TABLE OF CONTENTS

PACIFIC RUBIALES ENERGY CORP.
MANAGEMENT DISCUSSION AND ANALYSIS
November 7, 2013
Form 51-102 F1
For the three months ending September 30, 2013

1. Preface

This Management Discussion and Analysis (“**MD&A**”) contains forward-looking information and is based on the current expectations, estimates, projections and assumptions of Pacific Rubiales Energy Corp. This information is subject to a number of risks and uncertainties, many of which are beyond the Company’s control. Users of this information are cautioned that actual results may differ materially. For information on material risk factors and assumptions underlying our forward-looking information, see page 31.

This MD&A is management’s assessment and analysis of the results and financial condition of the Company, and should be read in conjunction with the accompanying Consolidated Financial Statements for the third quarter of 2013 and the 2012 Audited Annual Consolidated Financial Statements and related notes. The preparation of financial information is reported in United States dollars and is in accordance with International Financial Reporting Standards (“**IFRS**”) as issued by the International Accounting Standards Board (“**IASB**”) unless otherwise noted. All comparative percentages are between the quarters ending September 30, 2013 and September 30, 2012, unless otherwise stated. The financial measures of (i) funds flow from operations; (ii) adjusted net earnings from operations; and (iii) adjusted EBITDA as referred to in this MD&A are not prescribed by IFRS and are outlined under “Additional Financial Measures” on page 29. All references to net barrels or net production reflect only the Company’s share of production after deducting royalties. A list of abbreviations for oil and gas terms is provided on page 34.

In order to provide shareholders of the Company with full disclosure relating to potential future capital expenditures, we have provided cost estimates for projects that, in some cases, are still in the early stages of development. These costs are preliminary estimates only. The actual amounts are expected to differ and these differences may be material. For further discussion of the significant capital expenditures, see “Capital Expenditures” on page 15.

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. Third Quarter 2013 Highlights

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

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

- **31% increase in daily net production**. During the third quarter of 2013, average net production, after royalties and internal consumption, in Colombia and Peru totaled 127,728 boe/d (311,450 boe/d total field production), surpassing the high end of the Company's guidance for 2013 (113,000 -127,000 boe/d), and amounting to an increase of 31% compared to the same quarter of 2012. In Colombia, average net production reached 126,443 boe/d (308,827 boe/d total field production), and in Peru 1,285 bbl/d (2,623 bbl/d total field production).
- **Significant increase in revenue and adjusted EBITDA.** Oil and gas sales totaled $1,110 million during the third quarter of 2013, an increase of $240 million (28%) from $870 million for the same period in 2012. Adjusted EBITDA also increased to $612 million from $483 million in the third quarter of 2012, representing a 55% margin on total revenues for the period. These increases were accomplished despite accommodating for approximately one million barrels of production used to fill the Oleoducto Bicentenario de Colombia ("**Bicentenario**") pipeline (406 Mbbl); and delivered to Ecopetrol as part of the high prices clause arbitration decision at Quifa SW ("**PAP**") (602 Mbbl). The lower sales volume impacted revenues, production costs, adjusted EBITDA and the quarterly financial results of the Company.
- **Strong cash generation and financial results**. Funds flow and cash flow from operations increased to $455 million and $432 million compared to $348 million and $418 million in the same period of 2012, respectively. Consolidated net earnings for the third quarter of 2013 were $82 million compared to $69 million in the third quarter of 2012.
- **Higher combined operating netback**. The Company increased the combined operating netback to $62.52/boe, up from $60.54/boe for the second quarter of 2013 and $61.42/boe for the third quarter of 2012. The higher netback was mainly attributable to a 7% increase in the combined realized prices and a 40% reduction in the blending cost. Crude oil operating netback during the third quarter of 2013 was $65.73/bbl compared to $63.31/bbl for the second quarter of 2013 and $64.70/bbl for the third quarter of 2012.
- **Approval of environmental licences for the CPE-6 and Guama E&P blocks.** On November 4, 2013, the Company announced that it has received the environmental licences required to advance its planned exploration and development activities in both the CPE-6 and Guama Blocks, located in Colombia. The CPE-6 licence is a 'global environmental licence' which will allow for exploration and further development of a significant hydrocarbon column discovered on the block, as part of the Company's plan to signficantly increase its production over the next four years. The Company has a 50% working interest in the CPE-6 Block and is the operator. For the Guama Block, the Company has a 100% working interest and the environmental licence allows the Company to develop the substantial natural gas discoveries that have already been made on the block.
- **Discoveries in Colombia.** The exploration drilling campaign during the quarter resulted in three new discoveries in Colombia. In the eastern part of the Quifa Block, the QFE-S-1X well made a discovery and the Company is now planning a production test for the well. In the eastern part of the Cubiro Block, the Copa C-1 exploration well was completed with an initial production rate of 380 bbl/d and a low water cut. In the La Creciente Block, the Company made a natural gas discovery on the LCI-1X well and is preparing a short-testing production.
- **Petrominerales acquisition.** On September 29, 2013, the Company agreed to acquire all of the outstanding common shares of Petrominerales Ltd., for a total of approximately C$935 million in cash, plus the issuance of one common share of a newly formed exploration and production company ("**ExploreCo**") for each common share of Petrominerales, and the assumption of its net debt estimated at C$640 million. The acquisition will provide the Company with approximately 9.8 million gross (6.8 million net) acres of exploration and development properties in Colombia (18 blocks) and Peru (four blocks), as well as oil pipeline interests in Colombia (5% in the Oleoducto Central S.A. ("Ocensa") and 9.65% in the Oleoducto Bicentenario de Colombia). The acquired assets reported 2P certified reserves of 41.3 MMbbl gross (36.5 MMbbl net) as of year-end 2012, with approximately 65% of these being total proved reserves. In the first six months of 2013, these assets produced approximately 22 Mbbl/d gross (19 Mbbl/d net). The arrangement, which is expected to close in the fourth quarter of 2013, is subject to approval by the shareholders of Petrominerales, court approval, regulatory, stock exchange and other approvals, and satisfaction of all other customary closing conditions.
- **New exploration blocks awarded.** During the quarter, the Company was awarded three new exploration blocks in Brazil's 11th Bid Round. These blocks are located in the Foz do Amazonas Basin (one block) and in the Pará-Maranhão Basin (two blocks) in the northern deep water of offshore Brazil, and have a combined area of

approximately 2,300 km^2 gross (1,153 km^2 net). In addition, the Company received regulatory approval for its interest in Block 116 in Peru, and blocks S-M-1101, S-M-1102, S-M-1037, and S-M-1165 in off-shore Brazil.

- **Colombian granting of STAR Patent and technical reports.** During the quarter, the Company was granted a patent for its proprietary **Synchronized Thermal Additional Recovery** ("**STAR**") technology by the Colombian patent authority, the Superintendencia de Industria y Comercio ("**SIC**"). The patent provides the Company with intellectual property rights to the STAR technology in Colombia for an exclusive 20-year period from the filing date of April 1, 2011 until April 1, 2031. In addition, the Company received three independent technical reports on its STAR technology pilot project at Quifa SW, all of which estimated at least a doubling of the recovery factor in the pilot area to date.
- **Update on Pacific Infrastructure and the Puerto Bahia Project.** During the quarter, the Company announced that International Finance Corporation, a member of the World Bank Group, and two funds managed by the IFC Asset Management Company, the IFC African, Latin American and Caribbean Fund, L.P., and the IFC Global Infrastructure Fund, L.P. (collectively "**IFC**"), will invest a combined $150 million in equity of Pacific Infrastructure Ventures Inc. ("**Pacific Infrastructure**"), a private company in which Pacific Rubiales holds a 56.9% interest. The subscription documents were signed on July 31, 2013, and the first disbursement of $90 million is scheduled to occur on November 8, 2013. On October 4, 2013, Sociedad Portuaria Puerto Bahia S.A. (a wholly owned subsidiary of Pacific Infrastructure) entered into a credit agreement with Itau BBA Colombia S.A. Corporación Financiera, for a debt facility of up to $370 million for the construction of a new oil export terminal in the Cartagena Bay, Colombia. The first disbursement from the debt facility is expected for the first quarter of 2014. Upon the full investment of $150 million by IFC, the Company's equity interest in Pacific Infrastructure will be reduced from 56.9% to 41.4% and the Company expects to record a gain on this dilution.
- **Completion of the Bicentenario Pipeline.** In October 2013, the Bicentenario Pipeline reached mechanical completion of Phase 1. During the third quarter, the Company began filling the pipeline, which was completed on October 3, 2013. Operations started on November 1, 2013, and the first cargo finished loading on November 2, 2013. The startup of the Bicentenario Pipeline is an important milestone in reducing the Company's crude oil transportation costs.
- **Power Transmission Line Project ("PEL") Substantially Completed.** As of September 2013, the power transmission project is substantially completed and the project is expected to be operational in the fourth quarter of 2013. The PEL transmission line will help to reduce the operating costs for the Rubiales and Quifa fields by lowering electricity costs for oil production and transportation.
- **Small Scale LNG Project.** In November 2013, the Company and GAZPROM announced the execution of a Heads of Agreement for the negotiation of a five year Sale and Purchase Agreement for approximately 0.5 million tons per year of liquefied natural gas FOB Colombia (Caribbean Sea) beginning in the second quarter of 2015.
- **Capital expenditures.** Capital expenditures during the third quarter of 2013, excluding acquisitions, totaled $459 million ($663 million in 2012). Year to date, capital expenditures totaled $1,553 million and are in line with plan. Capital expenditures in the quarter included an investment of $155 million in the expansion and construction of production infrastructure; $87 million in exploration activities (including drilling, seismic, geophysical and other activities) in Colombia, Peru, Brazil and Guatemala; $142 million in development drilling; $39 million on other projects, which included the Company´s STAR pilot project at Quifa SW, and $36 million for Farm-in agreements and others.
- **Execution of exploration programs.** During the third quarter of 2013, total net exploration capital expenditures of $87 million consisted of the drilling of three exploratory wells in Colombia, block acquisition costs in Brazil and Peru, and seismic work in Colombia. During this period, the Company also started drilling one exploration well in Guatemala for which final results are expected during the fourth quarter of 2013.
- **Acquired additional share in the Sabanero Block**. On September 6, 2013, the Company and Maurel & Prom Colombia B.V., signed a purchase and sale agreement by which the Company will acquire the remaining 50.001% participating interest in the Sabanero block, subject to approval by the Agencia Nacional de Hidrocarburos of Colombia ("**ANH**").
- **Dow Jones Sustainability North America Index ("DJSI North America").** In September, the Company was selected for inclusion in the DJSI North America Index. This Index, which was established in 2005, tracks North American companies that are leaders in corporate social responsibility using rigorous indicators in the areas of corporate, economic and social performance.
- **Dividends**. On September 30, 2013, the Company paid a cash dividend of $0.165 per Common Share for an aggregate amount of approximately $53 million.

3. Financial Summary

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

	Three Months Ended September 30		Nine Months Ended September 30	
(in thousands of US$ except per share amounts or as noted)	**2013**	**2012**	**2013**	**2012**
Oil and gas sales	**$ 1,109,973**	$ 870,369	**$ 3,424,308**	$ 2,838,073
Adjusted EBITDA [1]	**611,532**	483,108	**1,910,223**	1,589,354
Adjusted EBITDA Margin (Adjusted EBITDA/Revenues)	**55%**	56%	**56%**	56%
Per share - basic ($) [2]	**1.89**	1.64	**5.92**	5.41
Funds flow from operations [1]	**455,100**	348,325	**1,436,261**	1,156,012
Per share - basic ($) [2]	**1.41**	1.18	**4.45**	3.93
Adjusted net earnings from operations [1]	**106,825**	136,593	**312,152**	592,154
Per share - basic ($) [2]	**0.33**	0.46	**0.97**	2.00
Net earnings [3]	**81,991**	68,817	**261,504**	551,506
Per share - basic ($) [2]	**0.25**	0.23	**0.81**	1.88
Average net production (boe/d)	**127,728**	97,142	**127,670**	94,135
Average sales volumes (boe/d)	**123,689**	99,820	**131,506**	105,358
(COP$ / US$) exchange rate [4]	**1,914.65**	1,800.52	**1,914.65**	1,800.52

1. *See "Additional Financial Measures" on page 29.*
2. *The basic weighted average number of common shares outstanding for the third quarter of 2013 and 2012 was 323,404,942 and 295,022,739, respectively.*
3. *Net earnings attributable to equity holders of the parent.*
4. *COP/USD exchange rate fluctuations can have a significant impact on the Company's accounting net earnings, due in the form of unrealized foreign currency translation on the Company´s financial assets and liabilities and deferred tax balances that are denominated in COP.*

During the third quarter of 2013 the Company continued to generate strong cash flow. Adjusted EBITDA totaled $612 million, which represents an increase of 27% compared to $483 million in 2012. Adjusted EBITDA represented a 55% margin on total revenues for the period compared to a 56% margin in 2012. Funds flow from operations increased to $455 million in the current quarter from $348 million in 2012.

The Company's financial results are influenced by fluctuations in commodity prices, price differentials and the COP/US$ exchange rate. Net earnings for the third quarter of 2013 totaled $82 million versus $69 million in the same period of 2012, impacted by higher depreciation, depletion and amortization, and a number of non-operating and non-cash items that may or may not recur in future periods such as share-based compensation, finance costs and other expenses.

Reconciliation of net earnings to adjusted EBITDA is as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
(in thousands of US$)	**2013**	**2012**	**2013**	**2012**
Net earnings	**$ 81,991**	**$ 68,817**	**$ 261,504**	**$ 551,506**
Adjustments to net earnings				
Income taxes expense	83,249	71,063	372,383	252,041
Depletion, depreciation and amortization	384,144	247,782	1,074,094	646,144
Finance cost	33,850	26,634	117,697	66,966
Others	28,298	68,812	84,545	72,697
Adjusted EBITDA	**$ 611,532**	**$ 483,108**	**$ 1,910,223**	**$ 1,589,354**

The Company uses the non-IFRS measure adjusted EBITDA in this MD&A, whereas in the past we have used the term EBITDA. Our calculation of this measure has not changed from previous quarters, but the terminology has changed further to guidance provided by the Ontario Securities Commission. In addition, the Company uses a number of other non-IFRS indicators to measure performance. See "Additional Financial Measures" on page 29 for detailed reconciliations for funds flow from operations, adjusted net earnings from operations, and adjusted EBITDA,.

4. Operating Results

Average volume produced and sold

During the third quarter of 2013, net production after royalties and internal consumption in Colombia and Peru totaled 127,728 boe/d (311,450 boe/d total field production), in line with the prior quarter of 2013 and an increase of 31% as compared to the third quarter of 2012. Oil and gas volumes sold during the third quarter were 123,689 boe/d compared to 127,398 boe/d for the second quarter of 2013, mainly impacted by two events:

- During the third quarter, the Company delivered 4,413 bbl/d of crude oil to Bicentenario (for a total of approximately 406 Mbbl) in order to meet the Company's share in the Bicentenario line-fill. The pipeline fill was fully completed during the quarter and the costs associated with this operation were capitalized as a fixed asset.

- During the third quarter, the Company delivered 6,546 bbl/d to Ecopetrol (for a total of approximately 602 Mbbl), as part of the Quifa SW PAP settlement from April 2013. This volume was accounted against the provision originally booked in December 2012. The remaining balance of approximately 1 MMbbl is expected to be fully delivered by the first quarter of 2014.

Despite the above impacts, oil and gas quantities sold during the third quarter of 2013 were 123,689 boe/d, 24% higher as compared to 99,820 boe/d sold in the same period of 2012, due to rising production volumes in producing fields and the acquisitions of PetroMagdalena and C&C Energia. Imported diluent volumes decreased 65% as compared to the third quarter of 2012 and 42% compared to the second quarter of 2013 due to the increasing use of the Company's own light and medium crudes in blending, which consequently led to the reduction of purchased diluent volumes.

A reconciliation of the oil and gas volumes produced and sold during the current quarter is provided below:

Production to total sales reconciliation	**Three Months Ended**		
	2013		**2012**
	Q3	**Q2**	**Q3**
Average total field production (boe/d)	311,450	310,065	243,820
Net production			
Colombia oil (bbl/d)	115,934	115,170	85,067
Colombia gas (boe/d)	10,509	10,951	10,681
Peru oil (bbl/d)	1,285	1,434	1,394
Total net production (boe/d)	**127,728**	**127,555**	**97,142**
Production available for sale (boe/d)	127,728	127,555	95,748
Diluent volumes (bbl/d)	3,146	5,427	9,098
Oil for trading volumes (bbl/d)	4,224	3,810	-
Settlement PAP (bbl/d) (1)	(6,546)	-	-
Bicentenario pipeline fill (bbl/d)	(4,413)	-	-
Inventory movement and other (boe/d)	(450)	(9,394)	(5,026)
Volumes sold (boe/d)	**123,689**	**127,398**	**99,820**

1. *Corresponds to the inventory delivered to Ecopetrol during the third quarter of 2013. For the second quarter of 2013, includes the inventory set aside to settle previously accumulated PAP volumes.*

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

The Company increased its combined operating netback to $62.52/boe compared to $60.54/boe in the second quarter of 2013 and $61.42/boe in the third quarter of 2012. The higher netback was the result of a 7% increase in the combined realized prices and a 40% reduction in the blending cost. Crude oil operating netback during the third quarter of 2013 was $65.73/bbl compared to $63.31/bbl for the second quarter of 2013. These increases were accomplished despite the approximately 602 Mbbl delivered to Ecopetrol as part of the PAP settlement agreement as explained above. Below is a summary of the combined operating netback for the total volumes of crude oil and natural gas sold during the quarters, including diluents but excluding trading volumes:

	Three months ended September 30, 2013			Three months ended June 30, 2013		
	Crude Oil	Natural Gas	Combined	Crude Oil	Natural Gas	Combined
Average daily volume sold (boe/day)(1)	**109,228**	**10,237**	**119,465**	**112,701**	**10,887**	**123,588**
Operating netback ($/boe)						
Crude oil and natural gas sales price	103.00	36.35	97.29	95.84	39.78	90.91
Production cost of barrels sold (2)	17.28	6.33	16.35	16.41	5.45	15.44
Transportation (trucking and pipeline) (3)	15.73	0.33	14.41	13.56	0.02	12.37
Diluent cost (4)	3.83	-	3.50	6.34	-	5.78
Other costs (5)	1.76	1.78	1.76	(0.21)	2.72	0.04
Total operating cost	**38.60**	**8.44**	**36.02**	**36.10**	**8.19**	**33.63**
Overlift/Underlift (6)	(1.33)	(0.34)	(1.25)	(3.57)	(0.02)	(3.26)
Total Operating Cost including Overlift/Underlift	**37.27**	**8.10**	**34.77**	**32.53**	**8.17**	**30.37**
Operating netback crude oil and gas ($/boe)	**65.73**	**28.25**	**62.52**	**63.31**	**31.61**	**60.54**

1. *Combined operating netback data based on weighted average of daily volume sold which includes diluents necessary for the blending of the Rubiales crude oil, and excludes oil for trading volumes.*
2. *Cost of production mainly includes lifting cost and other direct production costs such as fuel consumption, outsourced energy, fluid transport (oil and water), personnel expenses and workovers, among others. Increases in oil production cost are driven by higher fluid (mainly water) production which affects fuel consumption, outsourced energy and fluid transport costs, as compared to the prior periods of 2013 and 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 for customers.*
4. *See additional discussion on diluent costs below.*
5. *Other costs mainly correspond to inventory fluctuation, storage cost and the net effect of the currency hedges of operating expenses incurred in Colombian pesos during the period, as well as royalties paid in cash on gas and oil production, and external road maintenance at the Rubiales field.*
6. *Corresponds to the net effect of the overlift position of $13.7 million for the third quarter of 2013.*

Combined Operating Cost

Total combined operating costs, including overlift, for the third quarter of 2013, were $34.77/boe ($30.37/boe for the second quarter of 2013). The increase is attributed to the following:

- The settlement of 602 Mbbl of crude oil related to the PAP payments for the Quifa field, that would otherwise have been sold. This settlement had the following effects on this quarter's operating costs:

    - An increase of $0.80/bbl in the average production cost; and
    - A reduction in cost related to overlift, as the provision for PAP settlement was initially recognized as overlift in prior periods.

  As of September 30, 2013 there remained approximately 1 million barrels of PAP settlement outstanding with Ecopetrol, which are expected to be fully settled by the first quarter of 2014.

- Transportation cost increased by $2.04/boe to $14.41/boe compared to the second quarter of 2013 as a result of the termination of a business arrangement for 15,000 bbl/d of capacity on the OCENSA pipeline, which temporarily caused an increase in the use of tank trucks to transport the Company's crude oil in Colombia. However, with the startup of the Bicentenario Pipeline on November 1, 2013, the Company expect to reduce its crude oil transportation costs from the fourth quarter 2013 onwards.

- Total combined operating costs increased during the quarter due to lower sales volumes which were affected by approximately 1 MMbbl of production used to fill the Bicentenario pipeline (406 Mbbl) and delivered to Ecopetrol as part of the PAP settlement agreement (602 Mbbl).

Diluent Cost

Diluent cost decreased by 40% to $3.83/bbl in the third quarter from $6.34/bbl in the second quarter of 2013. During the third quarter, the Company reduced the overall blending cost by using a higher volume of its own light and medium crude oil for blending, while also reducing the reliance on purchased natural gasoline.

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

Net Cost of Diluent (US$/bbl)	Three Months Ended		
	2013		2012
	Q3	Q2	Q3
Average diluent purchase price	116.89	119.81	106.92
Pipeline fees	11.52	12.42	12.29
Average Rubiales blend sales price	(103.42)	(95.41)	(101.67)
Net diluent cost per barrel	24.99	36.82	17.54
Average blending ratio	4.15%	7.54%	14.60%
Net blend cost per barrel	**1.04**	**2.77**	**2.56**

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

	Three months ended September 30					
	2013			2012		
	Crude Oil	Natural Gas	Combined	Crude Oil	Natural Gas	Combined
Average daily volume sold (boe/day)(1)	**109,228**	**10,237**	**119,465**	**89,045**	**10,775**	**99,820**
Operating netback ($/boe)						
Crude oil and natural gas sales price	103.00	36.35	97.29	101.61	41.49	95.13
Production cost of barrels sold (2)	17.28	6.33	16.35	13.89	3.97	12.82
Transportation (trucking and pipeline) (3)	15.73	0.33	14.41	14.56	0.03	13.00
Diluent cost (4)	3.83	-	3.50	9.17	-	8.18
Other costs (5)	1.76	1.78	1.76	(1.26)	2.85	(0.82)
Total operating cost	**38.60**	**8.44**	**36.02**	**36.36**	**6.85**	**33.18**
Overlift/Underlift (6)	(1.33)	(0.34)	(1.25)	0.55	0.37	0.53
Total Operating Cost including Overlift/Underlift	**37.27**	**8.10**	**34.77**	**36.91**	**7.22**	**33.71**
Operating netback crude oil and gas ($/boe)	**65.73**	**28.25**	**62.52**	**64.70**	**34.27**	**61.42**

Notes: Refer to the operating netback table on page 6.

The combined crude oil and gas operating netback during the third quarter of 2013 was $62.52/boe, higher by $1.10/boe as compared to the third quarter of 2012 ($61.42/boe). Crude oil operating netback during the third quarter of 2013 was $65.73/bbl, 2% higher as compared to the same period of 2012 ($64.70/bbl).

The combined oil and gas realized price in the third quarter of 2013 was $97.29/boe as compared to $95.13/boe in the third quarter of 2012, primarily due to higher oil prices.

Diluent costs were significantly reduced to $3.83/bbl in the third quarter of 2013 compared to $9.17/bbl in the same quarter of 2012, which was the result of using a higher volume of the Company's own light and medium crude oil for blending instead of importing natural gasoline.

Operating netback for crude oil trading

In addition to selling the crude it produces, the Company also purchases crude oil from third parties for trading purposes. The netback on crude trading activities during the third quarter was higher than the second quarter of 2013 due to an increase in the realized prices, as indicated below:

Crude oil trading (1)	Three months ended	
	2013	
	Q3	Q2
Average daily volume sold (bbl/day)	**4,224**	**3,810**
Operating netback ($/bbl)		
Crude oil traded	104.80	95.78
Cost of purchases of crude oil traded	103.33	95.62
Operating netback crude oil trading ($/bbl)	**1.47**	**0.16**

1. *No trading activities were carried out in the third quarter of 2012.*

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

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

	Average Q3 Production (in boe/d)					
	Total field production		Gross share before royalties [1]		Net share after royalties	
Producing Fields - Colombia	**Q3 2013**	**Q3 2012**	**Q3 2013**	**Q3 2012**	**Q3 2013**	**Q3 2012**
Rubiales / Piriri	210,640	171,871	89,035	71,876	71,228	57,501
Quifa SW [2]	55,997	45,398	33,331	27,099	22,994	21,491
La Creciente [3]	10,376	10,498	10,150	10,318	10,150	10,316
Cravoviejo	9,816	-	9,786	-	9,003	-
Cubiro	8,954	4,312	5,493	2,741	5,083	2,522
Cajua	3,364	2,621	2,018	1,572	1,897	1,478
Cachicamo	2,969	-	2,969	-	2,732	-
Arrendajo	2,024	800	1,362	444	1,281	408
Abanico	1,117	1,525	324	430	311	412
Sabanero [4]	1,091	1,500	697	736	655	692
Dindal / Rio Seco	933	1,083	554	653	465	535
Other producing fields [5] [6]	1,546	1,367	680	416	644	393
Total Production - Colombia	**308,827**	**240,975**	**156,399**	**116,285**	**126,443**	**95,748**
Producing Fields - Peru (See note below)						
Block Z-1 [7]	2,623	2,845	1,285	1,394	1,285	1,394
Total Production - Peru	**2,623**	**2,845**	**1,285**	**1,394**	**1,285**	**1,394**
Total Production Colombia and Peru	**311,450**	**243,820**	**157,684**	**117,679**	**127,728**	**97,142**

1. *Share before royalties is net of internal consumption at the field and before PAP at the Quifa SW field.*
2. *The Company's share before royalties in the Quifa SW field is 60% and decreases according to a high-prices clause that assigns additional production to Ecopetrol.*
3. *Royalties on production from La Creciente field are payable in cash and accounted as part of the production cost. During the second quarter of 2013 the ANH requested the Company to pay in cash the royalties related to the condensate from La Creciente field. The Company has completed 90% of the project to increase the process capacity to 100 MMcf/d at La Creciente Station.*
4. *Pacific Rubiales holds a 49.999% equity interest in Maurel & Prom Colombia B.V., which owns the Sabanero Block. On September 6, 2013, the Company and Maurel & Prom Colombia B.V. signed a purchase and sale agreement, subject to ANH's approval, by which the Company will acquire the remaining 50.001% participating interest in the Sabanero block. The daily production reported above for Sabanero includes 157bbl/d that is pending approval by the ANH.*
5. *'Other producing fields' corresponds to producing assets located in Cerrito, Moriche, Las Quinchas, Guama, Topoyaco, Guasimo, Buganviles, Carbonera, Yamu and Llanos 19 Blocks (Yamu is not an operated block). Subject to Ecopetrol´s and ANH´s approval (as applicable), the Company is in the process of divesting its participation in the Moriche, Las Quinchas, Guasimo, Chipalo, Yamu, Cerrito, and Carbonera Blocks.*
6. *During the second quarter of 2013, the ANH requested the Company to pay in cash the royalties related to crude oil for the Lisa, Yaguazo, Apamate, Cotorra and Cerro Gordo fields.*
7. *Block Z-1 includes the Corvina and Albacora fields which are operated by BPZ Resources, Inc. in which the Company acquired a 49% undivided participating interest on April 27, 2012. The transaction was completed upon the receipt of governmental approval received on December 12, 2012; the Company or any of its subsidiaries has been 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 for as part of the production cost.*

Colombia

Gross average production increased to 308,827 boe/d for the third quarter of 2013 from 240,975 boe/d for the same period of 2012. Net production after royalties for the third quarter of 2013 increased to 126,443 boe/d, representing an increase of 32% compared to the same period of 2012, and was mainly due to:

- Drilling of 194 development wells at the Rubiales field, 83 development wells at the Quifa SW field, 27 wells at the Cajúa field and 11 wells in other producing fields during the third quarter of 2013, as well as an increase in the capacity of production facilities at Rubiales and Quifa. Net production at Rubiales and Quifa increased 19% while the La Creciente natural gas field decreased by 2% as compared to 2012.
- Licence modification for the water disposal in the Rubiales field (received in August 2012), which allowed for the injection of an additional 400,000 barrels of water per day.
- Net production after royalties contributed by the PetroMagdalena and C&C Energia acquisitions during the third quarter of 2013, which totaled 6,599 boe/d (total field production of 12,031 boe/d) and 12,015 bbl/d (total field production of 13,122 bbl/d) respectively, representing 15% of the total net production after royalties reported by the Company during the third quarter of 2013.

Peru

Production from Peru corresponds to the 49% participating share of production attributable to the Company from Block Z-1. Net production after royalties for the third quarter of 2013 from Block Z-1 was 1,285 bbl/d (total gross field production of 2,623 bbl/d). Production is expected to increase during the fourth quarter of 2013 as a result of the ongoing development drilling at the Corvina and Albacora fields.

Royalties and High Price Clauses

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

Additional Production Share in the Quifa SW Field

The Company's share of production after royalties in the Quifa SW field is 60%; however, this participation may change monthly as a function of the PAP formula, stipulated in the Quifa Association Contract.

On April 15, 2013, the Company initiated the delivery of the additional PAP production from the Quifa SW field to Ecopetrol. In addition, during the third quarter of 2013, the Company agreed to deliver to Ecopetrol approximately 6,500 bbl/d to settle the PAP accumulated prior to the final arbitration decision (previously recorded as a financial provision in the Company's financial statements). During the third quarter of 2013, a total volume of 602 Mbbl was delivered to Ecopetrol, and the remaining balance of 1,049 Mbbl is expected to be fully delivered during the fourth quarter of 2013 and the first quarter of 2014.

Carrizales Field (Cravoviejo Block)

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

Update on Environmental Permits

Colombia

The Company currently has six processes under evaluation by the Environmental Authority in Colombia ("ANLA" by its acronym in Spanish), the most important ones being the blanket exploitation licences for the CPE-6 Block, the Sabanero Block, and the exploration licences for the SSJN-7, Cordillera-24 and CR-1 blocks. Following is a detailing of the current status of environmental permits for some areas in Colombia:

In November 2013, the Company received the 'global environmental licence' for the CPE6 Block, which will allow the Company to advance its planned exploration and development activities on the block. The CPE-6 Block covers an area of approximately 593 thousand acres in the southern Llanos Basin and lies along the heavy oil trend approximately 70 kilometers southwest of the Company's operated Rubiales/Quifa SW fields. This licence will allow for exploration and future development of a substantial hydrocarbon column discovered on the block, with year-end 2012 certified net 2P reserves of 44.5 MMbbl (57.1 MMbbl gross) associated with the Hamaca prospect and working interest gross best case Prospective Resources of 137.1 MMbbl, associated with the Hamaca prospect and two additional leads in the CPE-6 block. This block represents the first major step out from the Rubiales/Quifa SW field area and illustrates the repeatable and scalable nature of the Company's heavy oil strategy in Colombia, while also supporting the Company's plans to significantly increase its production over the next four years. Pacific Rubiales has a 50% working interest and is operator of the block.

In October 2013, the Company obtained the environmental licence for the exploitation of the Guama block. This licence allows for the drilling of 20 development wells and the construction of production facilities. This environmental permit will allow the Company to develop the Guama Block with certified year-end 2012 net 2P reserves of 34.2 MMboe (36.5 MMboe gross) and working interest gross best case Prospective Resources of 97.3 MMboe. The block is located in the northern portion of Colombia, approximately 90 km from the Company´s producing La Creciente Block. Pacific Rubiales has a 100% working interest of the block.

The environmental study of SSJN-7 is in the process of being adjusted in order to comply with additional information requested by the ANLA. For the CR-1 environmental licence, the Company is still awating a response from the ANLA regarding an administrative appeal that was presented. The Company is expecting the environmental licences for both blocks will be granted during the first quarter of 2014.

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

For the Sabanero Block, the operator Maurel & Prom submitted additional information requested by the ANLA on August 2, 2013, which is currently being reviewed.

Peru

During the third quarter of 2013, the Company submitted the necessary environmental studies to obtain the authorization to initiate an exploratory drilling campaign in the offshore Block Z-1 in northern Peru. The Peruvian authorities also accepted the environmental plan for the onshore Block 116 with the plan to start the Fortuna 1X exploratory well on Block 116 by the end of the year.

Commercial Activity

Realized Prices and Sales Volume for the Third Quarter of 2013

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

	Three Months Ended September 30		Three Months Ended June 30	
Average Crude Oil and Gas Prices (US$/bbl)	**2013**	**2012**	**2013**	**°API**
Domestic Market (1)	$88.00	$103.32	$97.34	12.5
WTI NYMEX (of all PRE Cargoes, Small Cargoes and Parcels)	$105.87	$92.32	$94.25	38
Vasconia Trading (Weighted Average Cargoes and Parcels PRE) (2)	$106.39	$0.00	$97.45	24
Vasconia Produced (Weighted Average Cargoes and Parcels PRE) (2)	$104.15	$0.00	$96.36	24
Vasconia (Weighted Average Cargoes and Parcels PRE) (2)	$104.30	$103.45	$96.38	24
Castilla (Weighted Average Cargoes PRE) (3)	$103.42	$101.67	$95.41	19
Rubiales 12.5 Export Barranquilla (Weighted Average Small Cargoes PRE) (4)	$96.13	$94.99	$92.41	12.5
Combined Realized International Oil Sales Price	**$102.48**	**$101.20**	**$95.29**	
Bunker Sales (IFO 380-500)	$0.00	$98.96	$92.82	
Peru Sales (Domestic Market)	$106.86	$0.00	$99.23	
PRE Natural Gas Sales ($/MMBTU)	**$6.41**	**$7.36**	**$6.97**	
Combined Realized Oil and Gas Sales Price	**$97.54**	**$95.13**	**$91.05**	
WTI NYMEX ($/bbl)	$105.81	$92.20	$94.17	
BRENT ICE ($/bbl)	$109.65	$109.42	$103.35	
Regulated Gas Price ($/MMBTU) (5)	$5.73	$5.96	$5.90	
Henry Hub average Natural Gas Price ($/MMbtu)	$3.56	$2.89	$4.02	

1. *Weighted average price of Rubiales crude oil sold in the domestic market.*
2. *Weighted average price of 20 parcels of oil and one cargo of Vasconia.*
3. *Weighted average price of seven Castilla crude oil cargoes and one small parcel exported by a third party.*
4. *Weighted average price of ten Rubiales 12.5° API small cargoes.*
5. *The domestic natural gas sales price is referenced to MRP for gas produced in La Guajira field. The MRP is modified every six months based on the previous half-year variation of the US Gulf Coast Residual Fuel No. 6 1.0% sulphur, Platts.*

Combined oil and gas realized price for the current quarter was $97.29/boe, higher by approximately $2.16/boe as compared to the third quarter of 2012 and higher by approximately $6.38/boe as compared to the second quarter of 2013. Latin American crude prices have suffered a premium reduction versus WTI in the third quarter of 2013 due mainly to the decrease of more than $5/bbl in the ICE Brent - WTI Nymex differential in the third quarter of 2013 vs. the second quarter of 2013. However, despite the general oil market conditions, the Company's Castilla cargoes have been sold at $103.42/bbl, or an average discount of $2.39/bbl to WTI in the third quarter, still $3.79/bbl over the average price of Castilla crude oil in the spot market in the same period.

- As indicated in the table above, the Company's combined realized international oil price in the third quarter of 2013 was $102.48/bbl, lower by $3.33/bbl when compared to the average WTI Nymex price; this is a result of the reduction of the ICE Brent – WTI Nymex price differential from $9.18/bbl in the second quarter of 2013 to $3.84/bbl in the third quarter of 2013.
- In the third quarter of 2013, natural gas sales averaged 58.4 MMcf/d mainly from La Creciente field at an average price of $6.41/MMBtu (equivalent to $6.37/Mcf) representing a premium of 12% over the weighted domestic regulated price of $5.73/MMBtu. This realized price was lower by 13% as compared to the same period of 2012 due to a lower demand of gas for thermal power generation on the Atlantic coast of Colombia.

Export Sales Volume

During the third quarter of 2013, the Company sold 11.38 MMboe of oil and natural gas, of which 10.44 MMbbl of crude oil sales (92%) correspond to exports of crude oil. A breakdown of the crude oil export sales by destination and type of crude follows:

	Three Months Ended September 30			
Export destination (MMbbl)	**2013**	**%**	**2012**	**%**
Asia	0.90	9%	2.45	31%
USA	4.71	45%	1.54	19%
Europe	3.93	38%	1.95	24%
LATAM / Caribbean	0.90	8%	2.09	26%
Total Export	**10.44**	**100%**	**8.03**	**100%**

	Three Months Ended September 30			
Export oil reference (MMbbl)	**2013**	**%**	**2012**	**%**
Castilla Blend	6.81	65%	6.28	78%
Vasconia Blend	2.10	20%	0.90	11%
Rubiales	1.53	15%	0.77	10%
Bunkers	-	0%	0.08	1%
Total Export	**10.44**	**100%**	**8.03**	**100%**

Transport of Hydrocarbons

During the third quarter of 2013, the Company transported 152,003 bbl/d through the different pipelines and by trucks as follows:

	Three Months Ended September 30		**Nine Months Ended September 30**	
Means of transport (bbl/d)	**2013**	**2012**	**2013**	**2012**
ODL-OCENSA pipeline system	77,814	66,256	240,663	209,526
Crude oil transported through the ODC pipeline	15,231	17,139	59,394	51,137
Crude oil transported by truck	58,958	34,151	154,458	82,922
Total Transport of Hydrocarbons	**152,003**	**117,546**	**454,515**	**343,585**

- The Guaduas facility pumped 35,567 bbl/d of crude oil from the Company and third parties. This operation handled 20,336 bbl/d of crude (12,897 bbl/d in the third quarter of 2012) from third parties, generating an operating profit of $4.5 million ($2.4/bbl). Additionally, 494 bbl/d was pumped through the Guando-Chicoral pipeline.

- Incremental oil production from Rubiales, Quifa, Cajua and from the recent acquisitions of PetroMagdalena and C&C Energia was transported by truck to pipeline access facilities at the new Cusiana blending facility, Guaduas, Vasconia and the Atlantic Coast, while waiting on new pipeline capacity from the Bicentenario Pipeline to become operational.

Exploration Activities

During the third quarter of 2013, the Company continued with its exploration activity in Colombia, Guatemala and Peru, including the drilling of three exploration wells and the acquisition of 2,361 km of aeromagnetic and aerogravimetric survey data. The drilling results for the three and nine months ending September 30, 2013 and 2012 are as follows:

	Three Months Ended September 30		**Nine Months Ended September 30**	
	2013	**2012**	**2013**	**2012**
Successful exploratory wells	3	-	10	1
Successful appraisal wells [(1)]	-	7	1	33
Successful stratigraphic wells	-	-	-	7
Dry wells	-	1	5	8
Total (see breakdown in the table below)	**3**	**8**	**16**	**49**
Success rate	**100%**	**88%**	**69%**	**84%**

1. Includes horizontal appraisal wells.

Details of Exploratory/Appraisal Wells Drilled During the Third Quarter of 2013

The following is a summary of the exploration drilling campaign during the third quarter of 2013:

No. of wells	Block	Area / Field / Prospect	Well Name	Type	Total Depth MD (feet)	Net Pay (feet) (1)
1	Quifa	South	QFE-S-1X	Exploration	3,252	8.5
2	Cubiro	Copa	Copa C -1	Exploration	6,203	21
3	La Creciente	La Creciente "I"	LCI-1X	Exploration	12,350	63

1. *"Net Pay" represents the total estimated net pay encountered in the horizontal or vertical drilled sections.*

Colombia

In the Quifa Block, the Company drilled the exploration well QFE-S-1X, located in the northeastern part of the block approximately six km east of the previously drilled Azabache-1 exploration well. The QFE-S-1X found 8.5 feet of net pay within the Basal Sand Unit in the Carbonera Formation, resulting in a new discovery for this part of the block. At present, production testing of the well is under way. During the period, the Company continued with the acquisition of 721 km^2 of 3D seismic data in the northwestern portion of the block.

In the Cubiro Block, the Company drilled the Copa C-1 exploration well, which found 17 feet of net pay in the C-5 Unit and 4 feet in the C-3 Unit, both in the Carbonera Formation and resulting in a new discovery along the Copa Trend on the eastern part of the block. The well was completed in the C5D2 and C5A1 sands with an initial production rate of 380 bbl/d with low water cut.

In the CPE-6 Block, the Company received the final processed 3D seismic data (366 km^2) and began seismic interpretation to update the reservoir model for the Hamaca prospect and the definition of exploration and appraisal locations. Also, during the period, a study of elastic inversion began and, the results of this are expected by year end.

In the CPO-14 Block, the Company started the acquisition of 250 km of 2D seismic data. This survey is expected to be completed by January 2014.

In the Guama Block in the Lower Magdalena Valley Basin, the Company started the planned well stimulation and tests of the CAPURE-1X; by the end of the quarter two zones had been fractured, and the operation is still in progress.

In the La Creciente Block, also in the Lower Magdalena Basin, the drilling of the LCH-1X exploration well started on September 21, 2013 having as the main exploration objective the Ciénaga de Oro sands in Prospect "H". By the end of the period, the well had reached 1,210 feet MD in the Corpa Formation.

Also, in the La Creciente Block, the exploration well LCI-1X was sidetracked due to mechanical problems after reaching TD at 12,711 feet MD. The side-track reached TD of 12,350 feet MD on September 15, 2013 and flowed gas from the Ciénaga de Oro Formation at a rate of 13.1 MMcf/d through a 16/64" choke isochronal test, confirming the new commercial gas discovery in La Creciente Block. By the end of the period the well was being readied for short–testing in the Porquero Medio Formation as an additional exploration target.

In the Portofino Block, Canacol Energy Ltd., the block operator, began the civil works for the stratigraphic well Tachuelo-1, which is to be spudded early in the fourth quarter of 2013.

In the Caguan-5 and Caguan-6 Blocks, the Company completed 2,361 km of aeromagnetic and aerogravimetric surveys. The data interpretation is expected by the end of the year.

In Tacacho and Terecay Blocks, the bidding process for the acquisition of 956 km of 2D seismic was completed, and the survey is expected to begin in January 2014.

In the COR-24 Block, the Company completed the contracting process for the 2D seismic survey (305 km) as well as other related services such as geochemical sampling and geological data gathering. The 2D seismic survey acquisition is planned to start during the last quarter of 2013 due to new procedures in the local environmental permits.

In the COR-15 TEA Block, Maurel & Prom Colombia B.V., the block operator, completed all the contractual exploration commitments, and submitted a request to the ANH to convert the TEA into an E&P contract.

In the Muisca Block, Maurel & Prom Colombia B.V., the block operator, finished the 3D seismic interpretation and continued with the preparation of the location for the Balsa-1X exploration well, which is expected to be spudded by mid-November.

Peru

In Block 138, located in the Ucayali Basin, the Company finished production tests in the Yahuish-1X exploration well, which was drilled to a total depth of 8,417 feet MD. Three intervals in the Paleozoic where hydrocarbon shows and log data indicated prospectivity were tested, with results that are at the time are considered non-conclusive. Data and info from both the well and the whole Block 138 are currently being used to update the evaluation of the Block. Results of this technical study are expected by the first semester of 2014.

In Block 135, the Company finished the interpretation of the 789 km 2D 2013 seismic survey and the exploration potential of the block is currently under evaluation.

In Block 116 in the Santiago Basin of northern Peru, Pacific Rubiales, the new operator of the block, finished preparation of the proposed location for the Fortuna 1X well. Currently, the Company is moving the rig to the well location.

In Block Z-1, located in the offshore Tumbes Basin of northern Peru, the Company continues with the processing of 1,542 km^2 of 3D seismic data. A fast-track interpretation of the 3D survey was completed and preliminary exploratory locations have been identified so as to be able to start with the corresponding environmental permit process.

Guatemala

In the Guatemala blocks (N-10-96 and O-10-96), Compañíа Petrolera del Atlántico S.A., the block operator, started drilling the Balam-1X exploration well, with the Cretaceous Cobán Formation as the main exploration objective. It is planned that the final depth of 12,650 feet MD is to be reached in December of 2013.

Belize

In Belize, the Company received the approval for the Exploration Plan for 2013 and 2014 from the Department Of Energy (“**DOE**”), which includes 650 km of 2D seismic survey, 2,500 km of aerogravity and aeromagnetic surveys as well as surface geology and surface geochemistry campaigns. Also, during the period, the environmental permits were awarded for 575 of the 650 km of the planned 2D seismic survey. The remaining portion needs an Environmental Impact Assessment, which is in the process of being contracted.

Brazil

In Brazil, the Company is expecting regulatory approval from the Agencia Nacional do Petróleo Gás Natural e Biocombustíveis (“**ANP**”) for the Evaluation Plan submitted as part of the ongoing appraisal of the oil discoveries made in the Santos Basin earlier this year. The Company expects this approval during November of 2013 and plans to drill two wells (one appraisal and one exploratory) during the second quarter of 2014. In addition, the Company received regulatory approval for its interests in blocks S-M-1101, S-M-1102, S-M-1037, and S-M-1165 in off-shore Brazil.

5. Capital Expenditures

Excluding business acquisitions, capital expenditures during the third quarter of 2013 totaled $458.5 million (compared to $663 million in 2012). A total of $154.7 million was invested in the expansion and construction of production infrastructure primarily in Quifa SW, Quifa North, and Rubiales fields; $87.1 million went into exploration activities including drilling, seismic and other geophysical activities in Colombia, Peru and Guatemala; $142.1 million went into development drilling; $38.5 million was invested in other projects including the STAR project and $36.1 million for Farm-in agreements and others. Details of capital expenditures for the three and nine months ending September 30, 2013 and 2012 are as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
(in thousands of US$)	2013	2012	2013	2012
Production facilities [1]	$ 154,709	$ 133,057	$ 441,385	$ 356,213
Exploration activities [2]	87,094	62,960	259,181	216,196
Early facilities and others	-	55,604	-	103,313
Development drilling [1]	142,089	87,114	445,057	208,087
Other projects (STAR, Gas export, PEL)	38,533	24,561	105,785	63,031
Farm-in Agreement and others [3]	36,092	300,195	301,765	466,518
Total capital expenditures	**$ 458,517**	**$ 663,491**	**$ 1,553,173**	**$ 1,413,358**

1. *Includes investment in Maurel & Prom Colombia B.V., in which the Company holds a 49.999% participation and through whom the Company indirectly owns a 49.999% working interest in the Sabanero Block.*
2. *Exploration activities for the third quarter of 2013 include drilling, seismic and other geophysical expenditures in Colombia, Peru, Brazil and Guatemala.*
3. *Includes block acquisition costs in Brazil and Peru ($33 million) and other related costs ($3 million).*

6. Farm-in Transactions and Acquisitions

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

Petrominerales acquisition

On September 29, 2013, the Company announced that it had entered into an agreement with Petrominerales to acquire all of the outstanding common shares of Petrominerales (the "**Arrangement Agreement**"). Under the Arrangement Agreement, Petrominerales' shareholders will receive C$11.00 cash for each Petrominerales common share held for a total value of approximately C$935 million in cash plus one common share of a newly formed exploration and production company ("**ExploreCo**"). ExploreCo's assets will consist of Petrominerales' Brazilian exploration assets and C$100 million in cash.

The total purchase price on a fully diluted basis, including assumed net debt, and excluding funding of ExploreCo, will be approximately C$1.6 billion. Financing of the acquisition will be accomplished by cash on hand and bank credit facilities including a committed $1.3 billion short term bank facility, which the Company expects to refinance after the acquisition is completed.

The arrangement will result in the acquisition of approximately 9.8 million gross (6.8 million net) acres of exploration and development properties in Colombia (18 blocks) and Peru (four blocks), as well as oil pipeline interests in Colombia (5% in OCENSA and 9.65% in Bicentenario). The oil and gas assets being acquired have reported 2P gross reserves of 41.3 MMbbl (36.5 MMbbl net) as of year-end 2012, and produced approximately 22 Mbbl/d gross (19 Mbbl/d net) in the first half of 2013.

This acquisition provides immediate capture of additional value through asset synergies, and increases production and cash flow for the Company. The light oil production and reserves of Petrominerales can be integrated with the Company's growing heavy oil production, providing a lower-cost source of diluent in the future. Also, this acquisition provides the Company with reliable transportation infrastructure by way of Petrominerales' interests in the OCENSA and Bicentenario oil pipelines in Colombia, which are highly strategic to the Company's plans to increase its heavy oil production in the country.

The Arrangement Agreement is subject to approval by the shareholders of Petrominerales, court approval, regulatory, stock exchange and other approvals, and satisfaction of all other customary closing conditions. To proceed, the Arrangement Agreement must be approved by at least 66.67% (or 2/3rds) of the votes cast by Petrominerales' shareholders voting on the resolution to approve the Arrangement Agreement. The Arrangement Agreement is expected to close in the fourth quarter of 2013.

Approval of participating interest in Peru

On June 28, 2013 the Peruvian government approved the acquisition of a 50% participating interest by the Company in the exploration contract for Block 116 located in northeastern Peru, as well as the transfer of the operatorship of this block to the Company. The Company first announced this acquisition on October 12, 2011 and the corresponding farm-in agreement was executed with Maurel & Prom Peru S.A. on December 4, 2012. Following regulatory approval, the Company has initiated preparations for an exploratory well in Block 116, planned to start during the last quarter of this year.

New exploration blocks awarded in Brazil

The ANP awarded the Company three blocks during Brazil's 11th Bid Round. The blocks awarded are located in the Foz do Amazonas Basin (one block) and in the Pará-Maranhão Basin (two blocks) in the northern deep water of offshore Brazil, and have a total area of approximately 2,300 km^2 gross (1,153 km^2 net). The blocks in the Pará-Maranhão Basin were acquired through a consortium with Queiroz Galvão Exploração e Produção S.A., and the block in the Foz do Amazonas Basin was acquired through a consortium with Queiroz Galvão Exploração e Produção S.A. and Premier Oil Plc. The corresponding contracts were executed on August 30, 2013.

Approval of participating interest in Brazil

On September 11, 2013 the ANP approved the acquisition of a 35% participating interest by the Company in the exploration contract for Blocks S-M-1101, S-M-1102, S-M-1037, and S-M-1165 located in off-shore Brazil. The Company first announced this acquisition on September 18, 2012 when it executed the corresponding farm-in agreement with Karoon Petróleo & Gas Ltda.

Additional share acquired in Sabanero Block

On September 6, 2013, the Company and Maurel & Prom Colombia B.V. signed a purchase and sale agreement by which the Company will acquire, subject to ANH's approval, the remaining 50.001% participating interest in the Sabanero block. In connection with this agreement, the Company is reporting during this quarter a contingent net production of 157 bbl/d.

Other Agreements

On July 2, 2013 the Company reached an agreement with Trayectoria Oil & Gas to modify the terms and conditions of the 5% private royalty in favour of Trayectoria with respect to the Cravoviejo Block. Pursuant to the agreement, the royalty is now a fixed monthly fee and will terminate in November 2015. As part of the transaction, the Company will transfer (subject to governmental approval as applicable) 100% of its participating interest in the Yamu, Cerrito, Carbonera and Catguas Blocks, all located in Colombia.

Additionally, on August 8, 2013 the Company entered into a Share Purchase Agreement with IHEO Status S.A.S. by which the Company sold 100% of the issued and outstanding shares of Mompos Oil Company Inc. This transaction was completed on August 23, 2013. As part of the transaction, the purchaser acquired the Carbonera La Silla Block located in Colombia.

7. Project Status

Following is an update on the current status and cost incurred to date for the Company's major projects:

Projects	Project financed by	As of September 30, 2013 Total costs to complete the project	Cost incurred to date	Expected costs to incur
STAR project in the Quifa field	Internally generated funds	$ 130,000	$ 128,195	$ 1,805
Cusiana blending facility	Equity and debt combination	16,400	16,000	400
Bicentenario pipeline	Equity and debt combination	579,609	137,000	442,609
PEL-Power transmission line project	Equity and debt combination	220,000	134,240	85,760
Small scale LNG project	Equity and debt combination	180,000	24,093	155,907
Water treatment for agricultural development	Equity and debt combination	150,000	34,843	115,157
Puerto Bahia Project	Equity and debt combination	366,390	164,900	201,490
		$ 1,642,399	**$ 639,271**	**$ 1,003,128**

STAR Project in the Quifa SW Field

In March 2011, the Company and its partner Ecopetrol agreed to carry out a pilot project using the STAR technology, covering an area of approximately 20 acres in the Quifa SW field as a preliminary step to expanding the technology to a commercial level. The pilot project followed two years of extensive laboratory testing and simulation. STAR is aimed at significantly increasing the recovery in the Company's heavy oil fields in Colombia, which under primary flow, only results in a 14% to 16% recovery of the Original Oil in Place ("OOIP"), leaving the remaining oil behind in the ground.

During 2012 the pilot facility was constructed, production and injection wells were drilled, compression and production equipment was installed, and preliminary equipment and injection testing was conducted. Air injection and thermal ignition of the reservoir were initiated in February 2013 and have been sustained throughout the year, along with demonstrated synchronized control of the thermal front and the producing wells.

During the third quarter of 2013, the Company received reports from three independent engineering firms on the progress of the pilot project and their estimate of the OOIP for the project area. These estimates combined with the cumulative oil production from the pilot project allow the Company to estimate that at least a doubling of the recovery factor has been achieved to date since commencement of air injection in February 2013.

Based on the pilot results, the Company is planning on converting two contiguous well clusters in the pilot test area, which are currently producing on primary flow, to STAR before the end of 2013. Additionally, the Company has initiated planning for full commercial rollout of STAR in the Quifa SW field beginning in 2014.

Also in the third quarter, the Colombian patent authority SIC, granted the Company a patent for its proprietary STAR enhanced oil-recovery technology. The patent award provides the Company with intellectual property rights to the STAR technology in Colombia for an exclusive 20-year period from the filing date of April 1, 2011 until April 1, 2031. The patent specifically recognizes:

- The synchronized system of oil production using the combustion process, employment of in-situ measurement, monitoring and control of operational conditions in real time and distance; and
- The use of a numerical model intelligent well/subsurface system to monitor and control the progress of the combustion front and fluids, which is critical to successful application of STAR.

Cusiana Blending Facility

This facility allows for the blending of light oil, which is trucked to a new diluent blending facility at the OCENSA pumping station, located in Cusiana, with heavy oil pumped through the ODL Pipeline. As a result, the API gravity in the ODL Pipeline will be reduced from 18° to 15°, resulting in significant savings in diluent transportation costs. The project was completed during the second quarter of 2013 and blending started on April 22, 2013. By September 2013, the Cusiana facility had processed approximately 1.1 MMbbl of diluent and pumped to the OCENSA pipeline approximately 22.3 MMbbl.

Bicentenario Pipeline

The Company has a 33.38% equity interest in the Bicentenario pipeline. Bicentenario is a special purpose entity promoted by Ecopetrol, who 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 the Bicentenario Pipeline, Colombia's newest oil pipeline transportation system, which will run from Araguaney, in the Casanare Department of central Colombia to the Coveñas Export Terminal in the Caribbean.

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

As of September 2013, Phase 1, which comprises a 230 km, 42-inch pipeline from Araguaney to Banadía, has reached mechanical completion. Line fill ended on October 3 with a total of 1,192,086 bbl. In the Coveñas terminal, two tanks of 600,000 bbl-capacity each are currently under construction including connection works. The first tank started manual operation before the end of October 2013 and the second one will start by the end of November 2013. The construction progress for phase 1 is 89.5% complete as of September 2013. Mechanical completion of phase 1 was delayed by two months, due to construction problems in the last river crossing (Río Tigre), which required additional environmental permits to allow “open sky” construction, as opposed to directional drilling under the river bed. The construction is now complete.

On October 25, 2013, after some repairs in the Caño Limón Coveñas pipeline, the Banadía station started pumping crude oil from Bicentenario into this pipeline.

On August 7, 2013 the “certain date” established in the Ship or Pay contracts entered into effect. Therefore, transportations costs for third quarter were impacted negatively due to the delay in the start-up of the project.

Operations started on November 1, 2013, and the first cargo of Vasconia from the Bicentenario Pipeline was loaded on November 2, 2013. The startup of the Bicentenario Pipeline is an important milestone in reducing the Company’s crude oil transportation costs.

PEL – Power Transmission Line Project

Petroelectrica (“**PEL**”) is a wholly owned subsidiary of the Company and is responsible for constructing and operating a new power transmission line of 230 kilovolts which will connect the Rubiales field with Colombia’s electrical grid. The new transmission line originates at the Chivor Substation and will stretch 260 km to the Rubiales field. The project includes two substations to supply power to the booster stations of the ODL Pipeline as well as substations for the Rubiales and Quifa fields. The new power line will be able to supply up to 192 MVA that will be used in oil production and pipeline transportation activities. The PEL transmission line will help to reduce the operating costs for the Rubiales and Quifa fields by lowering electricity costs for oil production and transportation. As of September 2013, the Chivor, Quifa and Rubiales substations are under construction with 526 of 549 concrete foundations in progress; 507 towers out of 549 have been erected, and 190 km of electrical wire has been installed. The PEL project is expected to be operational in the fourth quarter of 2013.

Small Scale LNG Project

The Company is actively looking for alternate ways to monetize its existing natural gas reserves in the La Creciente field as well as exploit its other extensive gas exploration resources in nearby fields. The Company has initiated a small-scale liquefied natural gas (“**LNG**”) project that is being developed jointly with Exmar NV (“**Exmar**”), an experienced LNG/LPG transportation company based in Belgium. The project is targeting LNG supply FOB from Colombia.

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

In March 2012 the Company signed a tolling agreement with Exmar. Under the terms of this agreement, the first natural gas liquefaction is targeted for the first half of 2015. Environmental permits for the onshore portion of the gas pipeline are in place. Construction of the FLRSU is underway in WISON´s shipyard in China.

As of September 2013, basic and detailed engineering for the gas pipeline and the offshore jetty was 98.7% complete. Port concessions for the LNG terminal, as well as environmental licencing permits for the subsea line are ongoing.

In November, the Company and GAZPROM announced the execution of a Heads of Agreement for the negotiation of a five year Sale and Purchase Agreement for approximately 0.5 million tons per year of liquefied natural gas FOB Colombia (Caribbean Sea) beginning in the second quarter of 2015.

Water Treatment for Agricultural Development

In order to handle the increasing volume of water produced in the Rubiales and Quifa fields, the Company has initiated a project to treat produced formation water from these fields and use it for irrigation purposes in a neighboring palm oil agricultural project for biodiesel manufacturing. The first phase of this project 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 capital expenditures for additional water injection facilities for water disposal. In addition, the palm oil project will create sustainable jobs and social development for the area.

As of September 2013, the following is in progress:

- Construction of the Reverse Osmosis Plant has reached 30% of completion.
- 1,201 ha of palm trees have been seeded. Applications for environmental permits to allow the use of produced water for agricultural use have been initiated.

Pacific Infrastructure: Puerto Bahía Terminal and Olecar Pipeline

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

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

Recognizing the strategic importance of world-class operating capabilities, Pacific Infrastructure signed an O&M agreement with Oiltanking International. Oiltanking is recognized globally as a world-class operator of large-scale liquids terminals.

In addition to Puerto Bahía, Pacific Infrastructure is also developing the Olecar pipeline, which will connect Puerto Bahía to the oil pipeline hub at the port of Coveñas, ensuring the uninterrupted supply of crude oil for export. The Olecar project includes: (i) a pumping station at Coveñas with a capacity of 300 Mbbl/d; (ii) a 130 km, 30-inch diameter pipeline; and (iii) bidirectional connections between the Cartagena Refinery, the second largest refinery in Colombia, and Puerto Bahía. As of September 30, 2013, initial environmental studies have been completed and right-of-way negotiations are in progress. Pipe and long-lead items' purchase orders have been placed. EPC contractor bidding processes are ongoing as of the date of this report.

New Partners in Pacific Infrastructure

On July 31, 2013 the Company and a number of private investors of Pacific Infrastructure entered into an agreement with IFC pursuant to which will invest a $150 million in equity of Pacific Infrastructure. Subject to the terms and conditions of the agreement, the IFC Parties will obtain a 26.134% equity participation of Pacific Infrastructure; consequently, the Company's interest will decrease from 56.9% to 41.4%. The investment by IFC confirms the vision and strategic importance of the Puerto Bahía and Olecar pipeline projects currently underway.

8. Discussion of 2013 Third Quarter Financial Results

Revenues

(in thousands of US$)	Three Months Ended September 30 2013	Three Months Ended September 30 2012	Nine Months Ended September 30 2013	Nine Months Ended September 30 2012
Net crude oil and gas sales	$ 1,069,245	$ 870,369	$ 3,313,485	$ 2,646,871
Trading revenue	40,728	$ -	110,823	191,202
Total Revenue	**$ 1,109,973**	**$ 870,369**	**$ 3,424,308**	**$ 2,838,073**
$ per boe oil and gas	97.29	95.13	95.17	97.37
$ per bbl trading	104.80	-	102.06	115.95
$ Total average revenue per boe	**97.54**	**95.13**	**95.38**	**98.43**

Despite the approximately 1 million barrels produced and used in line fill for the Bicentenario pipeline and delivered to Ecopetrol as part of the PAP settlement agreement, revenues for the third quarter of 2013 were $1,110 million, similar to the prior quarter of 2013 and higher by 28% as compared to the third quarter of 2012 and mainly driven by higher realized combined price. For additional details related to oil and gas sales, please refer to section 4 – "Commercial Activities".

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

	Three Months Ended September 30 2013	2012	Differences	% Change
Total of boe sold (Mboe)	11.379	9.149	2.230	24%
Avg. Combined Price - oil & gas and trading ($/boe)	97,54	95,13	2,41	3%
Total Revenue	**1.109.973**	**870.369**	**239.604**	**28%**

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

Drivers for the revenue increase in USD:		
Due to Volume	$ 212,187	89%
Due to Price	27,417	11%
	$ 239,604	

-

Operating Costs

(in thousands of US$)	Three Months Ended September 30 2013	Three Months Ended September 30 2012	Nine Months Ended September 30 2013	Nine Months Ended September 30 2012
Oil and Gas Operating Costs	$ 395,867	$ 303,564	$ 1,228,045	$ 885,729
Trading Operating Costs	40,158	-	108,906	185,677
(Underlift) Overlift	(13,685)	4,847	(48,037)	(25,058)
Total Cost	**$ 422,340**	**$ 308,411**	**$ 1,288,914**	**$ 1,046,348**
$ per boe crude oil and gas	36.02	33.18	35.27	32.58
$ per bbl Trading Operating Costs	103.33	-	100.29	112.60
$ per boe (Under)/Overlift	(1.25)	0.53	(1.38)	(0.87)
$ Total average cost per boe	**37.11**	**33.71**	**35.90**	**36.29**

Total operating cost for the third quarter of 2013 was $422 million compared to $308 million for the same period of 2012, a combination of an increase in oil and gas produced and an increase in the volume of oil for trading. Total average cost for the third quarter of 2013 was $37.11/boe, higher by 10% as compared to $33.71/boe for the same period of 2012. Average cost for oil and gas produced and sold in the current quarter was $36.02/boe compared to $33.18/boe for the same quarter in 2012 with the increase mainly due to:

- Increased water disposal at Rubiales, Quifa and Cajua fields due to higher oil and water production volumes in the third quarter of 2013.

- Increased internal land transportation cost of produced oil and water at the Cajua field, which commenced commerciality during the third quarter of 2012. The crude produced from Cajua field is currently transported via tank truck to the water treatment facilities.
- Higher volumes of oil transported via tank truck during the third quarter of 2013.
- Decreased diluent costs by $5.34/bbl compared to the same quarter of 2012, as the Company increased the volume of its own crude used in blending and consequently reduced the volume of purchased diluents.

Average cost for oil for trading increased from $95.62/bbl for the second quarter of 2013 to $103.33/bbl in the current quarter as a result of the increase in international market oil prices.

Depletion, Depreciation and Amortization

	Three Months Ended September 30		Nine Months Ended September 30	
(in thousands of US$)	2013	2012	2013	2012
Depletion, depreciation and amortization	$ 384,144	$ 247,782	$ 1,074,094	$ 646,144
$ per boe	33.76	27.08	29.92	22.41

Depletion, depreciation and amortization ("**DD&A**") for the third quarter of 2013 was $384.1 million ($247.8 million in the same period of 2012). The increase of 55% over 2012 was primarily due to: (i) increase in production and higher capitalized costs that are subject to depreciation; (ii) higher depreciable cost base of oil and gas properties from the acquisition of PetroMagdalena, C&C and interest in Block Z-1, which are depreciated at a higher rate based on reserve life; and (iii) higher depreciable cost base of the Rubiales field, which is depreciated over the remaining life of the contract expiring in 2016.

General and Administrative Costs

	Three Months Ended September 30		Nine Months Ended September 30	
(in thousands of US$)	2013	2012	2013	2012
General and administrative costs	$ 76,101	$ 78,850	$ 225,171	$ 202,371
$ per boe	6.69	8.62	6.27	7.02

General and Administrative costs for the third quarter of 2013 were $76.1 million, representing a $2.7 million reduction from the same period in 2012. The decrease in G&A costs was primarily due to expense reduction initiatives initiated by the Company.

Finance Costs

	Three Months Ended September 30		Nine Months Ended September 30	
(in thousands of US$)	2013	2012	2013	2012
Finance costs	$ 33,850	$ 26,634	$ 117,697	$ 66,966

Finance costs include interest on the Company's bank loans, convertible debentures, senior notes, revolving credit facilities, finance leases and fees on letters of credit. For the third quarter of 2013, interest expenses totaled $33.9 million compared to $26.6 million for the same period of 2012. The increase in finance costs is primarily due to the $1 billion 2013 Senior Notes due in 2023 that were issued in the first quarter of 2013.

Foreign Exchange

	Three Months Ended September 30		Nine Months Ended September 30	
(in thousands of US$)	2013	2012	2013	2012
Foreign exchange gain (loss)	$ 8,227	$ 3,929	$ 10,980	$ (12,844)

The U.S. dollar is the Company's functional currency. Foreign exchange gains or losses primarily result from the movement of the Colombian peso ("**COP**") against the U.S. dollar. A significant portion of the Company's operating and capital expenditures as well as assets and liabilities are denominated in COP. During the quarter, the COP appreciated against the U.S. dollar by 0.74% as compared to depreciation by 0.89% during the same period of 2012. Foreign exchange income for the third quarter of 2013 was $8.2 million, compared to an income of $3.9 million for the same period of 2012. The foreign exchange income for the third quarter of 2013 was mainly due to unrealized income from the translation of COP-denominated balances into the U.S. dollar.

Income Tax Expense

(in thousands of US$)	Three Months Ended September 30 2013	2012	Nine Months Ended September 30 2013	2012
Current income tax	$ 109,450	$ 82,594	$ 372,114	$ 346,301
Deferred income tax	(26,201)	(11,531)	269	(94,260)
Total Income Tax Expense	**$ 83,249**	**$ 71,063**	**$ 372,383**	**$ 252,041**

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

The Colombian Congress approved a new tax law in December 2012, which came into effect on January 1, 2013, where the statutory income tax rate was reduced from 33% down to 25%. In addition, the law introduced an incremental 9% income tax surcharge to substitute the elimination of certain payroll taxes primarily related to low-income salaries. As a result, the 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 50.9% in the third quarter of 2013 compared to 50.8% 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, except for which no deferred tax assets and recovery have been recognized. When the Company has a reasonable expectation to utilize those losses in the future, deferred tax assets and a corresponding deferred tax recovery may be recognized which would reduce the income tax expense; and
- Foreign exchange effect on the deferred tax, which is determined on COP-denominated assets and liabilities. The Company's assets are primarily located in Colombia. As a result, the tax base of these assets is denominated in COP, and the related deferred tax balances are subject to fluctuations in the US-COP exchange rate. The appreciation of the COP against the US dollar by 0.74% during the current quarter resulted in an unrealized deferred income tax recovery of $1.4 million. In comparison, the Company recorded a $11.5 million unrealized income tax recovery during the third quarter of 2012 as a result of the appreciation of the COP against the US dollar by 1.11%.

Financial Position

Debts and Credit Instruments

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

2011 Senior Notes

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

2013 Senior Notes

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

Revolving Credit Facilities

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

The revolving credit facilities have an interest rate determined in accordance with the ratings assigned to the Company's senior debt securities by Standard & Poor's Ratings Group, Moody's and Fitch Inc. Based on the Company's credit rating as of September 2013, the interest rate was LIBOR+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.

As of September 30, 2013, the Company has available the full amount under the $400 million U.S. Dollar Facility and $192 million equivalent available under the Colombian Peso Facility. Both the U.S. Dollar Facility and the Colombian Peso Facility remain fully committed to their maturity in 2015.

Petrominerales acquisition

The acquisition will be financed with a combination of cash-on-hand and bank credit facilities, including a committed $1.3 billion short-term bank facility, which the Company expects to refinance after the acquisition is completed.

Bank of America Credit Facility

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

Convertible Debentures

The Company has repaid the convertible unsecured subordinated debentures due August 29, 2013 (the "**Debentures**") of C$2.7 million in face amount. The Debentures bore interest at 8% annually and were payable semi-annually.

Working Capital Loans

We maintain from time to time working capital facilities with several banks, and as of September 30, 2013 these are with Citibank, N.A., Bank of America, N.A., JPMorgan Chase Bank, N.A. and Mercantil Commerce Bank N.A. The terms of these loans are generally less than a year. As of September 30, 2013, we had $205 million in borrowings outstanding under these Working Capital Facilities and the interest rates have a range between LIBOR + 0.95% and LIBOR + 1.25%.

Letters of Credit

As of September 30, 2013, the Company had issued letters of credit and guarantees for exploration and operational commitments for a total of $349 million.

Outstanding Share Data

Common Shares

As at September 30, 2013, 323,612,416 common shares were issued and outstanding.

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

Stock Options and Warrants

As at September 30, 2013 there were no warrants outstanding and 26,777,834 stock options were outstanding, of which all were exercisable.

Liquidity and Capital Resources

Liquidity

Funds provided by operating activities for the third quarter of 2013 totaled $432 million ($418 million for the third quarter 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 at September 30, 2013, the Company had a negative working capital of $150 million, mainly comprised of $356 million of cash and cash equivalents, $802 million of account receivables, $110 million of inventory, $77 million of income tax receivable, $3 million of prepaid expenses, $1,269 million of accounts payable and accrued liabilities, $39 million of income tax payable, $171 million of current portion of long-term debt and $19 million of finance lease obligations.

As at September 30, 2013, the Company has not drawn down on its $400 million U.S. Dollar Facility and has drawn down $92.1 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 $172.3 million on the Colombian Peso Facility; both facilities remain fully committed until 2015.

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

The Company believes it has adequate resources to fund its capital plan for 2013 with its 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.

As of September, 2013, the Company has entered into working capital facilities with several banks, which include Bank of America, N.A., Citibank, N.A. and Mercantil Commerce Bank, N.A. as lenders. Proceeds from these facilities will be used for working capital. These loans have a maximum maturity of 3 months from the date of the loans, with an interest rate that will be negotiated when the Company needs the funds. As at September 30, 2013, the Company has drawn down $170 million with an interest rate range of LIBOR + 0.95% to LIBOR + 1.25%.

9. Commitments and Contingencies

Tax review in Colombia

The Company currently has a number of tax filings under review by the Colombian tax authority ("DIAN").

The DIAN has reassessed value added tax ("IVA") for 2009 on the basis that the volume of oil produced and used for internal consumption at certain fields in Colombia should have been subjected to IVA. The amount reassessed, including interest and penalties, is estimated to be $10 million. The Company disagrees with the DIAN's reassessment and as of September 30, 2013 an official appeal has been initiated. Several other taxation periods through to 2011 in respect of IVA on field oil consumption are currently under review by the DIAN. For the periods that are under review, if the DIAN's views were to prevail, the Company estimates that the IVA, including interest and penalties, could range between $12 million to $41million. The Company continues to utilize oil produced for internal consumption, which is an accepted practice for the oil industry in Colombia.

The DIAN is also reviewing certain income tax deductions in respect of the special tax benefit for qualifying petroleum assets, as well as other exploration expenditures. To date the DIAN has reassessed $12 million of tax owing, including estimated interest and penalties, with respect to the denied deductions.

The Company disagrees with the DIAN's claims on the IVA applied on internal oil consumption and the denial of income tax deductions. As of September 30, 2013, the Company believes that the dispute will be resolved in favour of the Company. As a result no provision has been made in the financial statements.

Commitments

As part of the Company's normal course of business, the Company has 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, and service contracts with suppliers in relation to the exploration and operation of oil properties and engineering and construction contracts, among others.

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

10. Risk Management Contracts

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

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

11. Selected Quarterly Information

	2013			2012				2011
(in thousands of US$)	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Financials:								
Net sales	$ 1,109,973	$ 1,055,573	$ 1,258,762	$ 1,046,689	$ 870,369	$ 1,035,854	$ 931,850	$ 1,011,476
Net earnings (loss) attributable to equity holders of the parent for the period	81,991	57,559	121,954	(23,777)	68,817	224,344	258,345	80,834
Earnings (loss) per share								
- basic	0.25	0.18	0.38	(0.08)	0.23	0.76	0.88	0.29
- diluted	0.25	0.18	0.37	(0.08)	0.23	0.74	0.85	0.28

12. Related-Party Transactions

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

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

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

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

b) As at September 30, 2013, the Company had trade accounts receivable of $1.1 million (December 31, 2012: $4.5 million) from Proelectrica, in which the Company has a 24.9% indirect interest and which is 31.49% owned by Blue Pacific. The Company's and Blue Pacific's indirect interests are held through Pacific Power. Revenue from Proelectrica in the normal course of the Company's business was $4.9 million and $26.8 million for the three and nine months ending September 30, 2013 (2012: $8.1 million and $27.1 million).

   In October 2012, the Company and Ecopetrol signed two build, own, manage, and transfer ("BOMT") agreements with Consorcio Genser Power-Proelectrica and its subsidiaries ("Genser-Proelectrica") to acquire certain power generation assets for the Rubiales field. Genser-Proelectrica is a joint venture between Proelectrica and Genser Power Inc. which is 51% owned by Pacific Power. Total commitment under the BOMT agreements is $229.7 million over ten years. During April 2013 the Company and Ecopetrol entered into another agreement with Genser-Proelectrica to acquire additional assets for a total commitment of $57 million over ten years. At the end of the Rubiales Association Contract in 2016, the Company's obligations along with the power generation assets will be transferred to Ecopetrol. During the three and nine months ending September 30, 2013, those assets were under construction and the Company paid cash advances of $0.6 million and $10.5 million (2012: Nil). The Company has accounts payable of $0.4 million (December 2012: Nil) due to Genser-Proelectrica.

c) During the three and nine months ending September 30, 2013, the Company paid $4.9 million and $27.7 million (2012: $13.8 million and $30.1 million) to Transportadora Del Meta S.A.S. (“Transmeta”) in crude oil transportation costs. In addition, the Company has accounts receivable of $1.6 million (December 31, 2012: $2.4 million) from Transmeta and accounts payable of $4.3 million (December 31, 2012: $8.5 million) to Transmeta as at September 30, 2013. Transmeta is controlled by a director of the Company.

d) Loans receivable from related parties in the aggregate amount of $504 (December 31, 2012: $179) are due from two directors and six officers (2012: three directors and three officers) of the Company. The loans are non-interest bearing and payable in equal monthly payments over a 48-month term.

e) The Company has entered into aircraft transportation agreements with Petroleum Aviation Services S.A.S., a company controlled by a director of the Company. During the three and nine months ending September 30, 2013, the Company paid $4.4 million and $11 million (2012: $3.8 million and $11.1 million) in fees as set out under the transportation agreements. As at September 30, 2013 the Company had accounts payable of $1.2 million to Petroleum Aviation Services S.A.S. (December 31, 2012: $2.8 million).

f) During the three and nine months ending September 30, 2013, the Company paid $38.9 million and $99.4 million to ODL (2012: $35.5 million and $80.9 million) for crude oil transport services under the pipeline Take-or-Pay agreement and has accounts payable of $12 million to ODL as at September 30, 2013 (December 31, 2012: $5 million). The Company received $0.2 million and $0.7 million from ODL during the three and nine months ending September 30, 2013 (2012: $0.4 million and $0.8 million) with respect to certain administrative services and rental equipment and machinery.

g) As at September 30, 2013 the balance of loans outstanding to Bicentenario under the agreement in Note 17 to the consolidated financial statements (other assets) is $33 million (December 31, 2012: $32.6 million). Interest income of $0.5 million and $1.5 million was recognized during the three and nine months ending September 30, 2013 (2012: $3.2 million and $5.2 million). The Company has received Nil and $0.7 million during the three and nine months ending September 30, 2013 (2012: nil) with respect to certain administrative services and rental equipment and machinery and has no account receivable as at September 30, 2013 (2012: $2.1 million). In addition, the Company has advanced $38 million as of September 30, 2013 (December 31, 2012: Nil) to Bicentenario as a prepayment of transport tariff, which will be amortized against the barrels transported once Bicentenario becomes operational. The advance is included in accounts receivable as of September 30, 2013.

h) During the three and nine months ending September 30, 2013, the Company paid $0.2 and $0.5 million (2012: $0.1 million and $2.2 million) to Helicopteros Nacionales de Colombia S.A.S. (“Helicol”) with respect to air transportation services. Helicol is controlled by a director of the Company.

13. Accounting Policies, Critical Judgments, and Estimates

Significant accounting policies

The accounting policies adopted by the Company are consistent with those disclosed in the 2012 Annual Audited Consolidated Financial Statements as well as certain new policies, standards, and interpretations effective as of January 1, 2013. The accounting policies that the Company has adopted are described in detail in the Company’s interim consolidated financial statements from September 30, 2013 and in the 2012 Annual Audited Consolidated Financial Statements.

Critical judgments in applying accounting policies

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

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

Cash-generating units have been identified to be the major producing fields, and can be defined as the lowest level at which there are identifiable cash inflows that are largely independent of cash inflows of other groups of assets. The Company prepares and reviews separate detailed budgets and forecast calculations for each of the cash-generating units. Impairment assessment is generally carried out separately for each cash-generating unit based on cash-flow forecast calculations, which in turn are based on proven and probable reserves for each cash-generating unit (value in use). When the Company acquires new producing fields, either through asset purchases or business acquisitions, the producing fields are reviewed to identify the appropriate cash-generating units.

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

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

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

Estimation uncertainty and assumptions

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

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

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

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs-to-sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the oil price assumption may change which then may impact the estimated life of the field and may also require a material adjustment to the carrying value of goodwill and tangible assets. The Company monitors internal and external indicators of impairment relating to its tangible and intangible assets. During the current quarter and year there have been no changes in price assumptions that would have a material impact on the reserve and recoverable amounts. Further, no reasonably possible change in assumptions would cause goodwill to be impaired.

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

During the year 2013 the Company acquired majority interests in Pacific Infrastructure Venture Inc. ("PII") and CGX Energy Inc. ("CGX"). These acquisitions met the definition of a business combination on the basis that the Company acquired control of both PII and CGX and the activities and assets acquired are capable of being conducted for the purpose of generating a return. The assets acquired and liabilities assumed under a business combination are required to be recognized at their fair value on the date of the acquisition. The fair value of the assets and liabilities of PII and CGX were determined on a preliminary basis, and the Company expects to finalize the fair values by December 31, 2013.

The fair value of the major identifiable assets acquired in PII include $123.6 million of staging facilities under construction and $142.9 million of intangible assets related to the Puerto Bahía port concession. The fair value attributed to the staging facilities approximated their construction cost to-date as they are in the early phases of construction. The fair value assigned to the port concession was supported by the future benefit to be derived from oil storage, export loading, and related port businesses. Goodwill arising from the acquisition was primarily related to the deferred tax liability recognized on the date of acquisition.

The main assets acquired through CGX include $19.3 million of net working capital, $56.4 million of exploration and evaluation assets, and $7.4 million of two wharfs under construction in Guyana. The fair value attributed to the E&E assets acquired was estimated based on mean and median market data from transactions of similar offshore oil and gas assets and companies, given the very early-stage nature of activities in the Guyana Suriname Basin and limited reserve data. The fair value of the wharves was determined to approximate their cost of construction to-date. Goodwill arising from the acquisition was primarily related to the deferred tax liability recognized on the date of acquisition.

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

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

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

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

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

During this quarter, 263 controls over 30 corporate processes were evaluated. From this evaluation the Company concluded that there are no material weaknesses or significant deficiencies in the design and effectiveness of the controls evaluated.

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

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

15. Outlook

The Company continues to implement its growth strategy through the second half of 2013 by expanding its resource and reserve base and developing its production and transport capacity. The outlook for the fourth quarter of 2013 includes:

- An expectation to continue producing at the top end of the 2013 plan of approximately 311 Mboe/d gross total field or 129 Mboe/d net after royalties. The range will be updated as the rest of the year progresses.
- Total capital expenditures of approximately $400 million for the remainder of 2013, largely driven by development drilling, exploration and production facilities in Colombia and Peru. The capital program is expected to be funded by internally-generated cash flow in an expected WTI oil price environment of $90-$95.
- Exploration expenditures of $86 million, including the drilling of an additional 10 exploration wells, seismic data acquisition and early facilities. In the total drilling program, approximately four exploration wells are targeting high-impact prospects, including the Company's exploration wells in Colombia.
- $75 million to drill a planned 57 development wells (excluding workovers and water injection wells), a significant increase over 2012 with activity driven by development of the Cajua field, 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 in Block Z-1 in Peru.

- $188 million in the development of facilities and infrastructure, with approximately 85% directed to the Company's core producing Rubiales, Quifa SW, Cajua and Sabanero heavy oil fields and the remaining 15% for the planned development of the CPE-6 Block as well as other mostly light oil field development in Colombia.
- As a result of the global environmental licence received for the CPE-6 Block, the Company plans to drill one exploration well and obtain production flow tests from existing wells during the remainder of 2013.

16. Additional Financial Measures

This report contains the following financial terms that are not considered in IFRS: funds flow from operations, adjusted net earnings from operations, and adjusted 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 this information to analyze operating performance, leverage and liquidity. Therefore, these measures should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

a) *Funds Flow from Operations*

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

	Three Months Ended September 30		Nine Months Ended September 30	
(in thousands of US$)	2013	2012	2013	2012
Cash flow from operating activities	$ 431,706	$ 417,792	$ 1,163,419	$ 1,125,797
Changes in non-cash working capital	(23,394)	69,467	(272,842)	(30,215)
Funds flow from operations	**$ 455,100**	**$ 348,325**	**$ 1,436,261**	**$ 1,156,012**

b) *Adjusted Net Earnings from Operations*

	Three Months Ended September 30		Nine Months Ended September 30	
(in thousands of US$)	2013	2012	2013	2012
Adjusted net earning from operations	**$ 106,825**	**$ 136,593**	**$ 312,152**	**$ 592,154**
Non-operating items				
Other expenses	(14,817)	(6,922)	(35,377)	(9,515)
(Loss) gain from foreign exchange	8,227	3,929	10,980	(12,844)
(Loss) gain on risk management	(6,143)	(26,806)	(12,331)	23,793
Loss from equity investments	(12,101)	(37,977)	(13,920)	(42,082)
Total non-operating items	**(24,834)**	**(67,776)**	**(50,648)**	**(40,648)**
Net earnings attributable to equity holders of the parent, as reported	**$ 81,991**	**$ 68,817**	**$ 261,504**	**$ 551,506**

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

c) *Adjusted EBITDA*

The Company uses the financial measure adjusted EBITDA in this MD&A, whereas in the past we have used the term EBITDA. Our calculation of this measure has not changed from previous quarters, but the terminology has changed further to guidance provided by the Ontario Securities Commission. Adjusted EBITDA is an indicator that the Company uses to assess its financial returns from normal operations, adjusting for non-cash and one-time items.

A reconciliation of Net Earnings to Adjusted EBITDA follows:

(in thousands of US$)	Three Months Ended September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
Net earnings	**$ 81,991**	**$ 68,817**	**$ 261,504**	**$ 551,506**
Adjustments to net earnings				
Income taxes expense	83,249	71,063	372,383	252,041
Foreign exchange (gain) loss	(8,227)	(3,929)	(10,980)	12,844
Finance cost	33,850	26,634	117,697	66,966
Loss (gain) on risk management contracts	6,143	26,806	12,331	(23,793)
Loss from equity investment	12,101	37,977	13,920	42,082
Other expense	14,817	6,922	35,377	9,515
Share-based compensation	5,184	1,036	41,121	32,049
Loss attributable to non-controlling interest	(1,720)	-	(7,224)	-
Depletion, depreciation and amortization	384,144	247,782	1,074,094	646,144
Adjusted EBITDA	**$ 611,532**	**$ 483,108**	**$ 1,910,223**	**$ 1,589,354**

17. Sustainability Policies

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

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

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

In September 2013, the Company was selected for inclusion in the DJSI North America Index. This Index, which was established in 2005, tracks North American companies that are leaders in corporate social responsibility using rigorous indicators in the areas of corporate, economic and social performance.

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

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

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

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

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

18. Legal Notice – Forward-Looking Information and Statements

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

19. Risks and Uncertainties

The business operations and earnings of the Company could be impacted by the occurrence of risks of all kinds including financial, operational, technological and political that might affect this industry. Our Enterprise Risk Management program identifies, assesses 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 operation 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 licences & required permits;
- Partner relationships;
- Oil & gas transportation;
- Availability of diluents;
- Water disposal;
- Labour relations;
- HSE works;
- Community relations;
- Fraud;
- Foreign exchange rate fluctuation;
- Business continuity;
- Regulatory compliance; and
- Shareholder relations.

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

20. Advisories

Finding Costs

The aggregate of the finding costs incurred in the most recent financial year and the change during that year in estimated future finding costs will generally 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 (unrisked) recoverable resources 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, there is no certainty that any discovery will be technically or economically viable in order to produce any portion of the resources.

Translations

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

21. Abbreviations

The following abbreviations are frequently used in our MD&A

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
ha	Hectare
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