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PACIFIC RUBIALES ENERGY CORP.

MANAGEMENT DISCUSSION AND ANALYSIS

May 9, 2012
Form 51-102 F1
For the three month period ended March 31, 2012

1. Preface

This Management Discussion and Analysis (“MD&A”) contains forward-looking information and is based on the current expectations, estimates, projections and assumptions of Pacific Rubiales Energy Corp. This information is subject to a number of risks and uncertainties, many of which are beyond the Company’s control. Users of this information are cautioned that actual results may differ materially. For information on material risk factors and assumptions underlying our forward-looking information, see page 27.

This MD&A is management’s assessment and analysis of the results and financial condition of the Company, and should be read in conjunction with the accompanying consolidated financial statements for the first quarter of 2012, and the 2011 audited annual consolidated financial statements and related notes. The preparation of financial information is reported in United States dollars and is in accordance with International Financial Reporting Standard as issued by the International Accounting Standard Board (“IASB”) unless otherwise noted. All comparative percentages are between the quarters ended March 31, 2012 and March 31, 2011, unless otherwise stated. The following financial metrics: (i) EBITDA; (ii) funds flow from operations; and (iii) adjusted net earnings from operations, as referred to in this MD&A, are not prescribed by IFRS and are outlined under “Additional Financial Metrics” on page 25. All references to net barrels or net production reflect only the Company’s share of production after deducting royalties and the partner’s working interest. A list of abbreviations for oil and gas terms is provided on page 29.

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 14.

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

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

2. First Quarter Highlights

During the first quarter of 2012, the Company continued its trend of production growth and exploratory success, leveraged on its technical know-how and operational expertise. The results for this quarter underline the strength of the Company's assets, operational activity, capacity to increase production and to deliver robust financial results. Management is focused on meeting challenging operational goals, and pursuing its ambitious exploration and production ("E&P") program, while delivering on its main strategic focus: Sustainable Growth.

Set out below are the highlights of the Company's activities during the three months ended March 31, 2012:

- **Production continues to grow in 2012**. During the first quarter of 2012, average net production after royalties reached 93,573 boe/d (236,958 boe/d gross field). In Colombia, average net production after royalties reached 91,870 boe/d (233,076 boe/d gross field) representing a 15% growth year-over-year, with production growth driven by the more than 162 development wells drilled mainly in the Rubiales and Quifa SW fields. Production from the Quifa and La Creciente fields continued to increase offsetting the slight decrease in production at the Rubiales field in comparison to the fourth quarter of 2011. In Peru, average net production reached 1,703 bbls/d (3,882 bbls/d total gross field) produced from the recent acquisition of 49% participating interest in Block Z-1, effective January 1, 2012. Revenue will be recognized on production subsequent to the acquisition date, which is subject to approval of the applicable Peruvian authorities.

- **Strong financial results.** Consolidated net earnings for the first quarter of 2012 were $258 million or $0.88 per common share, equivalent to 46% of the full year's net earnings in 2011, an outstanding result when compared to the net loss of $70 million or $0.26 per common share during the first quarter of 2011. Adjusted net earnings for the first quarter of 2012 were $293 million compared to $134 million in the first quarter of 2011. Revenues increased to $932 million compared to $584 million in the same period of 2011. These results do not include revenue from the sale of 1.4 million bbl of crude oil produced during the period but exported during the first week of April 2012.

- **EBITDA increased by 48%.** EBITDA for the first quarter of 2012 totaled $538 million, compared to $363 million for the previous year. EBITDA for the first quarter of 2012 represented a 58% margin in comparison to total revenues for the period. Funds flow from operations increased to $392 million, compared to $267 million in 2011.

- **Significant improvement in operating netbacks.** Crude oil operating netback during the first quarter of 2012 was $78.93/bbl, 40% higher in comparison to the same period in 2011 ($56.42/bbl) and oil for trading operating netback was $3.63/bbl, 28% higher in comparison to the first quarter of 2011 ($2.84/bbl). Natural gas operating netback was $36.56/boe, 19% higher in comparison to the first quarter of 2011 ($30.71/boe).

- **Total capital expenditure**. Capital expenditures during the first quarter 2012, totaled $267 million ($176 million in 2011), of which $102 million were invested in the expansion and construction of production infrastructure; $90 million went into exploration activities (including drilling, seismic and other geophysical) in Colombia, Peru and Guatemala; $56 million for development drilling; and $19 million in other projects, including STAR.

- **Continued active drilling in the Colombian exploration blocks with a success rate of 84%**. During the first quarter of 2012, total net exploration capital expenditure of $90 million consisting of: drilling a total of 19 exploratory wells (16 successful) and acquisition of 332 km of 2D and 563 km^2 of 3D seismic; among the successful wells, exploratory well COTORRA-1X resulted in a second discovery of gas condensate in the Guama Block.

- **Additional investment in Puerto Bahia Port Project.** During the first quarter of 2012, the Company acquired 20 million common shares in the capital of Pacific Infrastructure Inc. at a price of $1 per share, with an option to subscribe for a further $120 million in shares. This investment will ensure the timely completion of this strategic project.

- **LNG export market.** During the first quarter of 2012, the Company signed a natural gas Liquefaction, Regasification, Storage and Loading Services Agreement with Belgium based Exmar NV ("Exmar"). The Agreement calls for Exmar to build, operate and maintain a Floating Liquefaction Regasification & Storage Unit ("FLRSU") to be located on the Colombian Caribbean coast. The Agreement grants the Company exclusive guaranteed rights to supply and liquefy up to 69.5 MMcf/d over a 15 year period, under a tolling structure. The FLRSU will have a storage capacity of 14,000 m^3 (+/- 0.5 million tonnes per annum) of LNG and will be able to be accommodated alongside a 140,000 m^3 LNG Floating Storage Unit ("FSU"). Commercial operations of the FLSRU are estimated to start in the fourth quarter of 2014.

- **Acquisition of a Participating Interest in an offshore block in Peru**. On April 27, 2012, the Company announced that it had reached an agreement with BPZ Resources, Inc. ("BPZ") to enter in the acquisition of beneficial ownership of a 49% undivided participating interest in the Z-1 exploration and development block ("Block Z-1"), offshore in Peru. Under the terms of the agreement, Pacific Rubiales will pay $150 million in cash, of which $65 million has been paid, and is subject to a commitment of $185 million for BPZ's share of capital and exploratory expenditures in Block Z-1. Once the Company has satisfied its commitment to BPZ in connection with the capital and exploratory expenditures, the partners will share costs at their respective ownership interest bases. Completion of the acquisition is subject to approval of the applicable Peruvian authorities.

- **Acquisition of a participating interest in an onshore license in Papua New Guinea**. On April 29, 2012 the Company signed a binding agreement with InterOil Corporation whereby the Company can acquire a 10% net participating interest in the PPL237 Petroleum Prospect License and the Triceratops structure located within PPL237, onshore in Papua New Guinea, for an estimated total investment of up to approximately $345 million. The investment will be comprised of an up-front down payment of $116 million cash, of which $20 million has been paid, funding of an agreed exploration work program, and cash payments based on the independently certified resources of the Triceratops structure. The Company's net participating interest is calculated after accounting for a 5% total project back-in right of the Government of Papua New Guinea. The transaction is subject to the approval of the Papua New Guinea regulatory authority.

- **Cash dividend**. A cash dividend in the aggregate of $32.3 million or $0.11 per common share was paid on March 30, 2012 to shareholders of record as of March 22, 2012.

3. Financial and Operating Summary

Financial Summary

A summary of the financial results for the three months ended March 31, 2012 and 2011 are as follows:

(in thousands of US$ except per share amounts or as noted)	Three Months Ended March 31 2012	2011
Oil and gas sales	**$ 931,850**	$ 583,549
EBITDA [(1)]	**538,191**	362,527
EBITDA Margin (EBITDA/Revenues)	58%	62%
Per share - basic ($) [(3)]	**1.84**	1.35
- diluted ($)	**1.78**	1.35
Net earnings	**258,345**	(69,593)
Per share - basic ($) [(3)]	**0.88**	(0.26)
- diluted ($)	**0.85**	(0.26)
Cash Flow from Operations	**576,099**	319,803
Per share - basic ($) [(3)]	**1.97**	1.19
- diluted ($)	**1.90**	1.19
Adjusted Net earnings from operations [(2)]	**292,768**	134,221
Per share - basic ($) [(3)]	**1.00**	0.50
- diluted ($)	**0.97**	0.50
Non-operating items	**34,423**	203,814
Funds Flow from Operations [(1)]	**392,464**	266,707
Per share - basic ($) [(3)]	**1.34**	1.00
- diluted ($)	**1.30**	1.00

Adjusted Net Earnings from Operations

Net earnings for the first quarter of 2012 totaled $258.3 million and includes a number of non-operating items totaling $34.4 million, mainly related to mark-to-market gains on derivatives, share-based compensation, equity tax and foreign exchange gain / losses. These non-operating items may or may not materialize or reoccur in future periods. The adjusted net earnings from operations follow:

(in thousands of US$)	Three Months Ended March 31 2012	2011
Net earnings (loss) as reported	$ 258,345	$ (69,593)
Non-operating items		
Loss (gain) on risk management contracts	(7,920)	92,634
Share-based compensation	30,394	46,687
Equity tax	-	68,446
Foreign exchange (gain) loss	11,949	(3,953)
Total non-operating items	$ 34,423	$ 203,814
Adjusted earning from operations (2)	$ 292,768	$ 134,221

(1) See "Additional Financial Metrics" on page 25.
(2) Adjusted earnings from operations are a non-IFRS financial metric that represents net earnings adjusted for certain items of a non-operational nature including non-cash items. The Company evaluates its performance based on adjusted net earnings from operations. The reconciliation "Adjusted Net Earnings from Operations" lists the effects of certain non-operational items that are included in the Company´s financial results and may not be comparable to similar metrics presented by other companies.
(3) The basic weighted average number of common shares outstanding for the first quarter ended March 31, 2012 and 2011 was 292,413,849 (fully diluted – 303,034,514) and 267,946,959 (fully diluted – 267,946,959), respectively.

Operating Summary

The Company produces and sells crude oil and natural gas. It also purchases crude oil from third parties as diluents and for trading purposes. The combined crude oil and gas operating netback improved during the first quarter of 2012 and was $73.76/boe, 39% higher as compared to the same period of 2011. Crude oil operating netback during the first quarter of 2012 was $78.93/bbl, 40% higher in comparison to the same period in 2011 ($56.42/bbl) and oil traded operating netback was $3.63/bbl, 28% higher in comparison to the first quarter of 2011 ($2.84/bbl). Natural gas operating netback was $36.56/boe, 19% higher in comparison to the first quarter of 2011 ($30.71/boe).

Following is a reconciliation of volume produced vs. volume sold during first quarter of 2012:

Production and sales volumes (boe/day)(1)	Three months ended March 31 2012 Oil	Gas	Combined	2011 Combined
Average total field production	221.351	11.725	233.076	196.272
Average gross production (before royalties)	96.912	10.914	107.826	93.748
Begining inventory	26.803	-	26.803	13.378
Average net production (after royalties and field consumption)	80.955	10.915	91.870	79.648
Purchases of diluents and oil for trading (1)	19.012	-	19.012	14.095
Other inventory movements (1)	(3.749)	(57)	(3.806)	(3.014)
Ending inventory March 31, 2012.	(34.971)	-	(34.971)	(21.360)
Average daily volume sold (boe/day)	**88.050**	**10.858**	**98.908**	**82.747**
Breakdown average daily volume sold (boe/day)				
Oil and Gas sold	77.829	10.858	88.687	82.477
Crude Oil Trading Sold	10.221	-	10.221	270
Total average daily volume sold	**88.050**	**10.858**	**98.908**	**82.747**

(1) See additional detail in "Inventory Movements" on page 10

Set out below is the operating netback for the three months ended March 31, 2012.

Netback Oil and Gas	Three months ended March 31			
	2012			2011
	Oil	Gas	Combined	Combined
Average daily volume sold (boe/day)[(1)]	**77,829**	**10,858**	**88,687**	**82,477**
Operating netback ($/boe)				
Crude oil and natural gas sales price	110.96	41.45	102.45	78.33
Production cost of barrels sold [(2)]	9.42	2.59	8.58	5.52
Transportation (trucking and pipeline) [(3)]	13.47	0.06	11.83	10.92
Diluent cost [(4)]	13.99	-	12.27	13.14
Other costs [(5)]	(2.40)	2.28	(1.83)	(1.85)
Overlift/Underlift [(6)]	(2.45)	(0.04)	(2.16)	(2.43)
Operating netback ($/boe)	**78.93**	**36.56**	**73.76**	**53.03**

Netback Crude Oil Trading	Three months ended March 31	
	2012	2011
Average daily volume sold (boe/day)	**10.221**	**270**
Operating netback ($/boe)		
Crude oil traded	112,94	88,43
Cost of purchases of crude oil traded [(7)]	109,31	85,59
Operating netback ($/boe)	**3,63**	**2,84**

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

(2) Cost of production mainly includes lifting costs and other production costs such as personnel, energy, fuel consumption, security, insurance and others.

(3) Includes the transport costs of crude oil and gas through pipelines and tank trucks incurred by the Company to take the products to the delivery points to customers. The increase over the prior period of 2011 is mainly attributable to the higher volume of crude oil transported via tank truck due to increased production, coupled with an increase in the overall land transport costs in Colombia during the first quarter of 2012.

(4) Net blending cost is estimated at $3.69 per bbl of Rubiales crude ($3.89 per bbl in first quarter of 2011) as indicated in the below table:

Adjusted Net Cost of Diluent	Three months ended March 31	
	2012	2011
Average diluent purchase price	122,21	92,83
Pipeline fees	11,66	7,76
Average Rubiales blend sales price	110,34	84,38
Net diluent cost per barrel	23,53	16,21
Average blending ratio	15,70%	24%
Net Blend Cost	**3,69**	**3,89**

(5) Other costs mainly correspond to royalties on gas production, external road maintenance at the Rubiales field, inventory fluctuation, storage cost and the net effect of the currency hedges of operating expenses incurred in Colombian pesos during the period.

(6) Corresponds to the net effect of the overlift position for the period amounting to $17.4 million, which generated a reduction in the combined costs of $2.16/boe as explained in "Discussion of 2012 First Quarter Financial Results– Financial Position – Operating Costs" on page 15.

(7) The increase of trading costs during the first quarter of 2012 over the same period of 2011 is in line with overall WTI price increase.

Royalties and Volume Allocation

Royalties

Current royalty rates for hydrocarbons produced by the Company´s assets range from 5% to 20%. Royalties on production represent the entitlement of the respective governments to a portion of the Company´s share of production and are recorded using rates in effect under the terms of contract and applicable laws at the time of production. Royalties for oil may be payable in kind while royalties for gas are generally payable in cash.

a) Additional Production Share in Quifa SW field

The Company's share of production before royalties in the Quifa SW field is 60%; however, this participation decreases once the high-prices clause (the "PAP"), stipulated in the Quifa Association Contract, is triggered.

On September 27, 2011, Ecopetrol and the Company agreed on an arbitration process to settle differences in the interpretation of this clause in the Quifa Association Contract and its effect on the production split. While the arbitration runs its course, both companies have agreed to apply the formula of the Agencia Nacional de Hidrocarburos (the "ANH") to assign the additional share to Ecopetrol, as from the activation of the additional production clause in April 2011, until the arbitration is concluded. Based on this formula, as of March 31, 2012, a total of 366,538 bbl has been delivered to Ecopetrol and the balance of 176,159 bbl was still outstanding. This volume is being settled according to contractual terms and it is estimated that this balance will be fully paid by the third quarter of 2012.

On April 12, 2012, the Company initiated the arbitration process before the Bogota Chamber of Commerce. The outcome of this process is estimated to take between six to twelve months to conclude.

b) Settlement of a Claim on Deferred Production – Rubiales and Quifa SW Fields

During the first quarter of 2012 Ecopetrol agreed to compensate the Company with a net volume of 61,194 bbl due to an outstanding deferred production claim. This volume was recognized as a reduction of the overlift related to the PAP in the Quifa field.

4. Discussion of 2012 First Quarter Operating Results

Exploration

During the first quarter of 2012, the Company continued its exploration drilling activity in the Quifa, Sabanero, CPE-6, La Creciente, and Guama blocks, and also started drilling the first of four planned stratigraphic wells on the CPE-1 TEA block. This activity resulted in a total of 19 wells drilled during the period. The Company also completed 2D and 3D seismic surveys in the CPO-12, CPO-1, Muisca and SSJN-7 blocks.

In the Quifa block exploration area, the Company drilled a total of seven exploration wells (one stratigraphic and six appraisal wells). Five of six appraisal wells (three vertical and two horizontal) were successful and are currently under extended production testing. The Quifa-Este-1X stratigraphic well did not encounter hydrocarbon pay due to high shale content and the well was plugged and abandoned. As result of this success the Company started to prepare all the technical documentation to support commerciality for the discoveries in the northern part of the Quifa block which will be submitted to the Contract Executive Committee during the second quarter of 2012.

On the CPE-6 E&P block, the Company continued exploration activities in the Hamaca prospect, drilling two successful wells and advancing with the process to obtain an environmental license for the entire block.

On the Sabanero block, Maurel et Prom Colombia (the operator of the Block), continued exploration activity drilling two stratigraphic and five appraisal wells. All the appraisal wells are on long term production test.

In the Guama block, the Company finished drilling the Cotorra-1X exploration well in January. A petrophisycal evaluation indicated 129 feet of hydrocarbon column and the Company perforated two intervals testing earlier reported flows of 7.5 MMcf/d gas and 370 bbl/d condensate. The Company is now planning hydraulic-fracture completion and testing of additional pay intervals in the well.

On the La Creciente block, the Company finished drilling the Apamate-2 appraisal well. In February 2012, the well was tested but failed to flow at economic rates and was plugged and abandoned.

In the CPE-1 TEA Block, the Company initiated a drilling campaign of four commitment stratigraphic wells. The first of these (Coralito-1S) encountered non-commercial hydrocarbon shows in Carbonera sands, and was plugged and abandoned. The remaining three wells will be drilled during the second quarter of 2012.

In the COR-15 and Muisca Blocks, Maurel et Prom Colombia completed the COR-15 3D survey (147 km^2), and started the Muisca 3D survey (250 km^2).

In the Tacacho Block, the Company is currently undertaking site inspection for the construction of the drill location of a planned stratigraphic well in the western portion of the block. The Company expects to drill this well in the third quarter 2012, depending on environmental and security clearance from the authorities.

At Block 138 in Peru, the Company is waiting for the approval of the Environmental Management Plan required for a planned exploratory well. The Company expects to begin drilling the well in the fourth quarter 2012.

In the Guatemala blocks (N-10-96 and O-10-96) the Company, through the operator of the blocks (Compañía Petrolera del Atlántico S.A. ("CPA")), started the geophysical surveys (seismic, aerogravity and aeromagnetics) as well as all remote sensing surveys (hyper-spectral and SFD). Also, during the quarter, surface geology and geochemical surveys, including samples analysis were completed. All this information will be integrated once the surveys are completed.

During the first quarter of 2012, the Company drilled a total of 19 exploratory wells (including appraisal and stratigraphic), of which 16 wells were successful. This represents a success rate of 84%. The tables below summarize the results of the drilling campaign for the three months ended March 31, 2012 and 2011:

	Three Months Ended March 31	
	2012	**2011**
Succesful exploratory wells (1)	1	2
Succesful appraisal wells	11	9
Succesful stratigraphic wells	4	3
Dry wells (2)	3	5
Total	19	19
Sucess rate	**84%**	**74%**

(1) Corresponds to Cotorra 1-X
(2) Includes one appraisal and two stratigraphic wells in first quarter 2012.

Detail of Exploratory Wells during the First Quarter of 2012

No. of wells	Block	Area / Field / Prospect	Well Name	Type	Depth	Drilling Result
1	Quifa	Quifa North- Prospect Q	Opalo-8	Appraisal	3,578	Succsessfull
2	Quifa	Quifa North- Prospect R	Ambar-13H	Appraisal	5,433	Succsessfull
3	Quifa	Quifa North- Prospect R	Ambar-14H	Appraisal	5,574	Succsessfull
4	Quifa	Quifa North- Prospect R	Ambar-15ST2	Appraisal	4,165	Succsessfull
5	Quifa	Quifa North- Prospect R	Ambar-16	Appraisal	3,635	Succsessfull
6	Quifa	Quifa North- Prospect R	Ambar-17	Appraisal	3,538	Succsessfull
7	Quifa	Quifa East- Prospect T	Quifa-Este-1X	Stratigraphic	3,100	Dry
8	CPE-6	Hamaca prospect	Hamaca-3	Stratigraphic	3,304	Succsessfull
9	CPE-6	Hamaca prospect	Hamaca-5	Stratigraphic	3,328	Succsessfull
10	Sabanero (*)	Sabanero prospect	Sab-Strat-6	Stratigraphic	3,245	Succsessfull
11	Sabanero (*)	Sabanero prospect	Sab-Strat-7	Stratigraphic	3,194	Succsessfull
12	Sabanero (*)	Sabanero prospect	Sab-3HZ3	Appraisal	4,417	Succsessfull
13	Sabanero (*)	Sabanero prospect	Sab-5HZ1	Appraisal	3,502	Succsessfull
14	Sabanero (*)	Sabanero prospect	Sab-3WDST	Appraisal	4,035	Succsessfull
15	Sabanero (*)	Sabanero prospect	Sab-3HZ2ST	Appraisal	5,188	Succsessfull
16	Sabanero (*)	Sabanero prospect	Sab-4HZ2ST2	Appraisal	5,146	Succsessfull
17	Guama	Cotorra prospect	Cotorra-1X	Exploratory	7,210	Succsessfull
18	La Creciente	Apamate prospect	Apamate-2	Appraisal	12,300	Dry
19	CPE-1	Coralito prospect	Coralito-1S	Stratigraphic	5,600	Dry

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

Production

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

For the first quarter of 2012, average net production after royalties reached 93,573 boe/d (236,958 boe/d gross fields). In Colombia, average net production after royalties reached 91,870 boe/d (233,076 boe/d gross field) representing a 15% growth year-over-year, with production growth driven by the more than 162 development wells drilled mainly in the Rubiales and Quifa SW fields. Production from the Quifa and La Creciente fields continued to increase offsetting the slight decrease in production at the Rubiales field in comparison to the fourth quarter of 2011.

Crude oil and gas production in Colombia increased over 15% year-over-year mainly attributable to the drilling of 112 producing wells at the Rubiales field and 50 producing wells at the Quifa SW field during the same period, as well as an increase in the production facility capacity at Rubiales and Quifa. Net production at Rubiales increased 18% and the La Creciente natural gas field increased by 2% as compared to 2011, the latter due to an increase in domestic gas demand. Production in the La Creciente field is limited by constraints in the natural gas downstream transport network and domestic markets.

In Peru, net production after royalties for the first quarter of 2012 corresponding to the recently acquired Block Z-1, averaged 1,703 bbls/d (total gross field 3,882 bbl/d). Upon the approvals of the applicable Peruvian authorities, revenues and expenses will be reflected in the Company´s results according to the respective ownership interest basis.
The following table sets out the average production of three months ended March 31, 2012, at all of the Company's producing fields located in Colombia and Peru:

	Average Q1 Production (in boe/d)					
	Total field production		Share before royalties[1]		Net share after royalties	
Producing Fields - Colombia	**Q1 2012**	**Q1 2011**	**Q1 2012**	**Q1 2011**	**Q1 2012**	**Q1 2011**
Rubiales / Piriri	172,455	146,003	71,943	60,935	57,555	48,748
Quifa[2]	45,746	33,690	23,276	20,098	21,885	18,461
La Creciente [3]	10,803	10,575	10,598	10,409	10,596	10,406
Abanico [4]	1,615	2,463	487	684	469	652
Rio Ceibas [5]	-	1,813	-	491	-	393
Dindal / Rio Seco [6]	1,075	1,026	594	710	497	588
Other producing fields [7]	1,382	702	928	421	868	400
Total Production - Colombia	**233,076**	**196,272**	**107,826**	**93,748**	**91,870**	**79,648**
Producing Fields - Peru (See note below)						
Block Z-1 [8]	3,882	-	1,798	-	1,703	-
Total Production - Peru	**3,882**	**-**	**1,798**	**-**	**1,703**	**-**
Total Production Colombia and Peru	**236,958**	**196,272**	**109,624**	**93,748**	**93,573**	**79,648**

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

(2) Includes Quifa SW field and early production from Quifa North prospects. The Company's share before royalties in the Quifa SW field is 60% and decreases according to a high-prices clause that assigns additional production to Ecopetrol. The net share after royalties includes the net volume of 61,194 bbl recognized by Ecopetrol as a settlement claim during the first quarter of 2012 representing an increase of 672 bbl/d.

(3) Royalties on the gas production from La Creciente field are payable in cash and accounted as part of the production cost. Royalties on the condensates are paid in kind, representing a small impact in the net share after royalties. The Company started activities to increase the process capacity to 120 MMcf/d in La Creciente Station and also in the Abocol project in order to increase to 4.5 MMcf/d of gas sales from this field.

(4) Ecopetrol agreed to drill one development and one injector well during the first quarter of 2012. The Company started the Engineering, Procurement and Construction contract (EPC) for a new water treatment plant.

(5) The Caguan association contract, where the Company held a 27.3% working interest, was terminated on December 31, 2011, due to the expiration of the exploitation period .The Rio Ceibas field is now under direct operation by Ecopetrol, who holds a 100% working interest.

(6) The increase in gross production in comparison to 2011 is caused by the sales of natural gas produced in the field, which commenced and were included in this report in second quarter of 2011. The compressed gas sales averaged 62 MMcf/d in March 2012. Remaining gas is currently being injected and used for power generation for internal consumption. The increase in production is also due to services completed in some of the producing wells.

(7) Other producing fields corresponds to producing assets located in Cerrito, Puli, Moriche, Las Quinchas, Arrendajo, Guasimo, Buganviles, and Sabanero (holder of license is Maurel et Prom Colombia), blocks. The Company is exploring divestment of its participation in Moriche, Las Quinchas, Arrendajo, Guasimo, and Chipalo blocks.

(8) Block Z-1 includes Corvina and Albacora fields which are operated by BPZ E&P. Once closing of the transaction occurs, the Company or any of its subsidiaries will be the technical operations manager under an Operating Services Agreement. Peru royalties are paid in dollars, the royalty volume here is an estimate based on liquids fiscalized production in accordance to Peru fiscal terms and regulations.

(9) 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.

Average Daily Oil Production – Block Z-1 Peru

Production shown in the above table corresponds to the 49% deemed participating share of production attributable to the Company from Block Z-1 for the period January 1 through March 31, 2012, pursuant to a Stock Purchase Agreement ("SPA") signed on April 27, 2012 between the Company and BPZ Resources, Inc. ("BPZ"). Under the SPA (i) at closing operating revenues and expenses will then be allocated to each partner's respective participating interest and (ii) once approvals by the relevant Peruvian authorities are granted, the Company shall receive a 49% interest in the production of hydrocarbons from the Z-1 Block. No revenue and costs have been recognized yet in the Company´s results with respect to the production from Block Z-1 as its full entitlement is subject to approval of the applicable Peruvian authorities.

Supply and Sales Balance

The following is the Company´s reconciliation of boe produced vs. boe sold for the three months ended March 31, 2012:

	Q1	
Inventory Movements	**Total boe Net**	**Aver. day Net**
Ending inventory as of December 31, 2011	2,439,084	-
Transactions in Q1 2012		
Net oil and gas production	8,360,069	91,870
Settlement of overlift position from December 31, 2011 (1)	(286)	(4)
Purchases of diluents	905,029	9,945
Purchases of oil for trading	825,071	9,067
Total sales (2)	(9,002,153)	(98,925)
Overlift position as of March 31, 2012 (3)	25,761	283
Settlement PAP	(278,747)	(3,063)
Volumetric compensation and operational gains/losses	(91,409)	(1,004)
Ending inventory as of March 31, 2012	3,182,419	-
Permanent inventory (operational inventory) (4)	(1,850,437)	-
Ending inventory available for sale as of March 31, 2012 (5)	1,331,982	-

(1) This volume corresponds to the settlement of the overlift position for crude oil as of March 31, 2011, which resulted in a lower volume of sales during the period it was settled.
(2) Includes the sales of crude oil and gas from producing fields as well as crude oil produced from successful exploratory wells under extended testing. The sale of the extended testing volume is booked as a lower amount of the investment according to IFRS accounting rules.
(3) This volume corresponds to a net overlift position of 25,761 boe of crude oil and gas as of March 31, 2012, which will be settled during future periods.
(4) Corresponds to crude oil inventory in tanks as of the end of March 31, 2012 at the fields and Coveñas Terminal as well as permanent inventory in the pipeline systems around 1.85 MMbbl.
(5) During April 2012, 1.4 MMbbl from first quarter inventory were sold at an average realized price of $112.7 per bbl, generating gross revenue of $167 million which will be reflected along with the related costs in the earnings of the second quarter 2012.

Commercial Activity

Q1 2012 Market Overview

- During the first quarter of 2012 heightened crude oil prices were supported by escalating tensions between Iran and the West prompted by Iran´s continuing nuclear ambitions and the financial sanctions imposed by the USA and EU's decision to introduce an embargo on Iranian oil exports, which will formally start in July. This has led to growing concern over the security of the Straits of Hormuz, vital for the global oil trade. Heightened security concerns and possible disruptions to oil supply caused destabilizing effects on oil markets and higher oil price volatility.

- WTI prices increased to $103.03/bbl in the first quarter of 2012 from $94.06/bbl in the fourth quarter of 2011 (+$8.97/bbl) and $94.60/bbl in the first quarter of 2011 (+$8.43/bbl), mainly due to better macroeconomic reports in USA. Meanwhile, the Brent price increment was greater than WTI, reaching $118.45/bbl in the first quarter of 2012 vs. $109.02/bbl in the fourth quarter of 2011 (+$9.43/bbl) and vs. $105.52/bbl in the first quarter of 2011 (+$12.93/bbl).

- In 1Q12, Latin American and USGC crude prices have maintained a premium vs. WTI. For example, Maya crude oil has been traded at an average of WTI + $6.0/bbl although at a slower pace vs. WTI +$9.3/bbl in the fourth quarter of 2011 (-$3.3/bbl), but $10.6/bbl higher vs. WTI - $4.6/bbl in the first quarter of 2011.

- Brent prices continued to benefit from the increase pressure of sanctions on Iran and other non–OPEC supply disruptions, such as Sudan, Yemen and Syria production. Meanwhile, the WTI trend of dislocation to other physical markets continued, due to high volumes of Canadian light crudes arriving to Cushing, limited storage facilities and infrastructure bottlenecks in Cushing and the closing of several refineries at the USEC. As a consequence, Brent - WTI spread widened to $15.42/bbl in the first quarter of 2012 vs. $10.92/bbl in the first quarter of 2011 (+$4.50/bbl). A wide discount for WTI is expected to persist until the first phase of the reversal of the Seaway Pipeline takes place on May 17, 2012, which will allow a flow of 150,000 bbl/d out of Cushing; and future phases will reach a capacity of 400,000 bbl/d in the first quarter of 2013.

- OPEC production increased to 31.2MMbbl in the first quarter of 2012 (the highest production since the 1970´s) vs. 30.4MMbbl in the fourth quarter of 2011, in order to cover Iranian and other disruptions in non–OPEC countries. This increment was led mainly by Saudi Arabia, which has promised to increase production to its 12.5MMbbl peak capacity, if needed. Libyan output production has continued to recover and is now just 250Mbbl short of pre-uprising levels, estimating the March average at 1.35MMbbl.

<u>Prices and Sales Volume</u>

Average benchmark crude oil and natural gas prices for the three months ended March 31, 2012 were as follows:

Average Crude Oil and Gas Prices	Q1 2012 ($/bbl)	Q1 2011 ($/bbl)	Q4 2011 ($/bbl)	°API
Domestic Market	$107,45	$89,48	$97,34	12,5
WTI NYMEX (Weighted Average of PRE Cargoes)	$103,80	$92,11	$94,57	38
Vasconia (Weighted Average of PRE Cargoes and Parcels) (1)	$113,96	$96,35	$110,86	24
Castilla (Weighted Average of 9 Cargoes PRE) (2)	$110,34	$84,38	$106,69	19
Rubiales Export. 12.5º (Weighted Average of PRE Cargoes) (3)	$101,04	$89,00	$101,55	12,5
Bunker (380 - 500)	$103,90	-	-	
Combined Realized International Oil Sales Price	**$110,89**	**$85,22**	**$106,95**	
PRE Natural Gas Sales ($/MMBTU)	**$7,26**	**$5,31**	**$7,06**	
Combined Realized Oil and Gas Sales Price	**$103,53**	**$78,36**	**$101,60**	
WTI NYMEX ($/bbl)	$103,03	$94,60	$94,06	
BRENT ICE ($/bbl)	$118,45	$105,52	$109,02	
Regulated Gas Price ($/MMBTU) (4)	$5,81	$4,17	$5,81	
Henry Hub average Natural Gas Price ($/MMbtu)	$2,50	$4,20	$3,48	

(1) Weighted average price of 2 cargoes and 13 parcels of Vasconia crude oil through third parties during 2012.
(2) Weighted average price of 6 Castilla crude oil cargoes during the first quarter of 2012.
(3) Weighted average price of 1 Rubiales (12.5°API) small cargoes during the first quarter of 2012.
(4) 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.

- For the purpose of securing diluents for blending Rubiales crude oil, the Company purchased 9,945 bbl/d vs. 11,267 bbl/d in the same period of 2011. The Company´s incremental purchases of natural gasoline (81.3 °API) to 7,560 bbl/d and continued local purchases of light crude oils (37°API average) in the eastern blending cost is estimated at $3.69 per bbl of Rubiales crude (vs. $3.89/bbl in 2011), considering an average diluent purchase price delivered at the Rubiales field of $121.20/bbl (Light Crude Oil 37º API and natural gasoline at 81.6ºAPI), plus pipeline fees from the Rubiales field to Coveñas of $11.66 per bbl, less the average Rubiales Blend (Castilla) sale price of $110.34 per bbl, times the Rubiales average blending ratio of 15%.

- In the first quarter, the Company initiated sales of marine fuels to vessels arriving to the Colombian Atlantic coast. Rubiales crude was blended with other crudes and diluents to sell marine fuels. The volume of marine fuels sales during the quarter was 23,828 Tn equivalent to 0.15 MMbbl, at an average price of $103.90/bbl. These small parcels were exported to Europe, South America and EE.UU.

- In the first quarter of 2012, natural gas sales reached an average of 62 Mmscf/d. These sales were mainly from La Creciente field, at an average price of $7.26/MMBtu (equivalent to $7.25/Mmscf), representing a premium of 25% over the weighted domestic regulated price of $5.81/MMbtu.

Export Sales Volume

Following is a detail of crude oil exported to International markets during the first quarter of 2012:

Destination	Volume (MMbbl)	%
Europe	2.95	37%
Caribbean/ Panama	1.67	21%
USA	1.30	17%
Africa	1.00	13%
Asia	0.95	12%
Total Export	**7.87**	**100%**

Type Oil	Volume (MMbbl)	%
Castilla Blend (1)	5.81	74%
Vaconia Blend	1.79	23%
Bunkers	0.15	2%
Rubiales 12.5	0.12	1%
Total Export	**7.87**	**100%**

(1) The average realized oil price for Castilla blend crude oil during the first quarter of 2012 was $110.34/bbl, higher by 31% than the $84.38/bbl realized during the same period of 2011. The average differential vs. WTI NYMEX improved $14.53/bbl in the first quarter of 2012 vs. $1.43/bbl in the same period 2011.

Transport of Hydrocarbons

- During the first quarter of 2012, the Company transported 113,753 bbl/d through the different pipelines and trucking systems, including 7,733 bbl/d of diluents; 7,580 bbl/d of third party crude oil through the Guaduas Facility; 76,490 bbl/d transported via ODL-OCENSA pipeline system (which represents savings of $22.3 million vs. alternative transportation means); and 16,999 bbl/d through the ODC pipeline (representing savings of $14 million).

- Also during the first quarter of 2012, the Company transported through the trucking system 20,264 bbl/d with no injuries or environmental incidents.

- The Guaduas Facility handled and transported 27,781 bbl/d of crude oil from the Company and third parties. This operation handled 11,490 bbl/d, from third companies, generating an operational profit of $2.1/bbl for the Company and totaling profits of $5 million, without operational or environmental incidents during this quarter.

5. Project Status

STAR Project in the Quifa Field

In March 2011, Pacific Rubiales and Ecopetrol agreed to advance with the STAR (Synchronized Thermal Additional Recovery) pilot project in the Quifa SW field as a preliminary step to expanding the technology in the future. The pilot is operating under the existing terms and conditions of the Ecopetrol Association Contract at Quifa.

STAR is a technology based on in-situ combustion concepts, developed by Pacific Rubiales to increase the recoverable reserves in heavy oil reservoirs like Quifa and Rubiales, which are highly affected by a strong water drive. STAR is designed as a synchronized operations process to not only determine the position of the combustion front but also to control it.

In the pilot test area, nine wells have been drilled in two main clusters in a 25 acre area. Total cold production under primary conditions reached more than 2,000 bbl/d. The injection well was soaked with steam in order to preheat the oil formation and after injecting the first 2,500 tons of steam, a positive reaction was noted in the surrounding producing wells of the pilot project.

Production and air compression facilities are constructed, installed and commissioned and the basic engineering phase for hot production started and will continue through the remainder of the year.

The Company continues its commitment to the implementation of this technology, not only because it creates value to the Company, its partners and shareholders, but also because it is believed that once in operation, STAR will have a significant impact on the entire Llanos heavy oil region.

<u>ODL Pipeline</u>

The Company has a 35% interest in the ODL Pipeline with the balance of 65% owned by Ecopetrol. As of March 2012, a total of 153 MMbbl of diluted crude have been transported from the Rubiales field to the Monterrey and Cusiana Stations.

In November 2009, the ODL board of directors approved an expansion of the pipeline from 170,000 bbl/d to 340,000 bbl/d. As of March 2012 all mechanical construction was completed and tested. The booster stations are operated manually. Automation is expected to be completed in the second half of the year.

During the first quarter of 2012, the pipeline system pumped a total of 21 MMbbl and 35% of this volume corresponds to the Company's crude oil share. On January 21, 2012, a pumping capacity test of the pipeline was completed reaching 357,600 bbl/d.

Cusiana – Araguaney Project

This new project involves an extension of the existing pipeline and comprises a new 85 km and 36 inch diameter pipeline with capacity to transport up to 460,000 bbl/d between Cusiana and Araguaney. This will allow the connection of the ODL Pipeline to the Bicentenario Pipeline (OBC). Once this project is in operation, oil production from the Company's blocks in the Llanos Basin will have access to the export terminal of Coveñas, through the existing Caño Limón pipeline.

As of March 2012, the basic engineering for the pipeline was almost complete. Purchase of pipe is expected to take place in the second quarter of 2012. Environmental permits are still ongoing.

Hot Oil Pipeline Feasibility Study

ODL has conducted a feasibility study for a hot oil pipeline with the intention of increasing operating capacity and reducing dependence on truck transportation of diluents. The next step will be a pilot project in the field in order to test the thermodynamic and flow characteristics for the Rubiales crude.

Dilution Process in Cusiana

The ODL partners have started construction of facilities which will allow dilution of 15° API to 18° API at the Cusiana OCENSA station and allowing optimization of diluent transportation costs. Basic engineering is currently underway with the construction contract awarded. The project will be operational in the second half of 2012.

Project for Heavy Oil Delivery in Rubiales

In order to transport early production from neighboring fields currently under exploration, the ODL board of directors approved the construction of trucking and delivering facilities for heavy oil in the Rubiales pumping station. The conceptual engineering is already started. The first phase of this project will handle 6,000 bbl/d of heavy crude from the Caño Sur and CPE-6 fields in the second half of this year. Subsequent phases are under study, and testing in these fields has started.

<u>Bicentenario Pipeline ("OBC")</u>

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

The new pipeline will eventually add 450,000 bbl/d to the capacity of the existing pipeline systems, connecting the Eastern Llanos Basin to the export markets. The project, which will be constructed in phases, includes a new pipeline from

Araguaney Station to Coveñas export terminal. Total extension of this new pipeline is estimated to be 976 km with different sections of 30, 36 and 42 inch diameter line.

Phase 1, which comprises a 42 inches and 230 km pipeline from Araguaney to Banadía is under construction. As of March 2012, 120 km of the pipeline have already been welded, the pumping station in Araguaney is currently under expansion and two tanks of 600,000 bbl capacity are under construction in the Coveñas terminal. The construction progress for phase 1 is 51% as of March 2012.

The construction budget for phase 1 has been increased to $1.32 billion with 70% of the costs financed through a syndicate of local banks. As of March 31, 2012, negotiation of the credit agreement was ongoing with the bank and disbursements by the banks is expected by May 2012.

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

The Company incorporated PEL, a wholly-owned subsidiary, in 2010. PEL is responsible for constructing and operating a new power transmission line of 230 kilovolts to connect the Rubiales field and the ODL pipeline with Colombia´s electrical grid. The new 260 km transmission line will originate at the Chivor power plant in the Boyaca Department. The line includes two substations to supply power to the booster stations of the ODL Pipeline, as well as a main substation that will distribute power for the Rubiales and Quifa fields. On-site construction will start in May 2012.

PEL is a strategic piece of infrastructure for the Company as it will lever the development of Rubiales, Quifa and other nearby fields in the Llanos Basin such as the Sabanero and CPE-6 blocks.

Small Scale LNG project

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

The project comprises a planned 88 km 18"gas pipeline from La Creciente to Tolú (Colombian Atlantic Coast, 15 km north east from Coveñas) and a FLRSU. In order to deliver LNG, a Small Scale LNG Carrier and a Floating Regasifier and storage Unit (FRSU) at the client´s location will be required. Also, the FLRSU in Colombia may be connected to a Floating Storage Unit (FSU) in order to allow FOB exports to standard carriers (145,000 CBM).

In March 2012 the Company signed a tolling agreement with Exmar. Under this agreement, the first gas liquefaction is targeted for late 2014. Environmental permitting for the onshore portion of the gas pipeline is near completion. Permitting for the offshore pipeline (3.5 km) and obtaining the concession for the port are in progress.

6. Capital Expenditures

Capital expenditures during the first quarter of 2012, totaled $267.1 million ($175.7 million in 2011), of which $102.2 million were invested in the expansion and construction of production infrastructure; $90.3 million went into exploration activities (including drilling, seismic and other geophysical) in Colombia, Peru and Guatemala; $56.4 million for development drilling; and $18.2 million in other projects including the STAR project. Details on the capital expenditure program for 2012 and 2011 are as follows:

	Three Months Ended March 31	
(in thousands of US$)	**2012**	**2011**
Production facilities	102,163	75,535
Exploration drilling including seismic acquisition [(1)]	90,337	41,526
Development drilling	56,429	56,058
Other projects (STAR, Gas export, PEL)	18,132	2,563
Total Capital Expenditures	**267,061**	**175,682**

(1) Includes the carry exploration investment of $29.1 million on Maurel et Prom Colombia blocks.

7. Discussion of 2012 First Quarter Financial Results

Revenues

(in thousands of US$)	Three Months Ended March 31 2012		Three Months Ended March 31 2011	
Net crude oil and gas sales	$	826,798	$	581,400
Trading revenue		105,052		2,149
Total Revenue		**931,850**		**583,549**
$ per boe oil and gas		102.45		78.33
$ per boe Trading		112.94		88.43
$ Total average Revenue per boe		**103.53**		**78.36**

Net crude oil and gas sales in the first quarter of 2012 were $931.9 million which were significantly higher by $348.3 million in comparison to the same period of 2011. Net sales continued to grow mainly due to the 15% increase in net production, coupled with better realized oil and gas prices throughout the first quarter of 2012. For more detail related to oil and gas sales, please refer to section 4 – Commercial Activities. The drivers of the revenue increase during the first quarter of 2012 are explained in the table below:

	Q1 2012	Q1 2011	Q1 Differences	Q1 % Change
Total of boe sold (Mboe)	9,001	7,447	1,554	21%
Avg. Combined Price - oil & gas and trading ($/bbl)	103.53	78.36	25.17	32%
Total Revenue (000$)	931,850	583,549	348,301	60%

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

Reasons for the difference (000$):		
Increase due to Volume	121,772	35%
Increase due to Price	226,529	65%
	348,301	

Operating Costs

(in thousands of US$)	Three Months Ended March 31 2012		Three Months Ended March 31 2011	
Oil and Gas Operating Costs	$	250,625	$	205,761
Trading Operating Costs		100,063	$	2,080
Overlift (Underlift)		(17,415)		(18,064)
Total Cost	**$**	**333,273**	**$**	**189,777**
$ per boe crude oil and gas		30.85		27.73
$ per boe Trading Operating Costs		109.31		85.59
$ per boe Over/Underlift		(2.16)		(2.43)
$ Total average Cost per boe		**37.03**		**25.48**

Operating costs per boe for the first quarter of 2012 increased 45% to $37.03 in comparison to the same period of 2011. The increase is primarily due to:

- Increase of crude oil trading sales in 905,822 bbl in comparison to the first quarter of 2011 (24,301 bbl).
- Transportation costs for the first quarter of 2012 also increased by 8% in comparison to the same period of 2011 primarily attributed to higher volume through the pipelines and trucking systems and an increase in the overall trucking and pipeline transport costs in Colombia.
- Appreciation of the Colombian peso against the U.S. dollar.

Depletion, Depreciation and Amortization

(in thousands of US$)	Three Months Ended March 31 2012		2011	
Depletion, depreciation and amortization	$	166,748	$	149,060
$ per boe		18.53		20.02

Depletion, depreciation and amortization costs for the first quarter of 2012 were $166.7 million ($149.1 million in the same period of 2011). The increase of 12% over 2011 was primarily due to an increase in oil and gas property costs incurred subject to depletion and an increase in production. Included in the costs subject to depletion is $706 million ($840 million in 2011) of future development costs that are estimated to be required to bring proved undeveloped reserves to development. The decrease in the depletion, depreciation and amortization per boe to $18.53 in the first quarter of 2012 from $20.02 is attributed to the increase in reserves.

General and Administrative

(in thousands of US$)	Three Months Ended March 31 2012		2011	
General and administrative costs	$	60,386	$	31,245
$ per boe		6.71		4.20

General and administrative expenses for the first quarter of 2012 were $60.4 million (first quarter 2011 - $31.2 million), representing a $29.1 million increase from the same period in 2011, which is primarily due to additional personnel and office infrastructure needed to support the expanding operations to increase oil production at the fields and the drilling campaign at the exploratory blocks. These costs were primarily:

- The significant increase in operations that resulted in hiring of new personnel and adjustment of salaries according to market standards (for the year 2012, salaries increased by a 10% average). The number of direct and indirect employees in 2012 increased 19% to a total of 1,802 compared to 1,465 in the same period in 2011.
- Increase in the cost of back office, field personnel and technical assistance to support the growth of production and exploration activities.
- Increase in depreciation of administrative equipment ($2 million in 2012), due to the additional depreciation for the improvements and furniture for the new office.
- Increase in publicity costs.

Share-Based Compensation

(in thousands of US$)	Three Months Ended March 31 2012		2011	
Share-based compensation	$	30,394	$	46,687
$ per boe		3.38		6.27

Share-based compensation decreased by $16.3 million or 34.9% to $30.4 million as compared to $46.7 million for 2011. In the first quarter of 2012 a total of 5.96 million employee stock options were granted compared to 4.3 million stock options granted in 2011. The weighted averaged fair value for the stock options granted in 2012 was C$5.00 per option versus C$10.69 for the stock options granted in 2011.

Finance Cost

(in thousands of US$)	Three Months Ended March 31 2012	2011
Finance costs	$ 20,581	$ 23,149
$ per boe	2.29	3.11

Finance cost includes interest on bank loans, Debentures, Senior Notes, revolving credit commitment fees, finance leases and fees on letters of credit. For the first quarter of 2012, interest expense totaled $20.6 million compared to $23.1 million for the same period of 2011.

Equity Tax Expense

(in thousands of US$)	Three Months Ended March 31 2012	2011
Equity Tax	$ -	$ 68,446
$ per boe	-	9.19

On December 29, 2010 the Colombian Congress passed a law which imposes a surcharge on the existing equity tax levied on Colombian companies. This surcharge increased the equity tax rate for the Company from 4.8% to 6% and is applied on the net taxable equity as of January 1, 2011. The Company's total equity tax payable for the years 2012 to 2014 is $67.9 million, to be paid in six equal installments. Nevertheless, the Company has recognized the full equity tax payable on the consolidated statement of financial position with a corresponding expense in 2011. The amount recognized is calculated by discounting the eight future equity tax payments by the Company's weighted cost of capital at 10.8%.

Foreign Exchange

(in thousands of US$)	Three Months Ended March 31 2012	2011
Foreign exchange (loss) gain	$ (11,949)	$ 3,953
$ per boe	(1.33)	0.53

Foreign exchange gains or losses primarily result from the translation of monetary assets or liabilities that are denominated in a foreign currency.

The foreign exchange loss incurred for the first quarter 2012 was due to the appreciation of the Colombian peso against the U.S. dollar, as a result of the net Colombian peso liability exposure.

Income Tax Expense

(in thousands of US$)	Three Months Ended March 31 2012	2011
Current income tax	$ 129.112	$ 77.657
Deferred income tax	(69.742)	(28.283)
Total	**59.370**	**49.374**
$ per boe	6,60	6,63

The income tax rate in Canada was lowered to 26.25% from 28.25% and the tax rate remained at 33% in Colombia. The Colombian Congress passed a tax reform on December 29, 2010 eliminating the 30% special tax benefit previously available on qualified capital expenditures, effective January 2011. However, the new law allows certain taxpayers that have submitted a tax stabilization contract prior to November 1, 2010 to maintain this benefit for another three years once it has been approved by the applicable governmental authority and once the contract has been signed. The Company submitted updates to the applications requested by government and our stabilization contracts are currently under evaluation. The final decision is expected to be reached during the first half of 2012. The Company has not recognized any benefit in 2012 of the 30% special tax benefit on 2012 qualified capital expenditures as the benefit will be recognized upon the Colombian Government's approval of the Company's tax stabilization application.

Income tax expense increased during the first quarter of 2012, which is in line with the increase in revenues and operating income. The effective tax rate of 19.5% is lower than the statutory rate of 33% in the first quarter of 2012. The lower net effect is primarily due to permanent foreign exchange effect in the deferred income tax and non-deductible costs for tax purposes such as share-based compensation costs, equity tax and gain on risk management contracts.

Current income tax represents the estimated cash income taxes paid and payable for the period. Current income tax increased to $129.1 million from $77.7 million during the same period of 2011, which was primarily due to increased operating income and the exclusion of the 2012 special tax benefit on qualified capital expenditures.

Net Earnings (Loss)

	Three Months Ended March 31	
(in thousands of US$)	**2012**	**2011**
Net earnings (loss)	$ 258,345	$ (69,593)
$ per boe	28.70	(9.34)

Net earnings for the first quarter of 2012 totaled $258.3 million compared to a loss of $69.6 million in 2011. Net earnings for the first quarter of 2012 were impacted by a number of non-cash items totaling $34.4 million. These non-cash items are related to share-based compensation of $30.4 million, foreign exchange loss of $11.9 million and gain on risk management contracts of $7.9 million. These non-cash items may or may not materialize in future periods. Excluding these items, the Company's adjusted net earnings were $292.8 million ($134.2 million in 2011) or $1.00 per basic common share ($0.50 in 2011). The increase in adjusted net earnings is primarily due to an increase in net oil and gas sales.

Cash Flow from Operations

	Three Months Ended March 31	
(in thousands of US$)	**2012**	**2011**
Cash flow from operations	$ 576.099	$ 319.803
$ per share, basic	1,97	1,19
$ per share, diluted	1,90	1,19

The Company continued to generate positive cash flow from operations as a result of the increase in production together with the increase in the combined realized oil and gas price. The cash flow from operations during the first quarter of 2012 totaled $576.1 million. This increase is primarily attributable to the 39% increase in the combined net back in 2012 as compared to the same period in 2011 ($73.76 per boe in 2012 versus $53.03 per boe in 2011), as well as the significant increase in production. The increase in combined net back is due to higher realized prices from $78.36 per boe in 2011 to $103.53 per boe in 2012.

Financial Position

<u>EBITDA</u>

EBITDA for the first quarter of 2012 totaled $538.2 million, which represents a significant increase of 48% compared to $362.5 million in 2011. The increase is attributable to increased revenue, mainly generated from international sales 87%; EBITDA from gas and domestic sales contributed 11% and 2%, respectively. The 2012 EBITDA represents a 58% margin in comparison to total revenues for the period (62% margin in 2011); the lower margin can be attributed to higher general and administrative costs.

Debts and credit instruments

During the fourth quarter of 2011 the Company restructured its convertible debentures and senior notes, lowering the overall cost of borrowing and also providing the flexibility and capacity required for the Company to continue executing its business strategies. The Company was compliant with all of its debt covenants during the first quarter of 2012. The following debts are outstanding as at March 31, 2012.

2009 Senior Notes

The 2009 Senior Notes are direct, unsecured subordinated obligations with maturity dates of November 10, 2014 (33.3%), November 10, 2015 (33.3%), and November 10, 2016 (33.4%) and an interest rate of 8.75% payable semi-annually. The 2009 Senior Notes are on the Official List of the Luxembourg Stock Exchange and trade on the Euro MTF. The principal amount outstanding on the 2009 Senior Notes as at March 31, 2012 was $91 million.

2011 Senior Notes

The 2011 Senior Notes, due December 12, 2021, are direct, unsecured, subordinated obligations with an interest rate of 7.25% payable semi-annually. The 2011 Senior Notes are on the Official List of the Luxembourg Stock Exchange and trade on the Euro MTF. As the March 31, 2012 the principal outstanding on the 2011 Senior Notes was $712 million.

Revolving credit facility

The Company has a $350 million unsecured revolving credit facility with an interest rate determined in accordance with the ratings assigned to the Company's senior debt securities by Standard & Poor's Ratings Group and Fitch Inc. Based on the Company's credit rating as at December 31, 2011 and March 31, 2012, the interest rate was LIBOR plus 2.25%. In addition, the Company is required to pay commitment fees of 0.75% on the unutilized portion of any outstanding commitments under the facility. As at March 31, 2012, the Company has drawn down $193 million on the revolving credit facility.

Convertible debentures

The Company has outstanding convertible unsecured subordinated debentures due August 29, 2013 (the "Debentures") of C$2.7 million in face amount as at March 31, 2012. The Debentures bear interest at 8% annually and are payable semi-annually. The outstanding Debentures are convertible into common shares of the Company at the rate of C$12.83 (2010 – C$12.83) per share, being equivalent to 77.9423 (2010 – 77.9423) common shares per C$1,000 face amount of Debentures, subject to adjustments pursuant to the indenture.

Letters of credit

As at March 31, 2012, the Company has issued letters of credit and guarantees for exploration and operational commitments for a total of $202 million.

Outstanding Share Data

Common Shares

As at March 31, 2012, 294,057,838 common shares were issued and outstanding.

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

Stock Options and Warrants

As at March 31, 2012, 6,684 warrants to acquire an equal number of common shares were outstanding and exercisable and 26,459,184 stock options were outstanding, of which all were exercisable.

Liquidity and Capital Resources

Liquidity

Funds provided by operating activities for the first of quarter 2012 totaled $576.1 million ($319.8 million in 2011). The increase in cash flow in 2012 was the result of the increase in production and higher combined crude oil and gas sale prices. The Company has been generating cash flows from operations from the sale of crude oil and natural gas and continues to plan for increased future production.

As of March 31, 2012, the Company had working capital of $673.2 million, mainly comprised of $969.5 million of cash and cash equivalents, $657.6 million of account receivables, $214.9 million of inventory, $26.1 million of income tax receivable, $1.6 million of prepaid expenses, $685.8 million of accounts payable and accrued liabilities, $491.5 million of income tax payable, $0.6 million of current portion of long term debt and $18.6 million of finance lease obligations.

As at March 31, 2012 the Company has drawn down $193 million under the available $350 million Revolving Credit Facility.

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

8. Commitments and Contingencies

As part of the Company's normal course of business, the Company entered into arrangements that will impact the Company's future operations and liquidity. The principal commitments of the Company are ship or pay arrangements on crude oil and gas transportation, asset retirement obligations, debt repayments, service contracts with suppliers in relation with 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 18 to the interim consolidated financial statements. The Company has no off-balance sheet arrangements.

9. Risk Management Contracts

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

<u>Commodity price risk</u>

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

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

As at March 31, 2012

Instrument	Term	Volume (bbl)	Floor/ceiling or strike price ($/bbl)	Benchmark		Fair value
Call option	April to December 2012	6,986,000	109.50-116	WTI	$	(17,010)
Sold put	August to December 2012	5,350,000	61.5-64	WTI		(1,430)
Zero cost collars	April to December 2012	9,603,909	70-80 / 120-121	WTI		(12,575)
	Total				$	(31,015)
	Short-term				$	(31,015)
	Total				$	(31,015)

As at December 31, 2011

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

For the three months ended March 31, 2012, the Company recorded a gain of $7.9 million (2011: loss of $92.6 million) on commodity price risk management contracts in net earnings. Included in these amounts were $8.9 million of unrealized gain (2011: unrealized loss of $91.6 million) representing the change in the fair value of the contracts, and $1 million (2011: $1 million) of realized loss resulting from premiums paid.

If the forward WTI crude oil price estimated at March 31, 2012 had been $1/bbl higher or lower, the unrealized gain or loss on these contracts would change by approximately $10 million (2011: $9.7 million).

Foreign currency exchange risk

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

As at March 31, 2012

Instrument	Term		Notional amount	Floor-ceiling (COP/$)		Fair value
Currency collar	April to December 2012	$	487,800	1805-1975	$	9,478
Currency collar	January to December 2013		255,000	1825-1930		1,578
		$	742,800		$	11,056
			Current		$	10,737
			Non-current			319
			Total		$	11,056

As at December 31, 2011

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

Current	$ (27,504)
Non-current	(5,397)
Total	$ (32,901)

The effective portion of the change in the fair value of the above currency hedges is recognized in other comprehensive income as unrealized gains or losses on cash flow hedges. The effective portion is reclassified as production and operating expenses in net earnings in the same period as the hedged operating expenses are incurred. During the three months ended March 31, 2012, $50.1 million (2011: $7.1 million) of unrealized gains were initially recorded in other comprehensive income, and $5 million (2011: $0.5 million) were subsequently transferred to production and operating cost when the gains became realized. The Company excludes changes in fair value due to the time value of the investments and records these amounts along with hedge ineffectiveness in foreign exchange gains or losses in the period that they arise. During the three months ended March 31, 2012, $6.1 million (2011: $1.9 million) of ineffectiveness was recorded as foreign exchange loss.

10. Selected Quarterly Information

	2012	2011				2010		
(in thousands of US$)	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Financials:								
Net sales	931,850	1,011,476	828,285	957,509	583,549	516,731	408,534	356,848
Net earnings (loss) for the period	258,345	80,834	193,720	349,375	(69,593)	61,370	113,152	14,438
Earnings (loss) per share								
- basic	0.88	$ 0.29	$ 0.71	$ 1.30	$ (0.26)	$ 0.23	$ 0.43	$ 0.05
- diluted	0.85	$ 0.28	$ 0.65	$ 1.17	$ (0.26)	$ 0.22	$ 0.41	$ 0.05

11. Related-Party Transactions

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

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

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

   The Company does not have any outstanding accounts receivable from Blue Pacific as at March 31, 2012 (December 31, 2011: nil). In addition, the Company paid $0.2 million to Blue Pacific during the three months ended March 31, 2012 (2011: $0.5 million) for air transportation services.

b) As at March 31, 2012, the Company had trade accounts receivable of $3.4 million (December 31, 2011: $2.4 million) from Proelectrica, in which the Company has a 20.2% indirect interest and which is 31.49% owned by Blue Pacific. The Company's and Blue Pacific's indirect interests are held through Pacific Power. Revenue from Proelectrica in the normal course of the Company's business was $9 million for the three months ended March 31, 2012 (2011: $3.9 million).

c) During the three months ended March 31, 2012, the Company paid $10.3 million (2011 $10.9 million) to Transportadora Del Meta S.A.S. ("Transmeta") in crude oil transportation costs. In addition, the Company has accounts receivable of $3.1 million (December 31, 2011: $3.2 million) from Transmeta and accounts payable of $0.4

million (December 31, 2011: $5.5 million) to Transmeta as at March 31, 2012. Transmeta is controlled by a director of the Company.

d) Loans receivable in the aggregate amount of $370 (December 31, 2011: $490) are due from three management directors and three officers of the Company as at March 31, 2012. The loans are non-interest bearing and payable in equal monthly payments over 48 months. The loans were issued to them in connection with costs incurred by them as a result of their relocation.

e) The Company has entered into aircraft transportation agreements with Petroleum Aviation Services S.A.S., a company controlled by a director of the Company. During the three months ended March 31, 2012, the Company paid $3.5 million (2011: $1.4 million) in fees as set out under the transportation agreements. As at March 31, 2012 the Company has accounts payable of $1.3 million to Petroleum Aviation Services S.A.S. (December 31, 2011: $0.2 million).

f) During the three months ended March 31, 2012, the Company paid $27.7 million to ODL (2011: $15 million) for crude oil transport services under the pipeline take or pay agreement, and does not have any outstanding accounts payable to ODL as at March 31, 2012 (December 31, 2011: nil). The Company has accounts receivable of $0.1 from ODL as at March 31, 2012 (December 31, 2011: nil).

g) During the fourth quarter of 2011 the Company, along with the other shareholders of OBC, entered into certain subordinated loan agreements with OBC. Pursuant to the agreement the Company will make loans to OBC for up to $237.3 million, with the principal being repaid in 10 equal semi-annual installments over a five-year term. The loans carry an annual interest rate of 7.32% with semi-annual interest payments. As at March 31, 2012 the balance of loans outstanding to the Company under the agreement is $160.7 million (December 31, 2011: $102.3 million). Interest of $1.9 million was paid on the loans during the three months ended March 31, 2012. In addition, during the first quarter of 2012, OBC paid to the Company $13.4 million related to the reimbursement of a short-term advance provided to OBC during 2011 to fund on-going work commitments.

h) The Company has accounts receivable of $0.6 million as at March 31, 2012 (December 31, 2011: $0.5 million) from Oil Aviation Services, a company controlled by a director of the Company for aircraft transportation expenses.

i) As at March 31, 2012, the Company does not have any outstanding accounts payable (December 31, 2011: $0.4 million) to Helicol with respect to air transportation services and paid during the three months ended March 31, 2012 $0.7 million for this service (2011: nil). Helicol is controlled by a director of the Company.

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

In accordance with National Instrument 52-109 ("NI 52-102") of the Canadian Securities Administrators ("CSA"), quarterly the Company issues a "Certification of Interim Filings" ("Certification"). The Certification requires certifying officers to state that they are responsible for establishing and maintaining disclosure controls and procedures ("DC&P") and ICFR.

The Certification requires certifying officers to state that they designed DC&P, or caused it to be designed under their supervision, to provide reasonable assurance that: (i) material information relating to the Company is made known to the certifying officers by others; (ii) information required to be disclosed by the Company in reports filed with, or submitted to, securities regulatory authorities is recorded, processed, summarized and reported within the time periods specified under Canadian securities legislation. In addition, the Certification requires certifying officers to state that they have designed ICFR, or caused it to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes.
The Company´s internal audit department provides support to the Board of Directors, Audit Committee, and management, and contributes to the continuous improvement strategies of the organization. The corporate audit process provides reasonable assurance over the:

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

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

- Regulatory compliance: Some of the activities included the review and update of the governance programs which included the Business Code of Ethics and Corruption of Foreign Public Officials Act ("CFPOA"), anti-money laundering, and data security.
- Price and exchange rate volatility: The audit review was focused on hedging process and strategies, improving the automated environment to gain greater control of approval and processing.
- Potential increased fraud risk: Audit reviews were performed to reduce this risk and included employee fraud awareness training to help maintaining fraud-resistance and fraud risk assessment within key areas. The results were used to prioritize fraud detection efforts toward key current fraud risks, and review of segregation of duties controls and other fraud controls.
- Data security and privacy protection: The audit review was focused on the implementation of tools to protect the access to the network and the implementation of application security, the use of tools to continuous auditing and monitoring, and the strengthening of the IT control environment in accordance with the standards.
- Labor relations: The audit reviewed the compliance with labor regulations by contractors and service providers to strengthen relationship with communities and workers.

As well, Corporate Audit evaluated the effectiveness of internal controls, encompassed within the requirements of NI 52-109, over the design and operating effectiveness of the ICFR. During this quarter an evaluation was performed on operating effectiveness of the ICFR for 186 controls over 32 processes.

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

  - Contracting bidding procedures
  - Warehouse management
  - Project management commissioning
  - Related parties identification and reporting
  - Business Continuity Plan.

13. Outlook

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

Highlights of the 2012 program include:

- Expected production growth of 15-35% against 86 Mboe/d net produced in 2011, largely driven by increased production in the Quifa, Sabanero and Rubiales heavy oil fields. Essentially all the expected production growth will be oil.

- Total capital expenditures of $1.2 billion, a small increase over 2011, with exploration accounting for approximately 30% of the total budget. The capital program is expected to be entirely funded from internally generated funds and cash on hand in an expected oil price environment between $80 - $90 WTI.

- Exploration expenditures of $340 million, a similar level to 2011, drilling approximately 60 gross wells (32 net) and seismic data acquisition. Significant exploration and appraisal drilling is planned for the Quifa North, Sabanero, CPE-6, and CPO-12 heavy oil blocks. In the total drill program, approximately 14 gross (9 net) exploration wells are targeting high impact prospects, including the Company's first well in Peru.

- $285 million drilling a planned 285 gross (150 net) development wells, a significant increase over 2011, with activity driven by development of the Quifa SW field, the Quifa North and Sabanero blocks, and on-going infill drilling at Rubiales/Piriri.

- $560 million facilities expenditure, with approximately 40% directed to Quifa, 30% to Rubiales/Piriri, and the remainder to Sabanero, with provision for advance and early progress on CPE-6

14. Additional Financial Metrics

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

a) Funds Flow

The following table shows the reconciliation of funds flow from operations to cash flow from operating activities for the three month periods ended March 31, 2012 and 2011:

	Three Months Ended March 31	
(in thousands of US$)	**2012**	**2011**
Cash flow from operating activities	$ 576,099	$ 319,803
Changes in non-cash working capital	183,635	53,096
Funds flow from operations	**392,464**	**266,707**

b) EBITDA

A reconciliation of Net Earnings (Loss) to EBITDA follows:

	Three Months Ended March 31	
(in thousands of US$)	**2012**	**2011**
Net earnings	**$ 258,345**	**$ (69,593)**
Adjustments to net earnings		
Income taxes expense	59,370	49,374
Foreign exchange loss (gain)	11,949	(3,953)
Finance cost	20,581	23,149
Loss (gain) on risk management contracts	(7,920)	92,634
Loss (gain) from equity investment	(2,757)	3,388
Other expense (income)	1,481	3,335
Share-based compensation	30,394	46,687
Equity tax	-	68,446
Depletion, depreciation and amortization	166,748	149,060
EBITDA	**538,191**	**362,527**

c) Adjusted Earnings

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

15. Sustainability Policies

The Company has established guidelines and management systems to comply with the laws and regulations of Colombia and other countries in which it operates, and to ensure that sustainable development is one of the Company's priorities. In the past, the Company has engaged with various stakeholders to ensure that as the Company grows, its consideration for the environment, its employees and other stakeholders also continues. The Company devotes significant time and resources to achieve its environmental and safety performance goals. The Company has a full-time work force responsible for all matters affecting the environment and local communities. The Company has instituted social programs specific to the areas in which it operates, which are carried out by employees or staff in the operating areas. The Company continuously monitors the areas where it operates to determine each community's needs so as to formulate the appropriate programs. The Company is also involved in the provision of educational and health supplies, the building of schools, the funding of hospitals, and the sponsorship of other local, cultural, and sporting events.

In June 2011, the Company announced its support for the Extractive Industries Transparency Initiative (the "EITI"). The EITI is an international non-profit organization formed in 2002 at the World Summit for Sustainable Development in South Africa. The EITI supports improved governance in resource-rich countries through the verification and full publication of company payments and government revenues from oil, gas and mining. The EITI standards are implemented by governments with an international multi-stakeholder structure at the core of the initiative. Currently, more than fifty of the largest oil, gas and mining companies have chosen to become EITI supporting companies. The EITI's initiatives aim for good governance so that the exploitation of resources can generate revenues to foster growth and reduce poverty.

Pacific Rubiales was the first company in Colombia to implement the EITI standards and is committed to taking a leading role in the implementation of EITI in Colombia by collaborating with all stakeholders within the EITI. In Canada, which is an EITI supporting country, and Peru and Guatemala, which are EITI candidate countries, Pacific Rubiales is committed to actively supporting EITI processes.

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

In 2012, the Board of Directors appointed a Sustainability Committee to assist the Board of Directors in carrying out the Company's corporate sustainability policies, including environmental, social, health, safety and ethical matters. This Committee is responsible for advising the Board of Directors, committees of the Board of Directors and executive management on such matters.

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

16. Legal Notice – Forward-Looking Information and Statements

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

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

17. Risks and Uncertainties

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

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

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

18. Advisories

Finding Costs

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

Boe Conversion

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

19. Abbreviations

The following list of abbreviations is used in this document

1P	Proved reserves (also known as P90).
2P	Proved reserves + Probable reserves.
3P	Proved reserves + Probable reserves + Possible reserves.
Bbl	Barrels
bbl/d	Barrels per day
Bcf	Billion cubic feet
boe	Barrels of oil equivalent
boe/d	Barrels of oil equivalent per day
Btu	British thermal units
Bwpd	Barrels of water per day
ESP	Electro-Submersible Pump
km	Kilometers
Mbbl	thousand barrels include millions MMbbl
Mboe	thousand barrels of oil equivalent include millions (MMboe)
Mcf/d	thousand cubic feet per day
MMcf/d	Million cubic feet per day
Mcf	thousand cubic feet
MD	Measured depth
OOIP	Original oil in place
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
Tcf	trillion cubic feet
TD	Total depth
TVDSS	True vertical depth below sea level
WTI	West Texas Intermediate index