbl), in part due to reduction in oil operating costs from $43.01/bbl in the fourth quarter of 2012 to $38.55/bbl in the first quarter of 2013.

- **Acquisitions**: On March 27, 2013, the Company exercised its option to acquire a 35% participating interest in a third exploration well in offshore Brazil, currently operated by Karoon Petróleo & Gas Ltda. ("**Karoon**"). The Company's participation is subject to governmental approval. Pursuant to the terms of the agreement, the Company will fund up to $70 million of the Bilby-1 exploration well, which is currently being drilled.

  During the first quarter of 2013, the Company increased its interest in Pacific Infrastructure Ventures Inc. (formerly Pacific Infrastructure Inc.) ("**Pacific Infrastructure**") from 49.4% to 56.3%. As a result, the Company acquired control of Pacific Infrastructure and the financial results of Pacific Infrastructure have been consolidated in the Company's financial statements since the acquisition of control.

  On April 26, 2013, the Company closed a private placement financing of CGX Energy Inc. ("**CGX Energy**") in the amount of C$35 million pursuant to the terms of a binding term sheet signed on March 25, 2013. The Company's interest in CGX Energy increased from 35.06% to 63% and Pacific Rubiales nominated five of the eight directors of CGX Energy, effectively acquiring control of the company.

- **New discoveries in exploration blocks.** The exploration drilling campaign during this quarter resulted in a total of four new discoveries, three in Colombia and one in offshore Brazil. In Colombia, the Copa D-1 well in the Cubiro Block and the Yaguazo-1 well in the Arrendajo Block in the Llanos Basin resulted in new light oil discoveries; and the Manamo-1X well in the Guama Block of the Lower Magdalena Basin resulted in a natural gas condensate discovery. Also, in the Cubiro Block the Copa Norte 1 appraisal well was successful and confirmed the extension of the reservoir. In Brazil, the Kangaroo-1 exploration well was drilled in Block S-M-1101 and discovered a light oil accumulation in Eocene sands in a post salt structure located in the offshore Santos Basin. On May 6, 2013, the Company announced an oil discovery in the Bilby-1 exploration well, currently drilling on block S-M-1166, also in the Santos Basin. The Company's participation in Brazil is subject to governmental approval.

- **Declaration of commerciality in Sabanero.** On March 19, 2013, Maurel et Prom Colombia B.V. ("**Maurel et Prom Colombia**"), the operator of the Sabanero Block, declared commerciality for the Sabanero field, located in the southeastern part for the block. The Company holds a 49.999% indirect equity interest in Maurel et Prom Colombia, which owns a 100% working interest in the Sabanero Block.

- **Continued exploration programs in Colombia and Brazil**. During the first quarter of 2013, total net exploration capital expenditure of $78 million consisted of the drilling of 8 exploratory wells (including one appraisal) and completing 129 km of 2D and 795 km^2 of 3D seismic.

- **Environmental permit for Quifa SW and Quifa East**. On March 22, 2013, the Company received the environmental permit to expand development drilling activity and facilities in the "Quifa Hydrocarbon Exploitation Area", which covers both the Quifa SW producing oil field as well as the Quifa East exploration area. This permit will allow the Company to continue ramping up production in Quifa SW and restart drilling activities in the exploration area.

- **Capital expenditures**. Capital expenditures excluding acquisitions during the first quarter of 2013 totaled $604 million ($267 million in 2012). Of this amount, $147 million were invested in the expansion and construction of production infrastructure; $78 million on exploration activities (including drilling, seismic, and other geophysical activities) in Colombia, Peru and Guatemala; $154 million on development drilling; $199 million related to Karoon, Portofino and Papua New Guinea farm-ins and $26 million in other projects, which included the Company´s Synchronized Thermal Additional Recovery ("**STAR**") pilot project at Quifa SW.

- **Issuance of $1 billion of senior unsecured notes**. On March 28, 2013, the Company closed senior unsecured notes for $1 billion in principal at a rate of 5.125%, maturing in 2023, completing its third debt financing in the international capital markets in the past three years, supported by its improved credit agency ratings and financial performance. The net proceeds from the notes are being used by the Company primarily to repay its outstanding short-term debt, releasing the revolving credit facility, while extending its credit profile and strengthening its overall capital structure.

- **Credit rating upgrade**. On March 15, 2013, Standard & Poor's Rating Services raised its corporate credit and senior unsecured debt rating on the Company to "BB+" from "BB". The rating outlook is stable. S&P also indicated that the upgrade is based on the Company's improved diversification in 2012 due to its acquisitions, mitigating the risk of a significant decrease in cash generation from 2016 with the expiration of the Rubiales and Piriri concession.

- **Intention to make a normal course issuer bid**. In April, 2013, the Company filed a Notice of Intention with the Toronto Stock Exchange (the "**TSX**") to commence a normal course issuer bid to purchase up to a maximum of 31,075,887 common shares, which represents 10% of the public float of the Company as of April 26, 2013. Given the strength of the Company's balance sheet, the Company is currently evaluating methods by which to return value to shareholders, which includes repurchasing shares and/or increasing the quarterly dividend. Senior management is in the process of evaluating these alternatives and will submit a proposal to the board of directors by the end of the second quarter.

- **Dividend**. On March 26, 2013, the Company paid a cash dividend in the aggregate amount of approximately $35 million or $0.11 per Common Share.

3. Financial and Operating Summary

Financial Summary

A summary of the financial results for the three months ended March 31, 2013 and 2012 are as follows:

(in thousands of US$ except per share amounts or as noted)	Three Months Ended March 31 2013	2012
Oil and gas sales	**$ 1,258,762**	$ 931,850
EBITDA [(1)]	**694,724**	542,223
EBITDA Margin (EBITDA/Revenues)	**55%**	58%
Per share - basic ($) [(2)]	**2.16**	1.85
Net earnings attributable to equity holders of the parent	**121,954**	258,345
Per share - basic ($) [(2)]	**0.38**	0.88
Cash Flow from Operations	**622,533**	576,099
Per share - basic ($) [(2)]	**1.94**	1.97
Adjusted Net earnings from operations	**146,934**	290,011
Per share - basic ($) [(2)]	**0.46**	0.99
Non-operating items	**24,980**	31,666
Funds Flow from Operations [(1)]	**506,160**	392,464
Per share - basic ($) [(2)]	**1.58**	1.34

1. *See "Additional Financial Measures" on page 33.*
2. *The basic weighted average number of Common Shares outstanding for the first quarter of 2013 and 2012 was 321,344,499 and 292,413,849, respectively.*

Net earnings for the first quarter of 2013 totaled $122 million and include a number of non-operating and non-cash items totaling $25 million, mainly related to mark-to-market gain/losses on derivatives, loss from equity investments, foreign exchange gain/losses and share-based compensation. These items may or may not materialize or reoccur in future periods. Net earnings from operations before non-cash items for the first quarter of 2013 were $146.9 million compared to $290 million in the same period of 2012. The reconciliation of net earnings from operations to net earnings is as follows:

(in thousands of US$)	Three Months Ended March 31 2013	2012
Net earning from operations [(1)]	**$ 146,934**	**$ 290,011**
Non-operating items		
(Loss) gain on risk management	**(5,651)**	7,920
Share-based compensation	**(35,532)**	(30,394)
Gain (loss) from foreign exchange	**17,835**	(11,949)
(Loss) gain from equity investments	**(1,632)**	2,757
Total non-operating items	**(24,980)**	**(31,666)**
Net earnings attributable to equity holders of the parent, as reported	**121,954**	**258,345**

1. *See "Additional Financial Measures" on page 33.*

Net earnings from operations is a non-IFRS financial measure that represents net earnings adjusted for certain items of a non-operational nature, including non-cash items. Net earnings from operations is one of the indicators against which the Company evaluates its performance. The reconciliation "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.

Operating Summary

Operating netback per barrel of oil equivalent ("boe") sold

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

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

	Three months ended March 31					
	2013			2012		
	Crude Oil	Natural Gas	Combined	Crude Oil	Natural Gas	Combined
Average daily volume sold (boe/day)(1)	**128,641**	**11,114**	**139,755**	**77,829**	**10,858**	**88,687**
Operating netback ($/boe)						
Crude oil and natural gas sales price	102.06	40.26	97.14	110.96	41.45	102.45
Production cost of barrels sold (2)	12.89	4.49	12.22	9.42	2.59	8.58
Transportation (trucking and pipeline) (3)	15.66	0.05	14.42	13.47	0.06	11.83
Diluent cost (4)	9.32	-	8.58	13.99	-	12.27
Other costs (5)	0.68	2.91	0.86	(2.40)	2.28	(1.83)
Total operating cost	**38.55**	**7.45**	**36.08**	**34.48**	**4.93**	**30.85**
Overlift/Underlift (6)	0.17	0.29	0.18	(2.45)	(0.04)	(2.16)
Operating netback crude oil and gas ($/boe)	**63.34**	**32.52**	**60.88**	**78.93**	**36.56**	**73.76**

Crude oil trading	Three months ended March 31	
	2013	**2012**
Average daily volume sold (boe/day)	**3,895**	**10,221**
Operating netback ($/boe)		
Crude oil traded	105.24	112.94
Cost of purchases of crude oil traded	101.55	109.31
Operating netback crude oil trading ($/boe)	**3.69**	**3.63**

The combined crude oil and gas operating netback during the first quarter of 2013 was $60.88/boe, lower by $12.88/boe as compared to the first quarter of 2012 ($73.76/boe). Excluding trading, combined average daily volume sold increased from 88,687 boe/d in the first quarter of 2012 to 139,755 boe/d in 2013. Crude oil operating netback during the first quarter of 2013 was $63.34/bbl, 20% lower as compared to the same period of 2012 ($78.93/bbl) and crude oil trading operating netback was $3.69/bbl, 2% higher as compared to the same period of 2012 ($3.63/bbl). Natural gas operating netback was $32.52/boe, 11% lower in comparison with the same period of 2012 ($36.56/boe). The main reasons for the lower operating netback in the first quarter of 2013 as compared to the same period of 2012, are as follows:

- The reduction is in line with the lower combined oil and gas realized prices in the first quarter 2013 ($97.14/boe) as compared to the first quarter of 2012 ($102.45/boe).
- Production costs in the first quarter of 2013 increased by $3.64/boe as compared to the same period of 2012, mainly due to the significant increase in oil production and water disposal at the Rubiales, Quifa and Cajua fields. Land transportation costs were higher at the Cajua field, which started comerciality during the third quarter 2012.
- Transportation costs increased $2.59/bbl as a result of the incremental oil production from the Rubiales, Quifa, Cajua fields and the recent acquisitions of PetroMagdalena Energy Corp. ("**PMD**") and C&C Energia Ltd. ("**C&C**"), which was fully transported by truck to access pipeline facilities at Guaduas, Vasconia and the Atlantic Coast, while waiting on new pipeline capacity (Bicentenario pipeline project and OCENSA negotiations). In addition, since July 2012 pipeline tariffs have increased by approximately 3%.

First Quarter of 2013 compared to Fourth Quarter of 2012

	Three months ended March 31, 2013			Three months ended December 31, 2012		
	1Q, 2013			4Q, 2012		
	Crude Oil	Natural Gas	Combined	Crude Oil	Natural Gas	Combined
Average daily volume sold (boe/day)[1]	**128,641**	**11,114**	**139,755**	**107,392**	**11,031**	**118,423**
Operating netback ($/boe)						
Crude oil and natural gas sales price	102.06	40.26	97.14	99.83	43.80	94.61
Production cost of barrels sold [2]	12.89	4.49	12.22	14.78	6.61	14.02
Transportation (trucking and pipeline) [3]	15.66	0.05	14.42	14.57	0.01	13.22
Diluent cost [4]	9.32	-	8.58	8.52	-	7.72
Other costs [5]	0.68	2.91	0.86	5.14	2.99	4.94
Total operating cost	**38.55**	**7.45**	**36.08**	**43.01**	**9.61**	**39.90**
Overlift/Underlift [6]	0.17	0.29	0.18	9.21	(0.89)	8.27
Operating netback crude oil and gas ($/boe)	**63.34**	**32.52**	**60.88**	**47.61**	**35.08**	**46.44**

1. *Combined operating netback data based on weighted average daily volume sold which includes diluents necessary for the upgrading of the Rubiales blend.*
2. *Cost of production mainly includes lifting cost and other direct production cost such as fuel consumption, outsourced energy, fluid transport (oil and water), personnel expenses and workovers, among others. Increases in the oil production cost are driven by higher fluid (mainly water) production which affects fuel consumption, outsourced energy and fluid transport costs, as compared to prior period of 2012.*
3. *Includes the transport costs of crude oil and gas through pipelines and tank trucks incurred by the Company to take the products to the delivery points to customers.*
4. *See additional discussion on diluent costs below.*
5. *Other costs mainly correspond to inventory fluctuation, storage cost and the net effect of the currency hedges of operating expenses incurred in Colombian pesos during the period; as well as royalties on gas production, and external road maintenance at the Rubiales field.*
6. *Corresponds to the net effect of the overlift position for the period amounting to $2.3 million, which generated an increase in the combined costs to $0.18/boe as explained in "Discussion of 2013 Financial Results – Financial Position – Operating Costs" on page 21.*

The combined crude oil and gas operating netback during the first quarter of 2013 was $60.88/boe, 31% higher in comparison to the fourth quarter of 2012 ($46.44/boe), mainly due to the following reasons:

- Increase in the combined realized oil and natural gas price to $97.14/boe in the first quarter of 2013 from $94.61/boe in the fourth quarter of 2012 coupled with an 18% increase in production during the current quarter.
- Reduction in overlift cost related to the Quifa contract high-prices clause (the "**PAP**"), which was first recognized during the fourth quarter of 2012. For the first quarter of 2013, a total of 221,604 bbl were recognized as an overlift in respect to the Quifa PAP, as compared to the fourth quarter of 2012 when the Company recognized for the first time a total volume of 1,393,252 bbl.
- Reduction of 13% in lifting cost as compared to the fourth quarter 2012, mainly atributable to (i) lower volume of water disposed due to the shutdown of certain producing wells with high water content and the drilling of new development wells; (ii) lower road maintenance costs; and (iii) reduction in land transportation cost at the Cajua and Quifa field due to a renegotiation of transport contracts.

Diluent Costs

During the first quarter of 2013 oil diluent cost decreased by 30% to $8.58/bbl from $12.27/bbl in the same period of 2012. During this period the Company purchased diluents with lower blending ratios (from 15.70% in the first quarter of 2012 to 14.09% for the current quarter), which primarily consisted of natural gasoline. The per barrel diluent cost was lower despite the fact that diluent prices, storage, and trucking fees were higher in the first quarter of 2013 compared to the same period of 2012 by $2.65/bbl; at the same time Castilla sales increased by 20% (13,200 bbl/d). Diluent cost increased slightly from $7.72/bbl for the fourth quarter of 2012 to $8.58/bbl in the first quarter of 2013, mainly due to higher natural gasoline prices.

For the purpose of blending the Rubiales crude oil, the Company used 9,607 bbl/d of diluents during the first quarter of 2013 compared to 8,549 bbl/d in the same period of 2012. These volumes are included in the average daily volume of crude oil sold.

The Company also uses net diluent cost (average sale price less purchase and other costs) for internal monitoring and cost analysis, considering that the volume of diluent required to upgrade our Rubiales heavy crude was approximately 14% per barrel of heavy oil produced during the current quarter. The table below provides the details on the average net cost for blending the Rubiales crude for the Company.

Adjusted Net Cost of Diluent (US$/bbl)	Three Months Ended March 31	
	2013	**2012**
Average diluent purchase price	124.86	122.21
Pipeline fees	11.33	11.66
Average Rubiales blend sales price	(102.31)	(110.34)
Net diluent cost per barrel	33.88	23.53
Average blending ratio	14.09%	15.70%
Net Blend cost per barrel	**4.77**	**3.69**

On a net cost basis, adjusted net blending cost of Rubiales crude increased to $4.77/bbl in the first quarter of 2013 from $3.69/bbl in the same period of 2012 (29%). This increase was mainly due because lower Castilla sale prices and slightly higher diluent prices (consisting mainly of natural gasoline), compensated by an improved blending average ratio of 14.09%.

Moving forward the Company has a strategy for reducing diluent costs through a number of steps, including:

- Lowering diluent volume at Rubiales by blending 16° API at ODL instead of the previous ratio of 18° API.
- The new blending facilities recently completed at Cusiana Station and the OBC in the near future will allow the Company to use our own light crude production in place of purchased diluents. See additional details in Section 6 Project Status.

Reconciliation of volumes produced vs. volumes sold

The following is a reconciliation of volumes produced or purchased in Colombia compared to combined crude oil and natural gas volumes sold during the first quarter, including a breakdown of crude oil production and diluent and crude oil trading purchases:

Combined Production and Sales Volumes (boe/day) [1]	Three months ended March 31			
		2013		**2012**
	Oil	**Gas**	**Combined**	**Combined**
Average total field production	295,122	12,016	307,138	236,958
Share before royalties	142,906	11,110	154,016	109,624
Average net production (after royalties and field consumption)	116,779	11,110	127,889	93,573
Beginning inventory (ending inventory December 31)	17,634	-	17,634	26,803
Average net production (after royalties and field consumption)	116,779	11,110	127,889	91,870
Purchases of diluents and oil for trading [1]	13,153	-	13,153	19,012
Other inventory movements [2]	(2,635)	4	(2,631)	(3,806)
Ending inventory March 31.	(12,395)	-	(12,395)	(34,971)
Average daily volume sold (boe/day)	**132,536**	**11,114**	**143,650**	**98,908**
Breakdown average daily volume sold (boe/day)				
Oil and Gas sold	128,641	11,114	139,755	88,687
Crude Oil Trading Sold	3,895	-	3,895	10,221
Total average daily volume sold (boe/day)	**132,536**	**11,114**	**143,650**	**98,908**

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

Oil Production and Sales Volumes (boe/day)	Three months ended March 31 2013		
	Oil Production	**Diluent and Trading**	**Total**
Begining inventory (ending inventory December 31)	11,907	5,727	17,634
Average net production (after royalties and field consumption)	116,779	-	116,779
Purchases of diluents and oil for trading [1]	-	13,153	13,153
Other inventory movements [2]	(2,498)	(137)	(2,635)
Ending inventory March 31.	(8,113)	(4,282)	(12,395)
Average daily volume sold (boe/day)	**118,075**	**14,461**	**132,536**

1. *See additional detail in "Inventory Movements" on page 14.*
2. *Other inventory movements include: overlift position, sales of extended production testing, PAP settlement and volumetric compensation. See additional detail in "Inventory Movements" on page 14.*

Royalties and Volume Allocation

Royalties

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

Additional Production Share in the Quifa SW

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

On September 27, 2011, Ecopetrol, S.A. ("**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. In addition, both parties agreed to apply the formula that the ANH uses in its contracts to assign and deliver the presumptive additional share to Ecopetrol, as from the activation of the additional production clause in April 2011, until the arbitration was concluded. At the end of the first quarter of 2013, the volumes corresponding to Ecopetrol as per the ANH formula from April 1, 2011 to March 31, 2013 had been completely delivered to Ecopetrol via reduced net production share.

On March 13, 2013, the arbitration panel delivered its decision interpreting that the PAP clause should be calculated on 100% of the production of the Quifa SW field, instead of simply the Company's 60%.

The Company has filed a request for annulment of the arbitration panel's decision with the Consejo de Estado, Colombia's supreme court for administrative matters. On April 15, 2013, the Company agreed to distribute the additional PAP production from the Quifa SW field to Ecopetrol in accordance with the terms of the arbitration panel's decision. The Company is in contact with Ecopetrol to co-ordinate and program crude deliveries in accordance therewith. This interim position of the Company is subject to the final determination of the Consejo de Estado on the annulment of the decision.

As previously announced, the payment for the PAP arbitration (up to year-end 2012) has already been reflected in the Company's year-end 2012 and the first quarter of 2013 financial statements.

4. Farm-in Transactions and Acquisitions

The following is a summary of the farm-in transactions and acquisitions that were entered into or closed during the first quarter of 2013.

Approval of Participation Interest in Papua New Guinea

In 2012, the Company entered into an agreement with InterOil Corporation to acquire a 10% net participating interest in the PPL237 Petroleum Prospecting License and the Triceratops structure located within PPL237 in Papua New Guinea for an estimated total investment of $345 million, subject to governmental approval. The investment is comprised of an upfront payment of $116 million (which has been fulfilled), funding of an agreed exploration work program and cash payments based on the independently certified resources of the Triceratops structure. The Government of Papua New Guinea approved the Company's participation in the PPL237 on January 24, 2013.

35% Participation Interest in a Third Exploratory Well in Brazil

On March 26, 2013, the Company exercised its option to acquire a 35% participating interest in the S-M-1166 contract (BM-S-70) held by Karoon through the funding and participation in the Bilby-1 exploration well, offshore Santos basin, in Brazil.

The Bilby-1 exploration well will be the third exploration well in which the Company participates with Karoon in Brazil, following the Kangaroo-1 and Emu-1 wells. Upon funding of certain exploratory costs of the Bilby-1 well, which may not exceed $70 million, the Company will acquire a 35% participating interest in the mentioned license. Subsequently, the Company will hold a 35% participating interest in a total of five blocks currently operated by Karoon: S-M-1037 (BM-S-61), S-M-1102 (BM-S-62), S-M-1101 (BM-S-68), S-M-1165 (BM-S-69) and S-M-1166 (BM-S-70); and will be entitled to request operatorship of all five blocks. The transaction is conditional upon approval from the Agencia Nacional do Petroleo of Brazil (the "**ANP**").

Agreement to Invest C$35 million to Acquire Control of CGX

On February 27, 2013, the Company announced that it had entered into a binding term sheet with CGX, pursuant to which Pacific Rubiales agreed to invest C$35 million in CGX.

On April 26, 2013 the Company closed the acquisition of 350 million units of CGX at C$0.10 per unit for C$35 million under a private placement, pursuant to the binding term sheet previously signed. Under the private placement each unit consists of one common share of CGX and one share purchase warrant, exercisable for a five year period at C$0.17 per share. The investment by the Company was approved by the shareholders of CGX on April 24, 2013. The investment increases the Company's interest in CGX to approximately 63%, effectively acquiring control of CGX.

Pacific Infrastructure

Pacific Infrastructure is a company established in British Virgin Islands for the purpose of developing an export terminal, an industrial park, and a free trade zone in Cartagena, Colombia. Prior to February 8, 2013, the Company held a 49.38% interest in Pacific Infrastructure, and accounted for it as an associate using the equity method. On February 8, 2013, the Company acquired an additional 2.3 million common shares of Pacific Infrastructure for $0.95 per share for $2.3 million in cash, increasing the Company's interest to 50.2%. The additional investment results in the Company acquiring control of Pacific Infrastructure. The transaction is being accounted for as a business combination with the Company identified as the acquirer.

Between February 8, 2013 and March 31, 2013, the Company acquired an additional 40 million common shares in the capital of Pacific Infrastructure at a price of $1.00 per share. With this additional investment, the Company´s interest in Pacific Infrastructure increased to 56.3% as of March 31, 2013.

5. Operating Results

<u>Update on Environmental Permits</u>

Colombia

During the first quarter of 2013, the Company submitted for evaluation to the Environmental Authority in Colombia ("**ANLA**") ten licensing processes, all of them in full compliance with the regulations and processes governing environmental licenses in Colombia.

During the first quarter of 2013, the following licenses were granted: (i) environmental permit to expand the activities in the "Quifa Hydrocarbon Exploitation Area" Quifa SW producing oil field; and (ii) certain licenses to increase the oil production in the Copa field.

Ten environmental licenses are in progress for 2013, the most important of which are: (i) additional water injection for the Rubiales field; (ii) blanket exploration and development license for the CPE-6 Block; and (iii) licenses to explore new blocks. The Company expects to receive these licenses by the second half of 2013.

Peru

During the first quarter of 2013, the Company submitted the Environmental Management Plan to the Peruvian government to obtain permits for two additional exploratory wells in Block 138. In addition, the Company started the Environmental Impact Studies for an aggressive exploratory drilling campaign in the Z-1 Block and possible confirmatory advanced wells in Block 138.

Exploration

During the first quarter of 2013, the Company focused its exploration activity in the Eastern Llanos and in Lower Magdalena basins in Colombia, and in the Santos basin, offshore Brazil. Eight exploration wells were drilled during the period: two wells in the Cubiro block, and one well in each the CPO-1, CPO-12, Arrendajo and Guama blocks in Colombia and the S-M-1101 and S-M-1102 blocks in Brazil. During the period the Company finished 129 km of 2D seismic in the CPE-1 block and 795 km^2 of 3D seismic surveys in the CPE-6 (366 km^2) block in Colombia and Z-1 (429 km^2) block in Peru, respectively. The following is a summary of the exploration campaign during the first quarter 2013.

Colombia

In the Cubiro Block, the Company drilled and completed the Copa D-1 exploration well and the Copa A Norte-1 appraisal well. The Copa D-1 well found a total net pay of 27 feet in C7, C6, C5 and C3 sands, and the Copa A Norte-1 showed the presence of 25 feet of net pay in C7, C5 and C3 sands. Both wells were completed in Carbonera C5 sands with initial production of 900 barrels per day of 40° API oil for the Copa D-1 well, and 770 barrels per day of 42 °API oil for the Copa A Norte-1.

In the Arrendajo Block, the Company drilled the Yaguazo-1 exploration well, located in the Yaguazo prospect, at an approximate distance of four kilometers north of the Azor-1 and Azor-2 wells, and on a separate structure. The well found a C5 basal sand with 14 feet of net pay. Currently, the well is being cased to allow for a production test. The Company is now preparing an appraisal drilling campaign with a step out well immediately after the testing of the Yaguazo-1 well.

In the CPO-12 Block, the Hayuelo-1X well was drilled in the northwestern part of the Block, to comply with the contract exploration commitments with the ANH. The well only found hydrocarbon traces in the Basal Sands of the C-7 Unit, Carbonera Formation, so the well was plugged and abandoned.

In the CPO-1 Block, the Altillo Oeste-1 well was drilled in the southern part of the block. The well petrophysical evaluation only showed presence of fresh water in the C-7 Unit, Carbonera Formation, and in the Cretaceous Guadalupe Formation, and therefore the well was plugged and abandoned.

In the CPE-6 Block, the Company completed the acquisition of 366 km^2 of 3D seismic survey in the northern part of the block, which will allow it to optimize future well locations in the Hamaca prospect. The 3D seismic data is currently being processed and interpreted.

In the Sabanero Block, Maurel et Prom Colombia, the operator of the block, declared commerciality of the Sabanero field, located in the southeastern part of the block. The environmental production license was submitted in November 2012 and is waiting on ANLA approval (expected in the second half of 2013).

In the Guama Block, the Company finished drilling the Manamo-1X exploration well. The well found 251 feet of net pay and initial tests reached a maximum rate of 4.9 MMcf/d with 296 bbl/d of 54°API condensate, announced by the Company on February 20, 2013. The Company also started drilling the Capure-1X well which to current date has intersected approximately 23 feet of gas condensate pay in clean sands of the Porquero A Formation, a secondary exploration target of the well.

In the Santa Cruz Block, the Company spudded the Phobos-1 exploration well in January 2013, with the Mirador, Cuervo and Barco Formations as exploration objectives. The well is expected to reach final depth during the second quarter of 2013.

In the Muisca Block, operated by Maurel et Prom Colombia, the processing of a 195 km^2 3D seismic survey was completed in March of 2013. Seismic interpretation has already started for this survey, which covers the northern part of the block. Also, the reprocessing of seismic data (approx. 400 km) in the southern portion of the block was contracted and started. Reprocessing is expected to be completed by the third quarter of 2013.

In the COR-15 TEA Block, which is operated by Maurel et Prom Colombia, the Company continued the interpretation of 176 km^2 of a 3D seismic survey. Also, the depth migrated volume was completed and at this point in time is under interpretation.

In the COR-15 and COR-24 TEA Blocks, aeromagnetic and aerogravity surveys were started in March 2013. The survey results are expected in the second half of 2013. The Company has started an analysis of the impact of a new environmental regulation for the COR-24 block.

In the Portofino Block, both Canacol Energy Ltd., the operator of the block, and the Company continued with the interpretation of 2D and 3D seismic data acquired in 2011 and 2012. This interpretation will serve to further delineate exploratory prospects defined previously in the block and to locate planned stratigraphic and exploratory wells. The operator plans to drill a stratigraphic well during the second half of 2013 and obtain the required permits for an exploration well for late 2013 or early 2014.

In the CPE-1 Block, the Company finished the acquisition of 129 km of 2D seismic.

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 a 275 km^2 hyperspectral survey. In addition, during the period the design and contracting for an exploration well continued and the spud date is expected to be in July 2013. Related civil works for this well have begun and are approximately 35% complete.

Peru

In Block 138, the Company received the approval of the Environmental Management Plan required to drill the Yahuish 1X exploratory well, which started drilling on April 16, 2013.

On Block 135, the Company continued with the acquisition of a 789 km 2D seismic survey, which started in December 2012. The project is expected to finish during the second quarter of 2013.

On Block Z-1, located in the offshore Tumbes basin, the Company completed the acquisition of 429 km^2 of 3D seismic data. This data is currently being processed together with a 1,143 km^2 3D seismic survey previously acquired by BPZ, which is the operator of the block.

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

Brazil

In block S-M-1101 and block S-M-1102 in the Santos basin, offshore Brazil, Karoon, the operator of the blocks, completed drilling the Kangaroo-1 and the Emu-1 exploratory wells, respectively. These are the first two wells drilled by the Company in the Santos Basin as part of the drilling commitment with the ANP. Both wells had multiple targets in the late Cretaceous, Eocene and Miocene rocks, in the dipping flanks of post-salt structures.

The Kangaroo-1 well was drilled to a total depth of 10,004 feet MD (3,050 m), encountering a gross reservoir section of 82 feet (25 m) in Eocene rocks with 58 feet (18 m) of net oil pay. A complete set of wire line logs and rock and fluid samples were collected for reservoir analysis.

The Emu-1 well was drilled vertically to a total depth of 4,381 m (14,369.7 ft). The well had oil and gas shows during drilling, but wire line logs failed to identify any pay zones and the well was plugged and abandoned. Both the Company and the operator Karoon believe these results indicate the possible presence of a hydrocarbon accumulation up-dip of the well location, thus a Notification of Discovery (ND) was filed with the ANP by the operator, in order to continue its exploration efforts in this block.

The third option exploration well, Bilby-1 is currently drilling and has resulted in an oil discovery in a late Cretaceous interval as indicated from wireline logs and pressure and fluid samples. Additional wireline evaluation of the oil zone is ongoing and the well is expected to continue drilling to a total deeper depth of approximately 15,050 feet during May 2013.

The drilling results for the first quarter of 2013, are as follows:

	Three Months Ended March 31	
	2013	2012
Succesful exploratory wells	4	1
Succesful appraisal wells [(1) (2)]	1	11
Succesful stratigraphic wells	-	4
Dry wells	3	3
Total	**8**	**19**
Success rate	**63%**	**84%**

1. *Includes horizontal appraisal wells.*
2. *Capure – 1X not included*

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

No. of wells	Block	Area / Field / Prospect	Well Name	Type	Total Depth TVDSS (feet)	Net Pay (feet) [(1)]
1	Cubiro	Copa D	Copa D-1	Exploratory	6,310	27
2	Cubiro	Copa A Norte	Copa A Norte-1	Appraisal	5,999	25
3	Arrendajo	Yaguazo	Yaguazo-1	Exploratory	7,000	14
4	CPO-12	Hayuelo	Hayuelo-1X	Exploratory	4,007	0
5	CPO-1	Altillo Oeste	Altillo Oeste-1	Exploratory	5,070	0
6	Guama [(2)]	Manamo	Manamo-1X	Exploratory	7,400	251
7	S-M-1101 Brazil	Kangaroo	Kangaroo-1	Exploratory	9,441	82
8	S-M-1102 Brazil	Emu	Emu-1	Exploratory	14,457	0

1. *"Net Pay" represents the total estimated net pay encountered in the horizontal or vertical drilled sections.*
2. *Capure- 1X well penetrated upper Porquero sands at 2700' and discovered 23 feet of net pay.*

Production

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

Colombia

Average net production after royalties for the first quarter of 2013 reached 126,428 boe/d (304,156 boe/d total field production) representing approximately a 38% growth compared to the same period of 2012, mainly due to:

- Drilling of 202 producing wells at the Rubiales field, 59 producing wells at the Quifa SW field, 21 wells at the Cajúa and 8 wells in other production fields, during the same period, as well as an increase in the capacity of production facilities at Rubiales and Quifa. Net production at Rubiales and Quifa increased 21% while the La Creciente natural gas field increased by 2%, as compared to 2012.

- License modification for the water disposal in the Rubiales field (received in August 2012), allowing for the injection of an additional 400,000 barrels of water per day. The Company has submitted a license modification for an additional one million barrels of water per day, which is expected to be granted in the first half of 2013.

- Average net production after royalties contributed by the PetroMagdalena and C&C acquisitions during the first quarter of 2013, totaled 5,228 boe/d (total field production of 9,470 boe/d) and 10,850 bbl/d (total field production of 11,831 bbl/d), respectively; representing 13% of the total net production after royalties reported by the Company during the first quarter of 2013.

Peru

The production shown in the table below corresponds to the 49% participating share of production attributable to the Company from Block Z-1 for the period commencing April 27, 2012. Revenues and costs have been recognized in the Company´s financial results with respect to the production from Block Z-1 since December 12, 2012 as a result of the approval of the applicable Peruvian governmental authorities.

On April 1, 2013, the Company commenced its duties as the Technical Operation Manager of Block Z-1.

Net production after royalties for the first quarter of 2013 from Block Z-1 averaged 1,461 bbl/d (total gross field production of 2,982 bbl/d). Production is expected to increase during the second half of 2013 as a result of a development drilling campaign at the new Corvina field CX-15 platform which is expected to begin in early July, and development drilling at the Albacora field, which is expected to begin in early August.

The following table sets out the average production for the three months ended March 31, 2013 at all of the Company's producing fields located in Colombia and Peru:

	Average Q1 Production (in boe/d)					
	Total field production		Share before royalties [1]		Net share after royalties	
Producing Fields - Colombia	**Q1 2013**	**Q1 2012**	**Q1 2013**	**Q1 2012**	**Q1 2013**	**Q1 2012**
Rubiales / Piriri	210,159	172,455	88,121	71,943	70,495	57,555
Quifa[2]	54,076	45,746	32,244	23,276	25,435	21,885
La Creciente [3]	11,041	10,803	10,805	10,598	10,805	10,596
Cravoviejo	9,328	-	9,293	-	8,549	-
Cubiro	7,064	-	4,443	-	4,104	-
Cajua	3,591	-	2,155	-	2,026	-
Cachicamo	2,429	-	2,429	-	2,235	-
Arrendajo	1,404	384	948	382	872	351
Abanico	1,385	1,615	377	487	360	469
Dindal / Rio Seco	1,353	1,075	763	594	621	497
Sabanero [4]	1,086	756	532	375	500	352
Other producing fields [5]	1,240	242	445	171	426	165
Total Production - Colombia	**304,156**	**233,076**	**152,555**	**107,826**	**126,428**	**91,870**
Producing Fields - Peru (See note below)						
Block Z-1 [6]	2,982	3,882	1,461	1,798	1,461	1,703
Total Production - Peru	**2,982**	**3,882**	**1,461**	**1,798**	**1,461**	**1,703**
Total Production Colombia and Peru	**307,138**	**236,958**	**154,016**	**109,624**	**127,889**	**93,573**

1. *Share before royalties is net of internal consumption at the field and before PAP at the Quifa SW 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. During the first quarter of 2013 the ANH requested the Company to pay in cash the royalties related to the condensate of La Creciente field. The Company has completed 85% of the project to increase the process capacity to 100 MMcf/d at La Creciente Station.*
4. *The Company holds a 49.999% equity interest in Maurel et Prom Colombia, which owns the Sabanero Block.*
5. *Other producing fields corresponds to producing assets located in Cerrito, Moriche, Las Quinchas, Guama, Topoyaco, Guasimo and Buganviles Blocks. Also includes the acquired Blocks from PetroMagdalena such as Carbonera, Carbonera La Silla and Yamu Blocks and Llanos 19 acquired from C&C (Yamu is not an operated block). 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 the Corvina and Albacora fields which are operated by BPZ in which the Company acquired a 49% undivided participating interest on April 27, 2012. The transaction was completed upon receiving governmental approval on December 12, 2012; the Company or any of its subsidiaries is the technical operations manager under an Operating Services Agreement since April 1, 2013. The applicable royalties in Peru are paid in cash and are accounted as part of the production cost.*

Supply and Sales Balance

The following is the Company´s reconciliation of inventory volumes (boe produced vs. boe sold) for the three months ended March 31, 2013:

	Three Months Ended March 31	
Inventory Movements	**Total boe Net**	**Aver. day Net**
Beginning inventory	1,587,090	
Transactions during the period		
Net oil and gas production	11,509,930	127,889
Settlement of overlift position [(1)]	(104,739)	(1,163)
Purchases of diluents	938,626	10,429
Purchases of oil for trading	245,187	2,724
Total sales production assets [(2)]	(12,928,490)	(143,650)
Total sales exploration assets [(3)]	(196,308)	(2,181)
Overlift position [(4)]	273,952	3,044
Settlement PAP	(114,434)	(1,271)
Volumetric compensation and operational (losses) gains	(95,286)	(1,060)
Ending inventory [(5)]	**1,115,528**	

1. *This volume corresponds to the settlement of the overlift position for crude oil as of March 31, 2013, which resulted in a lower volume of sales during the period it was settled.*
2. *Includes the sales of crude oil and gas from producing fields plus diluents.*
3. *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.*
4. *This volume corresponds to a net overlift position of 273,952 boe of crude oil and gas as of March 31, 2013, which will be settled during future periods.*
5. *Corresponds to crude oil inventory in tanks as of the end of March 31, 2013 at the fields, pipelines and Coveñas Terminal.*

Commercial Activity

First Quarter 2013 Market Overview

According to the U.S. Energy Information Administration, in the first quarter of 2013 there was a reduction in the world crude oil supply by 0.94 MMbbl/d to 82.53 MMbbl/d from 83.47 MMbbl/d in the fourth quarter of 2012. The total non-OPEC supply of crude oil declined by 0.76 MMbbl/d to 52.62 MMbbl/d in the first quarter of 2013 from 53.38 MMbbl/d in the fourth quarter of 2012, affected by unplanned production outages. Also, OPEC crude oil production decreased to 29.91 MMbbl/d in 1Q 2013 from 30.27 MMbbl/d in 4Q 2012, led primarily by Saudi Arabia (-0.46 MMbbl/d), Lybia (-0.06 MMbbl/d), and Iraq (-0.07 MMbbl/d). Iran´s crude oil sanctions continued, and its production increased to 2.8 MMbbl/d during the period versus 2.6 MMbbl/d in 4Q 2012. The OPEC surplus capacity remained at 2.8 MMbbl/d in the first quarter of 2013, increasing by 0.7 MMbbl/d versus 1Q 2012.

In the first quarter of 2013, geopolitical tensions continued in the MENA countries, as well as of North Korea, supporting crude oil prices. WTI Nymex prices increased to $94.36/bbl from $88.23/bbl in the fourth quarter of 2012 (a $6.13/bbl increase), but decreased from $103.03/bbl in the first quarter of 2012 by $8.67/bbl. As well, the ICE Brent increased by $2.51/bbl to average $112.64/bbl versus $110.13/bbl in the fourth quarter of 2012, but decreased by $5.81/bbl from $118.45/bbl in the first quarter of 2012. ICE Brent's premium over WTI Nymex reversed its course in the fourth quarter and reduced by 3.62/bbl to an average to $18.28/bbl as compared to 21.90/bbl in the fourth quarter of 2012.

The Seaway Pipeline, a 500-mile line from Cushing, Oklahoma to near Houston, Texas, was expanded earlier this year to carry as much as 400,000 bbl/d, in a move expected to help clear surplus crude from the Midwest. Capacity will not exceed 335,000 bbl/d due to crude mix, as heavier crudes slow down the line. Flow on line is expected to average 295,000 bbl/d until end of May 2013. In contrast with what had been widely expected, the expansion of the Seaway pipeline did not result in removing the bottleneck at Cushing by taking markedly more crude oil to the US Gulf coast but reduced the downward pressure on WTI Nymex prices. Nonetheless, these bottlenecks are expected to be reduced in the near future due to entry of new pipelines, storage and rail capacities, that may reduce the ICE Brent – WTI Nymex differential in the second half of 2013.

As a consequence of the wide differential between ICE BRENT and WTI Nymex prices, Latin American and USGC crude prices have maintained a premium versus WTI in the first quarter of 2013. For example, Maya crude oil has been trading at an average of WTI + $8.34/bbl compared to WTI + $6.00/bbl in the first quarter of 2012.

Prices and Sales Volume

- As indicated in the table below, the Company's combined realized international oil price in the first quarter of 2013 was $102.21/bbl, higher by $7.85/bbl as compared to the average WTI Nymex price, due to strong marketing activities coupled with close monitoring of WTI vs. Brent spread throughout the quarter.

- In the first quarter of 2013, natural gas sales averaged 63.2 MMcf/d, mainly from La Creciente field, at an average price of $7.10/MMBtu (equivalent to $7.06/Mcf), representing a premium of 20% over the weighted domestic regulated price of $5.94/MMBtu. This volume increased slightly compared to the first quarter of 2012 (62.1 MMcf/d) because of higher volumes available from the minor fields.

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

	Three Months Ended March 31		Three Months Ended December 31	
Average Crude Oil and Gas Prices (US$/bbl)	**2013**	**2012**	**2012**	**°API**
Domestic Market [(1)]	$95.55	$107.45	$98.19	12.5
WTI NYMEX (Weighted Average of PRE Cargoes, Small Cargoes and Parcels)	$94.40	$103.80	$88.10	38
Vasconia Trading (Weighted Average Cargoes and Parcels PRE) [(2)]	$105.24	$112.94	$100.66	24
Vasconia Produced (Weighted Average Cargoes and Parcels PRE) [(2)]	$104.15	$115.06	$100.98	24
Vasconia (Weighted Average Cargoes and Parcels PRE) [(2)]	$104.28	$113.96	$100.94	24
Castilla (Weighted Average Cargoes PRE) [(3)]	$102.36	$110.34	$100.45	19
Rubiales 12.5 Export B/lla.(Weighted Average Small Cargoes PRE) [(4)]	$97.40	$101.04	$94.49	12.5
Combined Realized International Oil Sales Price	**$102.21**	**$110.89**	**$99.62**	
Bunker Sales (IFO 380-500) [(5)]	$101.33	$103.90	$104.15	
PRE Natural Gas Sales ($/MMBTU)	**$7.10**	**$7.26**	**$7.71**	
Combined Realized Oil and Gas Sales Price	**$97.36**	**$103.53**	**$94.70**	
WTI NYMEX ($/bbl)	$94.36	$103.03	$88.23	
BRENT ICE ($/bbl)	$112.64	$118.45	$110.13	
Regulated Gas Price ($/MMBTU) [(6)]	$5.94	$5.81	$6.04	
Henry Hub average Natural Gas Price ($/MMbtu)	$3.48	$2.50	$3.54	

1. *Weighted average price of Rubiales crude oil sold in the domestic market.*
2. *Weighted average price of 25 parcels and 1 cargo of Vasconia crude oil.*
3. *Weighted average price of 7 Castilla crude oil cargoes.*
4. *Weighted average price of 17 Rubiales 12.5° API (small cargoes).*
5. *Weighted average price of 29 Bunker deliveries.*
6. *The domestic natural gas sales price is referenced to MRP for gas produced in La Guajira field. The MRP is modified every six months based on the previous half-year variation of the US Gulf Coast Residual Fuel No. 6 1.0% sulphur, Platts.*

Export Sales Volume

During the first quarter of 2013, the Company sold 13.13 MMboe (oil and natural gas) of which 11.77 MMbbl (90%) were exported. A breakdown of the export sales by destination follows:

	Three Months Ended March 31			
Export destination (MMbbl)	**2013**	**%**	**2012**	**%**
Asia	3.10	26%	0.95	12%
USA	6.26	53%	1.30	17%
Europe	1.28	11%	2.95	37%
LATAM / Caribbean	1.13	10%	1.67	21%
Africa	-	0%	1.00	13%
Total Export	**11.77**	**100%**	**7.87**	**100%**

	Three Months Ended March 31			
Export oil reference (MMbbl)	**2013**	**%**	**2012**	**%**
Castilla Blend	7.00	59%	5.81	74%
Vasconia Blend	2.85	24%	1.79	23%
Rubiales	1.70	15%	0.12	1%
Bunkers	0.22	2%	0.15	2%
Total Export	**11.77**	**100%**	**7.87**	**100%**

Transport of Hydrocarbons

During the first quarter of 2013, the Company transported 143,313 bbl/d through the different pipelines and trucking systems as follows:

	Three Months Ended March 31	
Means of transport (Bbl/d)	**2013**	**2012**
ODL-OCENSA pipeline system	71,305	76,490
Crude oil transported through the ODC pipeline	23,308	16,999
Crude oil transported through the trucking system	48,700	20,264
Total Transport of Hydrocarbons	**143,313**	**113,753**

- The Guaduas Facility pumped 35,750 bbl/d of crude oil from the Company and third parties. This operation handled 13,032 bbl/d (11,879 in the fourth quarter of 2012) from third parties, generating an operational profit of $2.06/bbl and a total profit of $2.40 million, without any operational or environmental incidents during this quarter.
- Incremental oil production from Rubiales, Quifa, Cajua and recent acquisitions PetroMagdalena and C&C was successfully transported by truck to access pipeline facilities at Guaduas, Vasconia and the Atlantic Coast, while waiting on new pipeline capacity (OBC pipeline project and OCENSA negotiations).

6. Project Status

STAR Project in the Quifa Field

In March 2011, the Company and Ecopetrol agreed to advance with the STAR pilot project in the Quifa SW field as a preliminary step to expanding the technology. STAR is aimed at increasing the recovery in the Company's heavy oil fields in Colombia. The pilot test is being carried out in the Quifa SW field under the existing terms and conditions of the Association Contract.

All geological and reservoir studies have been completed and numerical simulations are in their final stages. Production and air compression facilities have been completed in the Quifa pilot area and both are fully operational.

A cluster of nine wells has been constructed and a full primary production evaluation has been concluded, as well as two key tests undertaken in 2012. The steam injection test was performed in order to determine the response of the reservoir to increased temperature and a nitrogen test was performed in order to create a minimum gas saturation in the wellbore that will facilitate the upcoming air injection. Both tests indicated a positive response from the reservoir and the air injection started in February 2013. As of the date hereof, indirect measurements indicate that "in situ combustion" has taken place within the reservoir. All wells and production facilities are under continuous monitoring.

During the first quarter of 2013, the process of air injection into the reservoir was initiated and the intelligent automation system data indicates that combustion has taken place. The data confirms that the Llanos fields show exceptional reservoir characteristics ideally suited for this process and with the potential to increase recovery 2.5 to 3 times is feasible. The early production results in the Quifa well 162 data are very encouraging, with an over 20% water cut decrease and a 10 times oil production increase.

The visualization process has started to take advantage of the investment in primary recovery: wells, flow lines, power lines, and central production facilities. Challenges include: high temperature, automation for well synchronization, combustion gasses separation and handling, compression systems and reservoir performance under combustion process.

During September 2012, the Colombian Government (Colciencias) granted the Company a tax incentive for its investments in research and development in connection with the STAR technology. The incentive will provide an additional 75% deduction for the amounts invested in 2012 and 2013 and the possibility to fully depreciate the asset in the respective years in which the investment is made.

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 operations in 2009, a total of 232 MMbbl of diluted crude have been transported from the Rubiales field to the Monterrey and Cusiana Stations (as of March 2013). The pipeline capacity was expanded in 2012 to 340,000 bbl/d. During the first quarter of 2013, the volume transported by the ODL Pipeline was 21 MMbbl.

Carmentea – Araguaney Pipeline Project

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

The ANLA (National Authority of Environmental Licenses) issued the Auto 241 on January 30, 2013, when the Diagnosis of Environmental Alternative ("**DAA**") No. 2 alternative presented by ODL was approved. Detailed engineering is ongoing.

Blending Project in Cusiana

This project will allow the blending of light oil trucked to a new diluent blending facility at the Ocensa pumping station, located in Cusiana with heavy oil pumped through the ODL Pipeline. Consequently, API gravity in the ODL Pipeline will be reduced from 18 to 16 degrees, resulting in significant savings in diluent transportation costs. The project is completed and blending started April 22, 2013.

OBC Pipeline

The Company has a 33.38% equity interest in the Oleoducto Bicentenario de Colombia S.A.S. ("**Bicentenario**"). Bicentenario is a special purpose entity promoted by Ecopetrol, which has a 55.97% interest in the company with the remaining 10.65% interest owned by other oil producers operating in Colombia. Bicentenario 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 export markets. The project, which is being constructed in phases, includes a new pipeline from Araguaney Station to Coveñas export terminal. Total extension of this new pipeline is estimated to be 976 km with different sections of 30.36 and 42 inch diameter line.

As of March 2013, phase 1, which comprises a 230 km, 42 inch pipeline from Araguaney to Banadía, was under construction; 216 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 currently under construction in the Coveñas terminal. The construction progress for phase 1 is 66% complete as of March 2013. The Bicentenario Pipeline is expected to be operational in July 2013, with initial filling of the pipeline planned for the second quarter of 2013.

PEL – Power Transmission Line Project

The Company incorporated Petroelectrica ("**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 originates at the Chivor Substation and will stretch 260 km to the Rubiales field. The project includes two substations to supply power to the booster stations of the ODL Pipeline, as well as substations for the Rubiales and Quifa fields. The new power line will be able to supply up to 192 MVA that will be used in oil production and transportation activities. Field construction started in May 2012 and is expected to be completed by the third quarter of 2013. As of March 2013, the Chivor and Rubiales substations are under construction, 201 out of 534 towers have been erected and 10 kms of electrical wire was installed.

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

Small Scale LNG project

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

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

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

As of March 2013, basic engineering for the gas pipeline is 66% complete, including the offshore jetty.

Water Treatment for Agricultural Development

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

As of March 2013, basic engineering is in its final phase. Engineering, Procurement and Construction (EPC) contracts for the construction of the RO plants were awarded and the two plants are expected to be operational in the fourth quarter of 2013.

Puerto Bahía Project

As of March 31, 2013, the Company had a 56.29% interest in Pacific Infrastructure, a private company that is currently developing Puerto Bahía, an oil export terminal located in the Cartagena Bay in Colombia. Puerto Bahía will be developed in three phases: (i) 1.7 MMbbl of oil and petroleum products storage capacity, a berthing position for vessels of up to 80K DWT, a truck loading/unloading station with a capacity of up to 30 Mbbl/d and a fixed bridge; (ii) additional storage capacity of up to 3.3 Mbbl, an additional berthing position for vessels of up to 150K DWT and barge handling

facilities with a capacity of up to 45 Mbbl/d; and (iii) a multi-purpose terminal handling bulk materials, containers and a berthing platform measuring 300 meters.

During 2012, the environmental license, the port concession and the free trade zone permits were granted. During the first quarter of 2013, designs and engineering were also completed and construction of phase 1 started under EPC contracts for:

- Liquids Terminal Phase 1
- Unloading EPC
- CS Terminal – Port
- CS Terminal – Storage Area
- Electric Supply
- Pasacaballos Fluvial Bridge

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

In addition to Puerto Bahía, Pacific Infrastructure is also developing the Olecar pipeline, which will connect Puerto Bahía to the oil pipeline hub at the port of Coveñas, ensuring the uninterrupted supply of crude oil for export. The Olecar project includes: (i) a pumping station at Coveñas with a capacity of 300 Mbbl/d; (ii) a 30" diameter and 130 km pipeline; and (iii) bidirectional connections between the Cartagena Refinery and Puerto Bahía.

As of March 2013, initial environmental studies were completed and right of way negotiations were in progress. Environmental permitting is expected in the second half of 2013. Progress on engineering and construction to date is as follows:

- Detailed engineering is 20% complete;
- LLI offer evaluation (pumps, 30" valves, filters and trams) was awarded; and
- EPC process opened on March 20, 2013 and expected to be signed in September, 2013. Work is expected to start in November, 2013 and operations starting in the fourth quarter of 2014.

7. Capital Expenditures

Excluding business acquisitions, capital expenditures during the first quarter of 2013 totaled $604.5 million ($267 million in 2012). As indicated below, $147 million were invested in the expansion and construction of production infrastructure primarily in Quifa SW, Quifa North, and Rubiales fields; $78.4 million went into exploration activities (including drilling, seismic, other geophysical activities) in Colombia, Peru and Guatemala; $199 million related to Karoon, Portofino and Papua New Guinea farm-ins; $153.7 million for development drilling; and $26.3 million in other projects including the STAR project.

	Three Months Ended March 31	
(in thousands of US$)	**2013**	**2012**
Production facilities (1)	$ 147,029	$ 102,163
Exploration drilling including seismic acquisition (2)	78,363	90,337
Development drilling (1)	153,691	56,429
Other projects (STAR, Gas export, PEL)	26,289	18,132
Farm-in Agreement (3)	199,088	-
Total capital expenditures	**604,460**	**267,061**

1. *Includes investment in Maurel and Prom Colombia B.V. in which the Company holds a 49.999% participation and indirectly owns a 49.999% working interest in the Sabanero Block.*
2. *Includes the drilling, seismic and other geophysical in Colombia, Peru and Guatemala.*
3. *Includes the capital expenditures of $115 million related to the 35% participating interest in the offshore contract located in the Santos Basin in Brazil currently operated by Karoon. The Company's participation is subject to governmental approval. Also, includes the investment of $7 million on Portofino Block in Colombia, which is pending governmental approval, and investment of $77 million on PPL37 Block in Papua New Guinea.*

8. Resource Evaluation

On April 15, 2013, the Company announced the results of independent resource assessment reports for the Company's exploration blocks in Colombia, Peru, Brazil, Guatemala, Guyana and Papua New Guinea. These resource reports indicated a total best estimate ("P50") of 1,302 MMboe of Prospective Resources (Prospects), 2,989 MMboe of Prospective Resources (Leads), for a total Prospective Resources of 4,291 MMboe and 168 MMboe of Contingent Resources.

The resource assessment report was prepared by Petrotech Engineering, with effective date September 30, 2012, for a total of 37 exploration blocks in which the Company holds interests, Colombia (24), Peru (4), Guatemala (2), Brazil (5), Guyana (1) and Papua-New Guinea (1). A summary of total prospective and Contingent Resources is presented below:

Total Prospective Resources - Leads

Country	Number of blocks	Number of opport.	100% Resources			Gross Resources (WI Before Royalties)		
			Low (MMBoe)	Best (MMBoe)	High (MMBoe)	Low (MMBoe)	Best (MMBoe)	High (MMBoe)
Colombia	12	37	515.3	2,298.4	7,275.7	379.1	1,500.7	4,671.4
Peru	4	9	336.8	1,304.3	4,578.0	328.4	1,283.7	4,537.8
Guatemala	2	1	6.4	27.0	83.8	3.5	14.9	46.1
PNG	1	1	77.8	477.6	1,561.8	7.8	47.8	156.2
Guyana	3	1	29.7	515.7	5,577.1	8.1	141.6	1,531.2
Total	**22**	**49**	**966.0**	**4,623.0**	**19,076.4**	**726.9**	**2,988.7**	**10,942.7**

Total Prospectives Resources - Prospects

Country	Number of blocks	Number of opport.	100% Resources			Gross Resources (WI Before Royalties)		
			Low (MMBoe)	Best (MMBoe)	High (MMBoe)	Low (MMBoe)	Best (MMBoe)	High (MMBoe)
Colombia	18	58	177.4	726.9	2,287.1	123.3	457.9	1,513.1
Peru	1	8	322.5	924.3	2,135.9	158.0	452.9	1,046.6
Guatemala	2	2	8.6	36.4	111.3	0.4	3.4	13.2
Brazil	5	3	479.0	1,085.8	1,835.0	167.6	380.0	642.3
PNG	1	3	31.0	80.9	206.0	3.1	8.1	20.6
Total	**27**	**74**	**1,018.5**	**2,854.3**	**6,575.3**	**452.4**	**1,302.3**	**3,235.8**

Total Contingent Resources

Country	Block	Prospect	100% Resources			Gross Resources (WI Before Royalties)		
			Low (MMBoe)	Best (MMBoe)	High (MMBoe)	Low (MMBoe)	Best (MMBoe)	High (MMBoe)
Colombia	**CPO-17**	Merlin	1.2	7.5	25.3	0.3	1.9	6.3
	Topoyaco	Prospecto C	1.9	3.7	6.2	1.9	3.7	6.2
	Total Colombia		**3.1**	**11.2**	**31.5**	**2.2**	**5.6**	**12.5**
Peru	**Z1**	Piedra Redonda	14.0	327.0	601.3	6.9	160.2	294.7
PNG	**PPL-237**	Triceratops	8.8	24.5	57.1	0.9	2.4	5.7
Total Contingent Resources		**4 prospects**	**25.9**	**362.7**	**689.9**	**10.0**	**168.2**	**312.9**

9. Discussion of 2013 First Quarter Financial Results

Revenues

(in thousands of US$)	Three Months Ended March 31 2013	2012
Net crude oil and gas sales	$ 1,221,870	$ 826,798
Trading revenue	36,892	105,052
Total Revenue	**$ 1,258,762**	**$ 931,850**
$ per boe oil and gas	97.14	102.45
$ per boe trading	105.24	112.94
$ Total average revenue per boe	**97.36**	**103.53**

Total crude oil and gas sales in the first quarter of 2013 were $1,258.8 million, $326.9 million higher than the same period of 2012. Net sales increased by 35% compared to 2012, the result of an increase in the barrels sold and a lower realized combined price. For additional details related to oil and gas sales, please refer to section 5 – “Commercial Activities”.

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

	Three Months Ended March 31			
	2013	2012	Differences	% Change
Total of boe sold (Mboe)	12,928	9,001	3,928	44%
Avg. Combined Price - oil & gas and trading ($/bbl)	97.36	103.53	(6.17)	-6%
Total Revenue (000$)	**1,258,762**	**931,850**	**326,912**	**35%**

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

Drivers for the revenue increase (000$):		
Due to Volume	406,650	124%
Due to Price	(79,738)	-24%
	326,912	

Operating Costs

(in thousands of US$)	Three Months Ended March 31 2013	2012
Oil and Gas Operating Costs	$ 453,841	$ 249,014
Trading Operating Costs	35,601	101,674
(Underlift) Overlift	2,269	(17,415)
Total Cost	**$ 491,711**	**$ 333,273**
$ per boe crude oil and gas	36.08	30.85
$ per boe Trading Operating Costs	101.55	109.31
$ per boe Under/Overlift	0.18	(2.16)
$ Total average cost per boe	**38.03**	**37.03**

Operating costs for the first quarter of 2013 totaled $491.7 million compared to $333.3 million for the same period of 2012, primarily due to higher volumes produced and sold. The average cost per barrel for the first quarter of 2013 was $38.03/boe, higher by 3% as compared to $37.03/boe for 2012. This increase was mainly due to:

- Increased water disposal of Rubiales, Quifa and Cajua fields due to higher production volumes in the first quarter of 2013.
- Increased land transportation cost at Cajua field which commeced comerciality during the third quarter of 2012. The crude produced from Cajua field is currently transported via tank truck to the water treatment facilities.
- Higher volumes of oil transported via tank truck and increase in oil production during the first quarter of 2013; coupled with an increase in the pipeline transport tariff rates. Also, production coming from recent acquisitions is fully transported via tank truck to access the pipeline facilities.
- Increase in the overlift cost due to the additional volume to Ecopetrol under PAP in Quifa SW field, as indicated under the heading entitled “Royalties”.

Depletion, Depreciation and Amortization

(in thousands of US$)	Three Months Ended March 31 2013	2012
Depletion, depreciation and amortization	$ 345,080	$ 170,780
$ per boe	26.69	18.97

Depletion, depreciation and amortization ("**DD&A**") for the first quarter of 2013 was $345.1 million ($170.8 million in the same period of 2012). The increase of 102% over 2012 was primarily due to: (i) increase in production and higher costs capitalized that are subject to depreciation; (ii) higher depreciable cost base of oil and gas properties from the acquisition of PetroMagdalena, C&C and an interest in Block Z-1, which are depreciated at a higher rate based on reserve life; and (iii) higher depreciable cost base of Rubiales field, which properties are depreciated under the remaining life of the contract expiring on 2016.

General and Administrative

(in thousands of US$)	Three Months Ended March 31 2013	2012
General and administrative costs	$ 72,327	$ 56,354
$ per boe	5.59	6.26

General and administrative expenses for the first quarter of 2013 were $72.3 million, representing a $16 million increase from the same period in 2012. The increase in G&A costs were primarily due to:

- The higher number of direct and indirect employees in the first quarter due to the significant increase in the exploratory and producing activities of the Company. Total employees as of March 31, 2013 were 2,290 compared to 1,802 in the same period in 2012, a 27% increase.
- The remaining increase was mainly due to additional costs related to expansions in Colombia, Brazil, Peru and Papua New Guinea, and an 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 March 31 2013	2012
Share-based compensation	$ 35,532	$ 30,394

Share-based compensation increased by $5.1 million or 17% to $35.5 million as compared to $30.4 million for the first quarter of 2012. The fair value of stock options granted by the Company is estimated using the Black-Scholes option pricing model. For the first quarter of 2013, 7,061,000 stock options were granted with an average fair value of C$4.96 per option, compared to 5,964,500 stock options granted during the same period in 2012 with an average fair value of C$5 per option.

Finance Cost

(in thousands of US$)	Three Months Ended March 31 2013	2012
Finance costs	$ 47,239	$ 20,581

Finance cost includes interest on the Company's bank loans, convertible debentures, senior notes, revolving credit commitment fees, finance leases and fees on letters of credit. For the first quarter of 2013, interest expense totaled $47.2 million compared to $20.6 million for the same period of 2012. The increase in finance costs is primarily due to a one-time expense related to the early redemption of all of the Company's aggregate principal amount of the outstanding 2009 Senior Notes on March 21, 2013. The total redemption amount was $109.8 million, including $91.5 million in principal and $18.3 million in early redemption premium, which was expensed as finance cost.

Equity Investments

(in thousands of US$)	Three Months Ended March 31 2013	2012
(Loss) gain from equity investment	$ (1,632)	$ 2,757

Gain or loss from equity investments represents the Company's share of the net income or loss in those investments. For the first quarter of 2013, the amount consists of $2.9 million gains relating to ODL Pipeline, other investment for $0.5 million and $5 million of losses related to Bicentenario.

Foreign Exchange

(in thousands of US$)	Three Months Ended March 31 2013	2012
Foreign exchange gain (loss)	$ 17,835	$ (11,949)

The U.S. dollar is the Company's functional currency. Foreign exchange gains or losses primarily result from the movement of the Colombian peso ("**COP**") against the U.S. dollar, which is the Company's functional currency. A significant portion of the Company's operating and capital expenditures are incurred in COP. Foreign exchange gain or loss for the first quarter of 2013 was a net gain of $17.8 million, compared to a loss of $11.9 million for the same period of 2012. The foreign exchange gain for the first quarter of 2013 was mainly due to the depreciation of the Colombian peso against the U.S. dollar by 3.6%, as compared to the appreciation of the Colombian peso against the U.S. dollar by 7.8% during the same period of 2012.

Income Tax Expense

(in thousands of US$)	Three Months Ended March 31 2013	2012
Current income tax	$ 161,320	$ 129,112
Deferred income tax	(971)	(69,742)
Total Income Tax Expense	**$ 160,349**	**$ 59,370**

The income tax rate in Canada was 26.50% for the first quarter of 2013 as well as in 2012. In Colombia the tax rate was 34% for the first quarter of 2013 compared to 33% in 2012.

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

The effective tax rate (income tax expenses as a percentage of net earnings before income tax) was 57% in the first quarter of 2013 compared to 18.7% for the same quarter in 2012. The Company's effective tax rate differs from the statutory rate mainly because of the following:

- Expenses that are not deductible for tax purposes (such as share-based compensation, foreign exchange gain or loss, and other non-deductible expenditures in Canada and Colombia);
- Corporate expenses that result in tax loss carry forward, but for which no deferred tax assets and deferred tax recovery have been recognized. When the Company has a reasonable expectation to utilize those losses in the future, deferred tax assets and a corresponding deferred tax recovery may be recognized; and
- Foreign exchange effect on the deferred tax determined on COP$-denominated assets and liabilities. The Company's assets are primarily located in Colombia, as a result the tax base, and hence deferred tax balances of these assets are subject to fluctuations in the US$-COP$ exchange rate.

Cash Flow from Operations

(in thousands of US$)	Three Months Ended March 31 2013	2012
Cash flow from operations	$ 622,533	$ 576,099
$ per share, basic	1.94	1.97

The Company continue to generate positive cash flow from operations. The cash flow from operations during the first quarter of 2013 totaled $622.5 million. This increase was driven by a significant increase in production during the first quarter of 2013.

Financial Position

EBITDA

EBITDA for the first quarter of 2013 totaled $694.7 million, which represents an increase of 28% compared to $542.2 million in 2012. The increase is attributable to increased revenue, mainly generated from international oil sales (90%); EBITDA from gas and domestic sales contributed 8% and 2%, respectively. EBITDA in the first quarter of 2013 represents a 55% margin in comparison to total revenues for the period (58% margin in 2012).

Debts and Credit Instruments

During the first quarter of 2013, the Company closed $1 billion in aggregate principal of senior unsecured notes ("**2013 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 first quarter of 2013. The following debts are outstanding as at March 31, 2013:

2011 Senior Notes

The 2011 Senior Notes, due December 12, 2021, are direct, unsecured, with an interest rate of 7.25% payable semi-annually (the "**2011 Senior Notes**"). The 2011 Senior Notes are listed on the Official List of the Luxembourg Stock Exchange and trade on the Euro MTF. As at March 31, 2013, the aggregate principal amount of 2011 Senior Notes outstanding was $712 million.

2013 Senior Notes

The 2013 Senior Notes, due March 28, 2023, are direct, unsecured, with an interest rate of 5.125% payable semi-annually. The 2013 Senior Notes are in the process of being listed on the Official List of the Luxembourg Stock Exchange. As the March 31, 2013, the aggregate principal amount of the 2013 Senior Notes outstanding was $1 billion.

Revolving Credit Facility

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

The revolving credit facilities have an interest rate determined in accordance with the ratings assigned to the Company's senior debt securities by Standard & Poor's Ratings Group, Moody's and Fitch Inc. Based on the Company's credit rating as at December 31, 2012 and March 31, 2013, the interest rate was LIBOR plus 2.75% under the U.S. Dollar facility and DTF + 2.25% under the Colombian Peso Facility. In addition, the Company is required to pay commitment fees of 0.95% on the unutilized portion under the U.S. Dollar Facility and 0.40% under the Colombian Peso Facility of any outstanding commitments under the two facilities.

As at March 31, 2013, the Company had drawn down $354 million on the U.S. Dollar Facility and $276.4 million on the Colombian Peso Facility. Using proceeds from the 2013 Senior Notes, the Company repaid the $358 million outstanding on the U.S. Dollar Facility on April 15, 2013. On May 6, 2013, the Company repaid $98.4 million outstanding on the Colombian Peso Facility. Both the U.S. Dollar Facility and the Colombian Peso Facility remain fully committed to their maturity in 2015.

Itau Credit Facility

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

Bank of America Credit Facility

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

Convertible Debentures

The Company has outstanding convertible unsecured subordinated debentures due August 29, 2013 (the "**Debentures**") of C$2.7 million in face amount as at March 31, 2013. The Debentures bear interest at 8% annually and are payable semi-annually. The outstanding Debentures are convertible into common shares of the Company at the rate of C$12.83 (2012 – C$12.83) per share, being equivalent to 77.9423 (2012 – 77.9423) common shares per C$1,000 face amount of Debentures, subject to adjustments pursuant to the indenture. As at March 31, 2013 the principal outstanding on the Debentures was C$2.7 million.

Letters of Credit

As at March 31, 2013, the Company has issued letters of credit and guarantees for exploration and operational commitments for a total of $254.2 million.

Outstanding Share Data

Common Shares

As at March 31, 2013, 322,428,264 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 March 31, 2013, there were no warrants outstanding and 27,778,490 stock options were outstanding, of which all were exercisable.

Liquidity and Capital Resources

Liquidity

Funds provided by operating activities for the first quarter of 2013 totaled $622.5 million ($576.1 million in 2012). The increase in cash flow in 2013 was the result of the increase in production and higher combined crude oil and gas sale prices. The Company has been generating cash flows from operations from the sale of crude oil and natural gas and continues to plan for increased future production.

As of March 31, 2013, the Company had working capital of $393.8 million, mainly comprised of $1,532.5 million of cash and cash equivalents, $699.5 million of account receivables, $99.2 million of inventory, $31.3 million of income tax receivable, $4.8 million of prepaid expenses, $1,256.6 million of accounts payable and accrued liabilities, $244.2 million of income tax payable, $454 million of current portion of long term debt and $18.7 million of finance lease obligations.

As at March 31, 2013, the Company has drawn down $354 million under the available $400 million U.S. Dollar Facility and has drawn down $276.4 million under the available $300 million Colombian Peso Facility. The Company repaid the $358 million outstanding on the U.S. Dollar Facility on April 15, 2013, and prepaid $98.4 million on the Colombian Peso Facility; both facilities remain fully committed until 2015.

During February 2013 the Company entered into a new credit facility with Banco Itau for $100 million. The Company has drawn down the $100 million on the facility, which has since been fully repaid with a new $112 million short term credit facility from Bank of America.

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

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 21 to the 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 net earnings.

The Company has the following commodity price risk management contracts outstanding (fair value in thousands):

As at March 31, 2013

Asset

Instrument	Term	Volume (bbl)	Floor/ceiling or strike price ($/bbl)	Benchmark	Fair value
Zero cost collars	April to December 2013	1,500,000	80 / 118	WTI	$ 49
	Total				$ 49
	Current				49
	Total				$ 49

Liabilities

Instrument	Term	Volume (bbl)	Floor/ceiling or strike price ($/bbl)	Benchmark		Fair value
Extendible zero cost collars (counterparties option)	April to December 2013	6,000,000	80 / 106-121	WTI	$	(6,762)
	Total				$	(6,762)
	Current					(6,762)
	Total				$	(6,762)

Extendible zero cost collars may be extended for an additional six months at the option of the counterparties.

As at December 31, 2012

Asset

Instrument	Term	Volume (bbl)	Floor/ceiling or strike price ($/bbl)	Benchmark		Fair value
Zero cost collars	January to June 2013	1,200,000	80 - 115/118	WTI	$	1,023
	Total				$	1,023
	Current					1,023
	Total				$	1,023

Liabilities

Instrument	Term	Volume (bbl)	Floor/ceiling or strike price ($/bbl)	Benchmark		Fair value
Zero cost collars	January to June 2013 extendible July to December 2013	5,280,000	80 / 111-121	WTI	$	(3,176)
	Total				$	(3,176)
	Current					(3,176)
	Total				$	(3,176)

For the three months ended March 31, 2013, the Company recorded a loss of $4.5 million (2012: $7.9 million gain) on commodity price risk management contracts in net earnings. Included in these amounts were $4.5 million of unrealized loss (2012: unrealized gain of $8.9 million) representing the change in the fair value of the contracts. No premiums were paid during the three months ended March 31, 2013 (2012: $1 million realized loss).

If the forward WTI crude oil price estimated at March 31, 2013 had been $1/bbl higher or lower, the unrealized gain or loss on these contracts would change by approximately $3 million (2012: $10 million).

Foreign currency exchange risk

The Company is exposed to foreign currency fluctuations in Colombian pesos (COP). 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 COP, the Company may enter into foreign currency derivatives to manage such risks. The Company has the following currency risk management contracts outstanding (fair value in thousands):

As at March 31, 2013

Asset

Instrument	Term	Notional amount	Floor-ceiling (COP/$)	Fair value
Currency collar	April 2013 to March 2014	$ 345,000	1850-1986	$ 7,117
Forward	April to December 2013	35,000	1890	733
Forward	May 2013 to February 2014	35,000	1910	1,222
		$ 415,000		$ 9,072
		Current		$ 9,072
		Total		$ 9,072

Liabilities

Instrument	Term	Notional amount	Floor-ceiling (COP/$)	Fair value
Currency collar	April 2013 to December 2014	$ 180,000	1825-1950	$ (1,267)
		$ 180,000		$ (1,267)
		Current		$ (488)
		Non-current		(779)
		Total		$ (1,267)

As at December 31, 2012

Asset

Instrument	Term	Notional amount	Floor-ceiling (COP/$)	Fair value
Currency collar	January to December 2013	$ 525,000	1825-1986	$ 22,590
Forward	March to December 2013	17,500	1890	1,699
Forward	May 2013 to February 2014	17,500	1910	1,348
		$ 560,000		$ 25,637
		Current		$ 25,367
		Non-current		270
		Total		$ 25,637

The Company has designated the currency collars as cash flow hedges. 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 months ended March 31, 2013, $13.6 million of unrealized loss (2012: $50.1 million of unrealized gain) were initially recorded in other comprehensive income, and $4.6 million (2012: $5 million) 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 months ended March 31, 2013, $3.1 million (2012: $6.1 million) of ineffectiveness was recorded as foreign exchange loss.

The currency forwards are COP-US dollar forwards that provide an early termination option to the counterparty when certain thresholds are reached. The currency forwards have not been designated as hedges and the change in fair value is recorded in profit or loss. For the three months ended March 31, 2013, the Company recorded an unrealized loss of $1.1 million (2012: Nil) representing the change in the fair value of the forward currency price risk management contracts in net earnings.

12. Selected Quarterly Information

	2013	2012				2011		
(in thousands of US$)	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Financials:								
Net sales	$ 1,258,762	$ 1,046,689	$ 870,369	$ 1,035,854	$ 931,850	$ 1,011,476	$ 828,285	$ 957,509
Net earnings (loss) attributable to equity holders of the parent for the period	121,954	(23,777)	68,817	224,344	258,345	80,834	193,720	349,375
Earnings (loss) per share								
- basic	0.38	(0.08)	0.23	0.76	0.88	0.29	0.71	1.30
- diluted	0.37	(0.08)	0.23	0.74	0.85	0.28	0.65	1.17

13. Related-Party Transactions

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

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

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

The following sets out the details of the Company's related party transactions as measured at the exchange amount ($ thousands, or unless otherwise stated):

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

b) As at March 31, 2013, the Company had trade accounts receivable of $4.3 million (December 31, 2012 - $4.4 million) from Proelectrica, in which the Company has a 24.9% indirect interest and which is 31.49% owned by Blue Pacific. The Company's and Blue Pacific's indirect interests are held through Pacific Power Generation Corp. Revenue from Proelectrica in the normal course of the Company's business was $11.2 million for the three months ended March 31, 2013 (2012 - $9 million).

   In October, 2012, the Company and Ecopetrol signed two build, own, manage, and transfer ("**BOMT**") agreements with Consorcio Genser Power-Proelectrica ("**Genser-Proelectrica**") to acquire certain power generation assets for the Rubiales field. Genser-Proelectrica is a joint venture between Proelectrica and Genser Power Inc. which is 51% owned by Pacific Power. Total commitment under the BOMT agreements is $229.7 million over ten years. At the end of the Rubiales Association Contract in 2016, the Company's obligations along with the power generation assets will be transferred to Ecopetrol. As at March 31, 2013, those assets are under construction and the Company paid a cash advance of $0.5 million (2012 – nil). The Company has accounts receivables of $0.4 million (December 2012 nil) due from Genser Power-Proelectrica.

c) During the three months ended March 31, 2013, the Company paid $12.8 million (2012 - $10.3 million) to Transportadora Del Meta S.A.S. ("**Transmeta**") in crude oil transportation costs. In addition the Company has accounts receivable of $2 million (December 2012 - $2.4 million) from Transmeta and accounts payable of $7.7 million (December 2012 - $8.5 million) to Transmeta as at March 31, 2013. Transmeta is controlled by Mr. German Efromovich, a director of the Company.

d) Loans receivable from related parties in the aggregate amount of $296 (December 31, 2012 – $179) are due from three directors and three officers (2012 – three directors and three officers) of the Company. The loans are non-interest bearing and payable in equal monthly payments over 48-month terms.

e) The Company has entered into aircraft transportation agreements with Petroleum Aviation Services S.A.S., a company controlled by Mr. Efromovich. During the three months ended March 31 2013, the Company paid $4.1 million (2012 - $3.5 million) in fees as set out under the transportation agreements. As at March 31, 2013, the Company has accounts payable of $2.9 million (2012- $2.8 million).

f) During the three months ended March 31, 2013, the Company paid $32.4 million to ODL (2012 - $27.7 million) for crude oil transport services under the pipeline take or pay agreement, and has accounts payable of $4.4 million to ODL as at March 31, 2013 (2012 -$5 million). In addition, the Company received $0.3 million from ODL during the three months ended March 31, 2013 (2012 - nil) with respect to certain administrative services, rental equipment and machinery. The Company accounts receivable from ODL as at March 31, 2013 was $0.1 million (2012 - $0.2 million).

g) The Company will make subordinated loans to OBC for up to $237.3 million, $140 million of which have been made as of March 31, 2013. The principal of the subordinated loan will be repaid in 10 equal semi-annual installments starting in 2025, after OBC has repaid its bank loans in full. The loans carry an annual interest rate of 7.32% with semi-annual interest payments. As at March 31, 2013 the balance of loans outstanding to the Company under the agreement is $32.6 million, (December 31, 2012: $32.6 million). The Company has received $0.4 million during the three months ended March 31, 2013 (2012: nil) with respect to certain administrative services and rental equipment and machinery and has an account receivable of $0.1 million (2012 - nil) as at March 31, 2013. Interest income of $0.5 million was recognized during the three months ended March 31, 2013 (2012: 1.9 million).

h) During the three months ended March 31, 2013, the Company has paid $0.3 million (2012 – $0.6 million) to Helicopteros Nacionales de Colombia S.A.S. ("**Helicol**") with respect to air transportation services. Helicol is controlled by Mr. Efromovich, director of the Company.

14. New IFRS Adopted

The Company applies, for the first time, certain standards and amendments that require restatement of previous financial statements. These include IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 13 Fair Value Measurement and amendments to IAS 1 Presentation of Financial Statements. As required by IAS 34, the nature and effect of these changes are disclosed below. In addition, the application of IFRS 12 Disclosure of Interests in Other Entities would result in additional disclosures in the annual consolidated financial statements.

Several other new standards and amendments apply for the first time in 2013. However, they do not impact the annual consolidated financial statements of the Company or the interim condensed consolidated financial statements of the Company. The nature and impact of each new standard/amendment is described below:

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1

The amendments to IAS 1 introduce a grouping of items present in other comprehensive income (OCI). Items that could be reclassified (or recycled) to profit and loss at a future point in time (e.g., net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) now have to be presented separately from items will never be reclassified (e.g., actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment affected presentation only and had no impact on the Company's financial position of performance.

IAS 1 Clarification of the requirement for comparative information (Amendment)

The amendment to IAS 1 clarifies the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include the comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional voluntarily comparative information does not need to be presented in a complete set of financial statements.

IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. IFRS 10 replace the parts of previously existing IAS 27 Consolidated and Separate Financial Statements that dealt with consolidated financial statements and SIC-12 Consolidation – Special Purpose Entities. IFRS 10 changes the definition of control such that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in IFRS 10, all three criteria must be met, including: (a) an investor has power over the investee; (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investors returns. IFRS 10 had no impact on the consolidation of investments held by the Company.

IFRS 11 Joint Arrangements and IAS 28 Investments in Associates and Joint Ventures

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities-Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using the proportionate consolidation. Instead, JCEs that meet the definition of a joint venture under IFRS 11 must be accounted for using the equity method.

The application of IFRS 11 has not significantly impacted the Company.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 sets out the requirement for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. None of these disclosure requirements are applicable for the interim condensed consolidated financial statements, unless significant events and transactions in the interim period requires that they are provided. Accordingly, the Company has not made such disclosures.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The application of IFRS 13 has not materially impacted the fair value measurements carried out by the Company.

IFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including IFRS 7 Financial Instruments: Disclosures. Some of these disclosures are specifically required for financial instruments by IAS 34.16A(j), thereby affecting the interim condensed consolidated financial statements period. The Company provides these disclosures in Note 24 to the consolidated financial statement.

The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

15. 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; and (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 function 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 perform for 87 controls over 21 corporate processes. In accordance with NI 52-109, the Company maintains documentary evidence sufficient to provide reasonable support for certification of DC&P and ICFR evaluation that included:

- A description and control matrix for each process evaluated.
- Determinable extent of testing for each of the 87 controls tested.
- A description of the evaluation tools applied according to sections 7.6 and 7.7 of the National Instrument.
- Conclusion about the operating effectiveness of the controls evaluated.
- Certification provided by owners regarding the conclusions and results of testing.

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:

- Exploration operations activities approved without the appropriate level of authorization.
- Infrastructure project management documentation is not archived appropiately.
- Information about social responsibility programs is not communicated on time to stakeholders.

During the year 2013, Corporate Audit will continue performing 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 Flow at Risk.
- Potential increased of fraud risk: an updated fraud risk assessment was performed in the Q4 to identify fraud schemes related to asset misappropriation, corruption and financial fraud and included the launch of a e-learning employee fraud awareness training to help maintain fraud-resistance. The results are used to prioritize fraud detection efforts toward key current fraud risks including segregation of duties controls and delegation of authority responsibilities.
- Data security and privacy protection: The review is 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.
- Replacement of proved oil and gas reserves: future oil and gas production will depend on Company hability to acquire, explore, and negotiate current contracts of new proved reserves.
- Operations are exposed to a wide range of helath, safety, and environmental risks: the Company engaged with a zero tolerance HSE program. It is focused on training and monitoring activities to our own and contractor employees.
- Major project delivery: delivering complex projects face challenges requiring adequate engineering, environmental permits, skilled labour, and regulatory conditions among other risks. The Company continously is improving its ability to manage these challenges strengthening project management standards.

16. Outlook

The Company will continue implementing its growth strategy, expanding its resource and reserve base and developing its production and transport capacity. Capital expenditures in 2013, estimated at of $1.2 billion for the remaining of 2013, are focused on: (1) increased development drilling and production facilities in Colombia and Peru; and (2) expanded exploration activity in Brazil, Peru, Guatemala, Papua New Guinea and Colombia.

Highlights for the 2013 program include:

- It is likely that 2013 production growth for Pacific Rubiales and other companies in Colombia will continue to be affected by the pace of environmental permitting approval. However, in an attempt to take a prudent and realistic view on this issue over which we have no control, we are starting the year by targeting 15 to 30% overall average production growth in 2013. The Company has a stronger than expected beginning to 2013 as we are currently producing above plan at approximately 308 Mboe/d gross total field or 129 Mboe/d net after royalty (including the acquired C&C volumes), and we expect to be able to update the range as the year progresses

- Total capital expenditures of $1.2 billion for the remaining of 2013, an increase of approximately 26% over 2012 expenditures, largely driven by the expanded exploration activities outside Colombia and increased development drilling in Colombia, Peru and Brazil. The capital program is expected to be funded by internally generated cash flow in an expected WTI oil price environment of $85-$90.

- Exploration expenditures of $295 million, includes drilling an additional 36 gross exploration wells, seismic data acquisition and early facilities. In the total drill program, approximately 19 exploration wells are targeting high impact prospects, including the Company's first exploration wells in Peru, Brazil, Guatemala and Papua New Guinea.

- $363 million drilling a planned 217 gross (excluding workovers and water injection wells) development wells, a significant increase over 2012, with activity driven by development of the Cajua field, continued on-going infill drilling in the Quifa SW and Rubiales fields, stepped up light oil development in the Cubiro Block in Colombia and a significant program of development drilling on Block Z-1 in Peru.

- $407 million in facilities and infrastructure, with approximately 85% directed to the Company's core producing Rubiales, Quifa SW, Cajua and Sabanero heavy oil fields and the remainder 15% for the planned development of the CPE-6 Block as well as other mostly light oil field development in Colombia.

17. Additional Financial Measures

This report contains the following financial terms that are not considered Measures under IFRS: operating netback, 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 from Operations

The following table shows the reconciliation of funds flow from operations to cash flow from operating activities for the three months ended March 31:

	Three Months Ended March 31	
(in thousands of US$)	**2013**	**2012**
Cash flow from operating activities	$ 622,533	$ 576,099
Changes in non-cash working capital	116,373	183,635
Funds flow from operations	**$ 506,160**	**$ 392,464**

b) EBITDA

A reconciliation of Net Earnings to EBITDA is follows:

(in thousands of US$)	Three Months Ended March 31 2013	2012
Net earnings	**$ 121,954**	**$ 258,345**
Adjustments to net earnings		
Income taxes expense	160,349	59,370
Foreign exchange (gain) loss	(17,835)	11,949
Finance cost	47,239	20,581
Gain on risk management contracts	5,651	(7,920)
Loss (gain) from equity investment	1,632	(2,757)
Other expense (income)	(3,722)	1,481
Share-based compensation	35,532	30,394
Loss attributable to non controlling interest	(1,156)	-
Depletion, depreciation and amortization	345,080	170,780
EBITDA	**$ 694,724**	**$ 542,223**

c) Net Earnings from Operations

Net 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 reconciliation, “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.

18. 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 its 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 will 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 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.

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

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.

Since 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 a 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.

The Company was also recognized by World Finance as the "Best Oil & Gas Sustainable Company- Latin America 2012" because of its social, environmental and governance practices, and won the CSR and Sustainability Colombian Award which recognized the Company´s sustainability model and its integration with the corporate strategy.

Finally, through the Social Investment Pioneer Awards, the Company received the Responsible Business award, a recognition for companies that commit to social, economic, and environmental sustainability while balancing the interests of diverse stakeholders, an initiative of the Principles for Social Investment Secretariat and United Nations Global Compact.

For further details regarding the Company's sustainability policies, please see our Sustainability Report, which is available on our website. The Sustainability Report for 2012 is expected to be ready by early May, 2013.

19. 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.

20. Risks and Uncertainties

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

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

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

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

21. Advisories

Finding Costs

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

Boe Conversion

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

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

Prospective Resources

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

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

Translations

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

22. Abbreviations

The following list of abbreviations is used in this document

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