FINAL TRANSCRIPT

Pacific Rubiales Energy Corp.

First Quarter Financial Results

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PRESENTATION

Operator

Good morning. My name is Matthew (phon), and I will be your conference facilitator today. At this time, I would like to welcome everyone to the Pacific Rubiales Energy First Quarter 2013 Results Conference Call.

This call is scheduled for 90 minutes. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer period. If you would like to ask a question during this time, please press *, followed by the number 1 on your telephone keypad.

This call contains forward-looking statements, which reflect the current expectations or beliefs of the Company based on information currently available to the Company. Forward-looking statements are subject to a number of risks and uncertainties that may cause the actual results of the Company to differ materially from those discussed in the forward-looking statements.

Factors that could cause actual results or events to differ materially from current expectations are disclosed under the heading Risk Factors, and elsewhere in the Company's Annual Information Form dated March 14, 2012. Any forward-looking statement speaks only as of the date on which it is made, and the Company disclaims any intent or obligation to update any forward-looking statement.

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

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

Good morning, everyone. We're very pleased to announce the results of the first quarter of this year. And you will see some record figures for production, revenues, EBITDA, and some other financial figures. But probably more important than that is that we have right now harvesting some of the initiatives that we had for reduction in costs and also for diversifying our production in other countries.

For the operation and the financial highlights, we'll reach 128,000 barrels per day average for the net production after royalties in the first quarter, and that's a growth 37 percent if you compare that to the first quarter of 2012, but also a 19 percent, a very solid 19 percent over the fourth quarter of 2012. So it means 30,000 barrels from the first quarter and 20,000 barrels from the fourth quarter, so we have increased an average of 20,000 barrels over the fourth quarter of last year.

We have a very important increase and stronger earnings of $125 billion. That's a 35 percent increase on year on year. We have a record year for EBITDA. That's 695 million, very close to $700 million, and that is a 28 percent increase over the year to year, and 55 percent increase—55 percent of the total revenues.

Cash flow from operation a very strong 623 million. We have also a very strong combined netback of very close to $61 per barrel of oil equivalent. Once again, that is very important. And as you know, the concern that we have with the increase in cost, we have a reduction of over $4 per barrel of oil equivalent against the fourth quarter of 2012. And we have also certified 4.3 billion barrels of resources. And as you all know, we have the submission for $1 billion of senior unsecured notes at a rate of 5.125 that are maturing in 2023.

The first quarter the market was very volatile. Actually, the WTI it stayed in the lower 90s, higher 80s during the quarter. But the Brent went down from very close to $120 to around $100 per barrel and pricing for Asia was—came down from $17, the pricing pressure between Brent and WTI, to around $9.

But we have had very good premiums in this quarter. You can see that for Castilla we have $8.2 premium average for the quarter and for Vasconia, very close to $12 premium over WTI for Vasconia, 8.2 for Castilla and 12 for Vasconia.

The market, we have seen a difference. We used to have one-third to Asia, one-third to Europe, and one-third to the US. During this quarter, our sales were mainly to the US, 53 percent went to the US and 11 percent to Europe, so it's more or less two-thirds between the US and Europe. And the rest went to Asia and Latin America. Another thing that is important is we had record sales and very close to 13 million barrels during the quarter, and our inventories were very low at 1.1 million barrels. So we had an excellent quarter in the sales of oil.

One thing I wanted to show you is the production growth profile of the Company. You can see here for the fourth quarter from the first quarter of 2012 to the fourth quarter and by quarter, and then compare it to the first quarter of this year. You can see how our production has run up from 94,000 barrels average to 128,000 barrels net after royalty. But one thing that you can see also that we had a very important increase of around 18,000 to 20,000 barrels, I'm sorry, of heavy oil. But we also had a very important increase in light oil, about 10,000 barrels per day. And that's due to the acquisitions that we have last year of PetroMagdalena and C&C. This is the first time that we consolidate C&C, and there was also 128,000 barrels, including 12,000 barrels of oil equivalent of natural gas.

If we see the financial performance through last year and this quarter, you'll see that the revenues were always very strong, going from 932 in the first quarter of the last year to a record quarter this quarter of 1.25 billion this quarter. We also can see that the EBITDA going from 542 to a record of very close to 700 million this quarter.

We have always had a very strong cash flow from operations, with the exception of the second quarter of last year, but that's due to the paying of income taxes. And the net income, what I'm very glad is that we can see that we have reversed the tendency that we have in net income, and now we're picking up again the net income.

The reason for the net income and the difference that you see higher EBITDA and a lower net income is mainly to DD&A and income tax provisions. You can see here in this graph, and it's a very interesting graph, where the cash cost appears to 81 percent of the cost and the noncash cost only 19 percent. Now you can see that for accelerated depreciation and some income tax provisions, right now the noncash cost is almost 33 percent of our cost.

Carlos Perez, our CFO, is going to give you more detail on that because this is a trend that we see with the DD&A, and that's mainly to the accelerated depreciation that we have in Rubiales.

Operational netbacks. You see that we had a trend in the order of 63 to 66 during the year, with exception of the first quarter where we have a 78, but that was due for very high oil prices, almost $11 per barrel more than the rest of the year. And also in the fourth quarter of last year where we had a provision for the PAP arbitration that was net over $9 per barrel, and that's why we have this netbacks of $47.

But you can see also the cost, the total cost, and you can see that the total cost went from 32 to 37; then it went up to 43 without the PAP, but now again we have it in the order of $38. So we have reduced the total cost in $4 with the initiatives that we're taking to reduce costs.

These initiatives are very important, and you'll see the harvest of the fruits of these initiatives during the year. One of the things, the cost of electricity; in here we have a line, a power line that belongs 100 percent to Pacific Rubiales that will take hydroelectricity to the Rubiales and the Quifa field.

As you know, in here we will have a very important saving in the cost of electricity. In the case when we use for power generation using diesel, the saving will be 83 percent. So the cost of electricity there will be only 17 percent of the actual cost that we have when we use diesel, and when we use in there EPP Rubiales crude that will be half of the cost that we have right now for the IPP.

Another thing, another concern that we have, as you know, and heavy oil in the Llanos here we have high well costs in the area of more than 90 percent. And while the important cost was handling and the disposal of water, now we're putting some reverse osmosis plants and we'll be using that water for irrigation. And we'll be cutting the cost of the water disposal in half from in the order of $0.35 per barrel of water to around $0.17 per barrel of water.

Another reduction is using the maximum of pipeline transportation. For that we have increased the capacity of ODL to 340,000 barrels per day. We have also finished the diluent facility in Cusiana. With that we'll be able to pump from the Rubiales to Cusiana at 16 degrees API, saving cost of transportation of diluent to Rubiales. And then we will complete the dilution to a 10 percent in the area of Cusiana using our own crudes. With that, we would have a very important reduction not only in dilution costs, but also in transportation costs.

Another thing very important for the Company is, as you know, we have 33 percent of the Bicentenario Pipeline. With that we will have 40,000 barrels capacity for the Company. And with that we'll be able to accommodate our light crudes and also some other crudes, reducing natural gasoline almost to zero. And if we reduce the natural gasoline to zero for sure then the dilution costs will become zero, and that's nowadays more or less one-third of our total cost. So it will be a huge reduction that we will have when we can implement all these activities to reduce the dilution costs.

Another thing, as you know, preemptiveness is the name of the game for Pacific Rubiales. We have seen that the next bottleneck will be the port level. Now Coveñas nowadays is kind of crowded, but it will continue getting more and more crowded when the Colombia production keeps ramping up. And for that we have a new port that is Puerto Bahia, where Pacific Rubiales has 56 percent of that new port. And that is going to be a very important port with more than 3.3 million barrels of storage.

We will be building a new pipeline between Coveñas and Cartagena, Puerto Bahia, and that will be a joint venture of Ecopetrol and Pacific Rubiales 50/50. So with that we'll be able also to avoid any problems with port capacity in the future.

The idea that Pacific Rubiales has is to get all these assets that are in the order of $2 billion, and that's the 35 percent of ODL, that's 33 percent of OBC, 100 percent of the transmission line, 50 percent of Olecar, the percentage that will be in the order of 55 percent of Puerto Bahia, and a spinoff of those assets to an affiliate of Pacific Rubiales, and we're studying that. And in the future we'll be doing an IPO with that affiliate.

The idea for that is to monetize some part of that. We will stay in the order of 40 percent, let's say. And so we will keep the operation in control of the other affiliate, but that we'll be able then to monetize, plus as you know the market is giving better multiples for companies that have a very regular cash flow. And here we will reduce the volatility because of all these pipelines and transmission lines have take-or-pays—and long-term take-or-pays.

Another very important thing that is happening in the Company is STAR, and STAR is doing very well. It's much better than we had it. We have seen in some of the wells that have reacted a very important increase in production and also a reduction in water cut.

In this graph in the lower-left corner, you can see the far front is progressing very well. And we have the more important thing of that is the S from the STAR that is synchronization. We have been able to maneuver the fire front, and we're very glad with the results of that.

We think that we'll be able to give to the market results sooner than we expected. We have already seen a very important increase in recovery, but then that's something that we will have to do with—in the planning engineers.

Now I'm going to pass it to José Francisco Arata that's going to be talking about exploration.

José Francisco Arata — President, Pacific Rubiales Energy Corp.

Good morning to everybody. As you know, we announced it during the first quarter of this year the certification of the prospective resources, which grow to 4.3 billion barrels of oil equivalent from the 2.8 billion barrels that we certified in 2011. This represents a 55 percent increase. However, management numbers are slightly higher over 7.5 billion barrels of oil equivalent.

These resources have been estimated in 74 prospects and 49 leads, which are diversified across countries and geological risk. And 46 percent of these potential prospective resources are located in Colombia, and about 41 percent are located in Peru.

Now regarding the 2013 exploration plan, the Company has a very aggressive plan to evaluate 1.05 billion barrels of oil equivalent on 35 prospective resources with an investment of—capital expenditure investment of approximately $500 million. Approximately 30 percent of the wells are high impact and high risk Big E, as you're going to see during this presentation. And I would like to mention that during the first quarter we drilled eight exploratory wells, of which five were successful, and I would like to show some of these successful wells.

In Cubiro, for instance, in the Llanos Basin of Colombia, we drilled the Copa D-1, and found a total net pay of 27 feet with an initial production of 900 barrels per day of 40 API oil. The second well of this block was the Copa A Norte-1 well, which showed the presence of 25 feet of net pay with 770 barrels or 42 API oil. Remember that this light oil is very important for us for the strategy of using the light oil as a diluent for our heavy crude production.

In the other block that we have in the Llanos Basin in the Arrendajo Block we drilled the Yaguazo-1 exploration well, which found 14 feet of net pay with an initial production of 400 barrels per day. And a partial campaign is being prepared after testing the Yaguazo-1 well, and we are also planning to drill a second exploratory well this year in the Mirla Blanca prospect located southwest of the Yaguazo discovery.

Regarding the lower Magdalena Basin in the Guama Block, we drilled the Manamo-1X exploration well, which found 251 feet of net pay of 54 API condensate of natural gas reach. So the Capure-1X well was spudded, and the well intercepted approximately 23 feet of gas condensate pay. And the next activities in this block include finishing drilling this Capure-1 well and test the well and carry on extended production tests also over the four wells that we drill in this block.

I would like to point out that the exploration of this block has been adding important natural gas reserves, which further support our small-scale LNG project, which is undergoing and we expect to get into full operation with this project during the second half of 2014.

Now let's talk about the high-impact exploration wells and let's go to Peru. In Peru, on April 16th, we spudded the Yahuish-1X exploration well. This is targeting Paleozoic, Copacabana, and Ene (phon) formation as its primary objectives, and the formation of Agua Caliente and Cushabatay formation of the Cretaceous as a secondary target.

We had already intercepted the Cretaceous formation, and indications from the drilling are suggesting that we have an active petroleum system within the Cushabatay formation. This is very, very encouraging information, and we keep drilling in this well. We presently are at 3,130 feet depth, and presently entering into the Jurassic formation. So please keep an eye on this well because during the following weeks we plan to reach DD, run the locks, and then have a full evaluation for this well.

Continuous with the high impact exploration, moving to Brazil, in these blocks five blocks where we have 30 percent working interest with our partner, Karoon, as you know we announced during the first quarter the completion of the drilling of the Kangaroo-1X well located in the S-M-1101 block. And this well encountered 58 feet of net oil pay.

A second well, the Emu-1X, was drilled, which shows in the Eocene section and gas shales in the Santonian section in the Cretaceous, down flank of structures with remain in at deportation (phon).

And we are presently drilling the third exploration well, the Bilby-1 well, where an oil discovery was recently announced with an interbedded sand and shale intervals of late Cretaceous age, confirming from sampling over 200 metre gross section.

However, we are presently completing the analysis and interpretation of the wireline logs and the fluid and pressure samples that we collected in this section. And soon we will announce these results. The drilling has resumed, planning to reach the lower Cretaceous target, the primary target, at a total depth of 15,050 feet.

Now moving back to Colombia. In the CPE-6 Block, we complete the acquisition of 366 square kilometres of 3D seismic in the northern part of the block. And we are presently interpreting these 3D seismic in order to have all necessary information for the drilling campaign that is going to start in the second half as soon as we receive the environmental licence to resume the drilling in this block.

In the Sabanero Block, the commerciality of the field was declared during the first quarter, and two wells are further planned for the second half of this year.

Also I would like to mention that aeromagnetic and aerogravity surveys were initiated in the COR-15 and COR-24 blocks. Also processing and interpretation of the recently acquired 2D, and

3D seismic data in the Muisca and COR-15 and Portofino blocks is ongoing. And we expect to have the results (unintelligible) to identify future exploration wells in these locations.

Finally, I would like to mention that in Guatemala we are ready to start drilling our first exploratory well at the beginning of the third quarter.

Now I will give the word to our CFO, Carlos Perez, which will talk to you about the financial results.

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

Thank you, José Francisco, and good morning to everyone. I would like to start—well actually you have seen during this presentation we have excellent results this quarter. And there is no less exception with profit and loss. You can see a summary of the profit and loss here. Departing from the revenues, which were at 1.3 billion, we are reaching $121 million in net income.

Going to the details of these financial statements, we would like to mention that regarding the increase in good prospects of the three months ended in March 31, 2012, we have an increase of $326 million, attributable mainly to the increase in the volume of more—of 4 million barrels for the comparison of the two periods.

And despite the lower price of $6, we had good offset totally to have increase of $327 million. That means that we are less vulnerable to the market swings, and could be in a different percent, and strengthened in our financials and in our balance sheet.

Going to the details of some of the most important items of the financials, I would like to go to the operating costs. As Ronald mentioned before, this has been one of our great concerns during the last months. It's good to remember that we have absorbed two companies in the last nine months, and we've been able to control even the operating costs and the G&A during this period.

Regarding specifically to the operating cost, we have a total operating cost per barrel of $38.72 per barrel for crude oil. That compares with the $42.89 of the fourth quarter for a reduction of $4.17 mentioned before by Ronald.

The same behaviour with the natural gas; we have a reduction of close to $1. This is attributable mainly to the optimization of water treatment. We are working on that very hard in the field. And the internal transportation of fluids, there was a reduction there. We were negotiating all the tariffs with the providers, the suppliers of those services as well, getting important favours (phon) and less maintenance on roads and general maintenance on equipment as well.

This is part of our comprehensive program we are deploying now, as Ronald mentioned. So we're expecting to have better results on this area in the future in coming months.

Regarding the transportation, we are still transporting a significant volume through trucks. In this period in the first quarter, we transported approximately 23,000 barrels per day. As you know, after completing the OBC pipeline, we will be able to reduce these transportation costs significantly by using those facilities for getting access to the terminals.

Going to the G&A. We can see here in the case of G&A we had a 5.7 percent of G&A comparing with the revenues. We are keeping control, as I mentioned before, on this line and it compares favourably regarding the fourth quarter and the first quarter of last year. Again, it's good to remember that we had merged two companies in nine months without any important increase in G&A. In fact, we reduced it.

Going now to the details of DD&A. This is one of the most important lines in the financial statements. Of course, this is a noncash item. And of course the tax shield of the Company is in an important way it helps to generate cash and of course EBITDA as well. The most important impact can be seen in the Rubiales field. We had a DD&A of close—of $180 million in the case of Rubiales.

And the second really important is Quifa, and now we are adding also this quarter, and this is very important, the C&C together with the PMD as well, represents an important amount within these important lines of the financial statements. It's important to mention that we are depreciating by reduction units, but in the case of Rubiales, the horizon of the remaining reserves is four years, so that is one of the reasons we are having more and more DD&A in the Rubiales field. Finally, after deducting all these costs, well we have the result of $121 million.

And going to our main indicators, I would like to stress some important points. One is in the case of debt to EBITDA on an annualized basis, after the bond issue of March, at the end of March, the bond of 2023, we'll still have an indicator less than 1, which is very good. This is gross, and we're expecting to reduce this to 1.7 gross and less of 1.5 net of cash I mean.

And in the case of EBITDA to finance cost and realized (phon), close to 19 times. This is very important, and this is one of the reasons this is a strong balance sheet that the debt market has been very positive regarding the bond recently issued. And now the deal is 4.25 and three-quarters, sorry, four and three-quarters, 4.75, which compares very favourably with the original coupon of 5 and 1/8. So the debt market is giving us an important premium on this important issue we did recently.

The rest of the indicators, I think, speak by themselves; very good and the net working capital $394 million, the current assets to current liabilities 1.21; the funds flow from operations, this is a record for the Company again, $506 million; and the rest of indicators were mentioned before.

But finally, I have to stress this strong balance sheet, which will allow us to continue to grow, to support the growth of the Company, the operations, and the future CapEx for continuing with this important trend.

So thank you very much, and we are ready for the Q&A session now.

Q&A

Operator

This is the conference Operator. At this time, I would like to remind everyone that due to the large volume of callers, we would ask that you keep your questions brief and only ask one question maximum to allow others a chance to ask a question.

You may ask a question or make a comment by pressing *, followed by the 1 on your telephone keypad. Again, if you would like to ask a question, please press *, and the number 1. We'll pause for a moment to compile the Q&A roster.

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

Frank McGann — Bank of America

Hi. Good morning. Just looking at the rest of this year, how should we think of production trends overall for the portfolio? Particularly looking at the Rubiales and Quifa, fields how much water processing or disposal capacity would you need to be able to maintain production or potentially growth production? And if you can grow production in those fields from the first quarter levels, what would you target as you go towards year-end this year and in 2014?

Ronald Pantin

Hi, Frank. Yes. We see Rubiales growing to—right now Rubiales is 210,000 barrels per day. We expect to take it very close to 220,000 barrels per day by the end of the year. In the case of Cajúa, it's now producing very close to 6,000 barrels per day. We expect to finish the year with over 10,000 barrels per day.

We also have in the case of the PetroMagdalena fields, we have been increasing our production significantly. You have seen that when we bought the company our net production was in the order of less than 2,500 barrels per day. Now we are in the order of 6,000 barrels per day; going now probably to around net to around 8,000 to 9,000 barrels per day.

Then we have CPE-6, and CPE-6 we're ready to start ramping up production when we have the licence, the E&P environmental licence. And we are pre-manufacturing all the facilities. We're ready to go, and we expect to have all depending when we have the environmental licence we'll be able to ramp up production very quickly.

Also we will see an additional production coming from Peru from the Z-1 Block. We already have the CX-15 platform in place. We had a problem with some anchors, but now they're ready and we will start drilling soon.

So we are still keeping our guidance, and we're at the top of our guidance that is at 128, 30 percent more than last year. But when we have all these things ready we will give you a new guidance. For sure that new guidance will have some additional problems.

Frank McGann

And to get to the numbers you mentioned at year-end for Rubiales and Cajúa, can you do that without any additional processing capacity?

Ronald Pantin

Yes. We can do it. Remember that in the case of Cajúa it's an oil field that is a new oil field that is separated from Quifa Southwest and also from Rubiales. And we have enough capacity right now to increase the production in Rubiales to, as I mentioned, to close to 220,000 barrels for water disposal of the 220,000 barrels that we need.

So really we're not right now, we don't have a restriction on water like we had last year.

Frank McGann

Okay. Thank you very much.

Operator

Your next question comes from the line of George Toriola with UBS. Your line is open.

George Toriola — UBS

Thanks. Morning, guys. My question really is around the PAP that you talk about, the $4.17 operating cost reduction that's due to PAP. Can you please explain what that is exactly?

Ronald Pantin

Okay. We have, remember that the day that we were announcing the fourth quarter results and the yearly results we have an arbitration decision where they say that the PAP should be calculated in the 100 percent of this year and not in our share. With that, we have to make a provision of around $96 million. And that means around $8.1 per barrel, $9.1 per barrel of this. We'll be paying that in cash, so you don't have to worry about future losses in production. And we are already paying the PAP the additional volumes that in the order of 2,500 barrels per day.

But the good news is that since we have incremented our gross production, that has not impacted the Company.

Now we said before we were producing before we have this resolution with the PAP, we had 128,000 barrels net for the Company. And now that we're paying the additional incremental production we're still having 128,000 because we have increased our production.

So we have already covered the additional production for the future and for the past we have already provisioned, as I mentioned before, $96 million.

George Toriola

Okay. But maybe just to be clear, so that difference between the 100 percent and your interest in the field, is that recorded as operating costs or that’s recorded as royalties? Where does that show up?

Ronald Pantin

That goes as, in the past, it will be a provision, and it was treated as a cost and that was an over-lift. In the future it will be just shared. We are losing share.

George Toriola

Okay. So going into the future, so this quarter, Q2 for example, so essentially what you're saying is in Q1 that was a one-time event?

Ronald Pantin

Yeah. It was a one-time event. And I also told you that we are now giving Ecopetrol a higher working interest, and that has not affected the Company because I mean we have the same 128,000 barrels net because we have increased our daily gross production. And actually that was around 1.7 percent of our net production.

And we increased our net production, so we will keep—in the second quarter we will keep exactly the same production that we had in the first quarter. Actually we are growing production.

George Toriola

Okay. Thanks. And maybe just to—maybe just a quick follow-up. Can you just—in Quifa and Rubiales, what is the water cost today in each of those fields and what is your total water handling capacity today?

Ronald Pantin

Right now we have right now around 92 percent water cut, and we are actually reducing that because we have an intensive drilling campaign. And when we do drill a new well you have an initial water cut in the order of 30 percent. So we have been able to reduce the water amounts in around 500,000 barrels per day using that strategy.

So we'll have in total right now, we have over 2.5 million barrels of capacity, disposition capacity of water. And by the end of the year we would have—I mean for the fourth quarter of this year we would have the reserve osmosis plant, and with that we'll be able to use the water for irrigation, and that is almost (unintelligible). We won't have any problem to use all the water in that.

And that will be initially, the water, it will be 1 million barrels more of capacity with these reverse osmosis plants.

George Toriola

Okay. Great. Thank you very much.

Ronald Pantin

Okay.

Operator

Your next question comes from the line of Matt Portillo with Tudor, Pickering & Holt. Your line is open.

Matt Portillo — Tudor, Pickering, Holt & Co

Good morning. Just a quick question for me on the midstream/downstream spend. I was curious if you could give us an idea of the rough EBITDA generation you guys see in those assets? And you mentioned potentially $2 billion in value. I was curious if there's any debt associated with those assets?

Ronald Pantin

At this moment we are not ready to give you more details on that, but soon. This is a project that we're working with investment bankers, and it’s very close to give you all the details soon. We'll be announcing all the details. First there will be a private placement, and then afterwards will be an IPO for that.

Matt Portillo

Great. And then just a quick follow-up on your share repurchase and dividend. You instituted a new share repurchase plan. Should we expect given where your equity is trading at today that we should start to see share repurchases during this quarter? And then secondly, you mentioned in the press release that you're looking at potentially increasing the dividend. I was curious if you could give us some colour on where you potentially could take your dividend yield to over time to attract additional investment?

Ronald Pantin

Right now we're preparing that for our Board of Directors. And what we have is the two options open, either buybacks or increasing the dividend. But that's something or both, but we'll be—we're looking to that right now—we're going to propose to our Board what is the best strategy.

Actually that doesn't mean when we went with the buyback program that you see, that doesn't mean that we are going to go for 10 percent, as some people have mentioned. It's just up to, but it never will be 10 percent.

Matt Portillo

And then just a final question for me; on your Papua New Guinea stake I think you mentioned at the Analyst Day that may be something you may look to divest. I was wondering if you could give us any update on where that stands and how much capital you've invested to date in acquiring that asset.

José Francisco Arata

Well, as you know, we had 110 percent working interest on that asset, and we plan for this year to drill an appraisal well on the Triceratops structure. And remember that we had the discovery last year, and we plan with the appraisal well to get the full value and full estimation of the reserves that are associated with the Triceratops.

The investment for the well is going to be in the order of $50 million, and that adds to what we have already invested on that, which is in the order of 130 million.

Matt Portillo

And is that an asset you're looking at currently divesting?

José Francisco Arata

No. We just with our partners, which is the operator InterOil, we want to create more value on this asset in order to see what's going to be the further step on this. But of course, this is a huge, huge discovery, which I don't think we're going to be developing that discovery. But most likely we're going to be negotiating according to the strategy that our major partner who owns the majority of the portion of the block is going to follow. But most likely we're going to look to see a major partner coming in to develop the block.

Matt Portillo

Thank you.

Operator

Your next question comes from the line of Nathan Piper with RBC Capital Markets. Your line is open.

Nathan Piper — RBC Capital Markets

Thank you. Good morning, and given I'm limited to one question, despite Matt's best efforts there, I wondered if I could focus on the DD&A that you've increased quite significantly. Typically when DD&A goes up as fast as this, and I'm thinking about some of the acquisitions you've done as much as the Rubiales field, it indicates your reserves might well be going down faster. I can understand that with Rubiales, given you aren't quite reaching the production levels you want to, but can you explain why the DD&A charge has more than doubled for the two acquisitions you did?

Carlos Perez

Well, there are two factors. One of the factors is we're increasing production in Rubiales field and in the (unintelligible). That is one of the elements of this increase. And the other one is you see the total reserves of the Rubiales field at the end of last year, that volume has to be produced in let's say four years. So now we—and we have to recover that through the tax shield. So in some way we are consolidating the total assets in the books, the accounting books to go to zero in the case of the property, plant, and equipment. So this is an asset that we will continue in coming years

Nathan Piper

Yeah. But I guess that makes sense because Rubiales has got a fixed date that it ends, but why have your DD&A costs gone up by more than—well, more than double for the acquisitions you've done? Is your sense on the reserves different now to when you acquired them in order to accelerate the DD&A in the way that you seem to be doing?

Ronald Pantin

Nathan, the thing is that all the new assets that we have in Rubiales we would have to depreciate that in three years. Remember, that the contract ends in June of 2016, and accounting rules, IFRS, we have to depreciate the whole assets of the Rubiales field from now to June of 2016. So the increase that you see is some addition of assets that have to be depreciated in a very short time.

Nathan Piper

Sorry. I understand why Rubiales has to be depreciated so quickly. That's the same reason why the C&C Energia, the PMD assets are being depreciated as quickly too?

Carlos Perez

Well, there are two new assets, C&C and PetroMagdalena.

Nathan Piper

Yeah.

Carlos Perez

And the accounting rules for that is to use the P1, the developed and undeveloped P1. And now we are exploring in those areas. It is likely that in the future we are going to incorporate—we are going to incorporate exploring them and we have 2P as well. But now we are using the P1.

If you see the P1, it has a horizon in those assets of about five years. Now we are developing the P2 of those assets in those companies, and we are exploring in new areas in—in new areas of those companies. So we are expecting in the future to reduce the unitary costs of DD&A for those companies, but by this quarter we are using the P1, developed and undeveloped.

Nathan Piper

Okay. Well, just to finish off then, should we assume this—roughly this level of DD&A charge for the rest of 2013?

Carlos Perez

For this year, well, it depends on the case of C&C and PMD, see if we are able to incorporate more reserves from a 2P to 1P; we will be able to reduce the rate, the rate in those cases. And the same in Quifa; we have to remember now that we are developing and the significant volume of 2P. So it could change in the future, but it is important to mention that this a tax shield.

It is generating cash because we are deducting those expenses as cash obviously. We are deducting those expenses from—in our tax returns.

Nathan Piper

And indeed, that's why I'm trying to make sure I get the right number, but no, I understand. And may I just switch tacts, just very quickly. When do you expect to complete the Yahuish-1 well in onshore Peru?

José Francisco Arata

Hi, Nathan.

Nathan Piper

Hi.

José Francisco Arata

Presently, as we mentioned, we're drilling the Jurassic formation, and all is going to depend whether or not we're going to lower and cement an intermediate casing (phon). But total depth is planning to be reached within three to four weeks.

Nathan Piper

Thank you very much.

Operator

Your next question comes from the line of Paula Kovarsky with Itaú BBA. Your line is open.

Paula Kovarsky — Itaú BBA

Hi, guys. Good morning. Two questions here, a bit of a follow-up on the dividend and the share buyback program, and also I mean you've performed a pretty aggressive program of acquisitions. And now—and even, I mean if you could perhaps just for a second, can you provide us with the strategic reasoning behind joining the private placement of Pacific Coal? I understand this is not material, but I would just like to understand why. But the question is is fundamentally trying to understand the Company's view going forward and what, I mean in your view, what's the ideal balance between continue making acquisitions or the buyback and increasing dividends? And in the end, how exactly do you play—do you want to place a Pacific's story as a real story of increasing assets or you want to turn this really into an M&A story? And I think this something that is of concern for investors, so it would be good to hear the Company's own views on that.

And the second question on the cost savings. You mentioned a reduction of $4 per barrel. Is this already half of the 8 that you provided as guidance for the cost-cutting program? Or given that you've apparently managed to reduce costs faster than expected, can we expect perhaps more cost reductions and the 1 to 2 potential reduction in diluent costs is also part of that 8, if you could just clarify that?

Ronald Pantin

Okay. Hi, Paula. How are you? Well, yes, the Company is a company that is producing a lot of cash. Actually you see that we had for this first quarter very close to $700 million of EBITDA. We are projecting very close to $3 billion of EBITDA by the end of the year. So that's a very important number. So we have enough money for all our organic growth, and as you know, we have a CapEx budget of $1.7 billion, no problem for that.

And again, we'll be looking into opportunities. For example, if I have an opportunity for light crude to be used as diluent we might take that opportunity if it's accretive for the Company. If it's not, we're not going to do it. Our main focus will be organic growth, and we'll be taking chances only if we see M&A opportunities that make sense for the Company that are very accretive for the Company.

Then on the buybacks and dividend, that's something that we will be taking to the Board, to our Board. We think that we will not jeopardize our growth, either organic growth, nor the acquisitions if we have any for this problem. But we see that we are a company that is generating a lot of cash, and if we have room to return some of that to our investors through buybacks or through increasing in dividends, we will do it. But our main focus will be organic growth. If we have opportunities that are accretive we might go into M&A, and then we would have a policy, a very conservative policy to return value to our shareholders through buybacks or increasing dividends.

In the case of cost reduction, yes, we had a cost reduction of 4. We expect to have a higher cost reduction than what we mentioned of the $8. And that's due mainly to what is happening right now with dilution. We are using now our light crude, and we will have an extra capacity in the pipelines, so we'll be able to reduce all the truck transportation to almost zero. And also the dilution we'll be also reducing that very close to zero.

Right now we will keep this guidance, but it is very good news what we have given today. We have already given you half of what we promised for the year, but we think it's going to be more.

Paula Kovarsky

And just a quick follow-up, Ronald, if I may, back on the acquisitions debate. There is certainly a big difference between relatively small acquisitions of buying companies or just buy oil to improve your diluent costs and things, smaller things in Colombia and big acquisitions outside of the country. So perhaps if you could comment when you talk about organic growth, does that mean the Company will be indeed more focused in the Colombia and Peru part of the business as opposed to making additional big acquisitions outside those areas? Would that be fair?

Ronald Pantin

Well, first of all we have to see. You know that we have this—I'm going to be talking at the end of that of some sort of a flying wheel where we have a very important volume of resources, reserves we have to develop. If, for example, if we find now and we had a discovery now in the Bilby well, and we think it will be an important discovery between Kangaroo and Bilby, then we will need to develop that. So that would mean organic growth in Brazil. And I can say the same thing for (unintelligible) in Peru. So we'll be using—our first focus will be using the money to explore and convert those resources into reserves, and also when we have—find those reserves then to develop that.

So this is a dynamic process, but right now what you will see is that our main focus and that focus is going to be like that will be organic growth. If we have some extra money, and it means small acquisitions, as you mentioned that can give you for example in the case of C&C it's proven that we are bringing that deal in about one year and that kind of thing we can do it. To go for a large corporation, we really don't see it at this moment.

Paula Kovarsky

And just a quick thing; can you comment on the strategic reasoning to join the private placement of Pacific Coal? Which was part of the question.

Ronald Pantin

I'm sorry. We don't have anything with—that's CGX.

Paula Kovarsky

Yeah. The—no, the reason for joining the private placement of Pacific Coal?

Ronald Pantin

I think it's Pacific Power. It's not Pacific Coal. Pacific Power is Proelectrica. We're selling natural gas to Proelectrica at a very good price actually. The price here in Colombia, the official price is around $5, and we're selling to Proelectrica in the order of $8. So this is a—it's really electricity. It's not coal.

What we are doing is increasing a little. Really it's not material. It's something very small. We have actually—we cannot go beyond 25 percent here in Colombia. In Colombia, if you are a producer of natural gas, you cannot be in the electric sector more than 25 percent of those companies. I think we have very close to 25 percent.

Paula Kovarsky

Okay. I'll take the question later. Thank you.

Ronald Pantin

Yeah.

Operator

Your next question comes from the line of Gustavo Gattass with BTG. Your line is open.

Gustavo Gattass — BTG

Hi, guys. I had a number of small follow-up questions, but I'll just ask two very quick ones. First for Carlos, if you could, you didn't touch on what was the others that also saw a very large increase under the D&A slide that you had on Page 37. I was wondering whether you could at least explain what that was all about. And I just wanted to confirm, when you look at the Quifa net production that we saw for the first quarter, is that already adjusted for the post-arbitration PAP?

Carlos Perez

So regarding your first question about the line of others in the details we presented. Well, they are included in some fields, minor fields. That's Cajúa and also you have to remember that we amortize in there now some transportation rights we have in OCENSA. We completed that transaction some years ago, and we paid $190 million, as far as I remember. Now we are amortizing that in the remaining period. These transportation rights are valid until 2016, and we are transporting using those rights approximately more than 60,000 barrels per day with the important benefit in the line of cost of transportation. Those are the most important items. There are other things there, Peru, which is a new asset when comparing with last year as well.

Ronald Pantin

Carlos—Gustavo, can you repeat your question on Cajúa?

Gustavo Gattass

Yes. Yes, I can, but just before I go there, if I could, has there been a change in the rules for the amortization of OCENSA? Or when we look at first quarter ’12, fourth quarter ‘12, and first quarter ‘13, we've seen more or less the same amount of amortization for OCENSA; just a follow-up on that side? And to repeat the question, I just really wanted to double check, Ron, if when I look at the net production that was reported for Quifa by Rubiales in the first quarter press release, if that net production is already adjusted for the arbitration resolution on the PAP? That's what I wanted to check.

Carlos Perez

No. The answer to your question about if we have changed the rule, no; the $190 million we are amortizing according to the same rules, so consistently with the past years. But we are adding new assets, in that line.As I mentioned, Peru and Cajúa, which is producing as well, and some minor Pacific Rubiales fields also. There is an effect as well in these. Some of the assets are exposed to the foreign currency movements, and it has an impact on that as well in this first quarter of 2013.

Gustavo Gattass

Okay. Thanks.

Ronald Pantin

Gustavo, in the case of the PAP for Quifa Southwest, we started I think it was in the mid of the quarter. So we have some part that will be provisioned, and the other part that has already been paid.

And the important thing probably for the market is that our net production has not suffered because we have increased our production over 312,000 barrels per day gross. So we have the same 128 that we have before we were deducting the additional production in PAP.

Gustavo Gattass

Perfect. Thanks.

Operator

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

Diego Usme — Ultrabusátiles

Good morning. Could you clarify me something about water handling costs in Rubiales? I understand your initiative with Agro Cascada and the improvements with the water for irrigation. But we can understand in the short term that it could be improved your water handling costs because if we can see your cost in Rubiales, this is encouraging. I—or we can realize that the effect of Agro Cascada could be in the medium term, not in the short term. So the question is specifically what is your strategy in the short term for the next period to improve the costs in Rubiales?

Ronald Pantin

Okay. As I mentioned before, we have been able to optimize the water cut during the first quarter. It's around 500,000 barrels that we have been able to reduce, and that's through drilling, drilling new wells in the Rubiales area.

And so in our plan we don't see any increase in the water handling cost. Actually, what we'll see is a reduction because we have in some of the injection pads we have converted that to the use of Rubiales field—Rubiales crude as fuel for the power generation in those injector pads. So we really don't see for the rest of the year an increase in water handling costs. Actually, what we see is a—I mean an increase. What we see is a reduction in water handling costs.

Diego Usme

Okay. Thank you. And I couldn’t hear some—I couldn’t hear very well their answers about PAP Quifa in the net production for the first quarter. Could you repeat me about the application of PAP Quifa in the first quarter?

Carlos Perez

Could you repeat the question, please?

Diego Usme

I can't hear so good the answer of the last person about how much was the application of PAP in Quifa in the net production, in the first quarter net production. I want to know what was the effect of that (unintelligible).

Carlos Perez

Well, because the arbitration decision was taken in March, the volume, the additional volume regarding the PAP it was provisioned. We accounted that as a provision. As Ronald mentioned, that volume together with the volume recorded at December 31st will be paid in cash. It didn't affect the volume in the case of Quifa. So we are going to pay that in cash.

From March onwards, we will be delivering the volume, the 2,000 and something barrels per day to Ecopetrol we handle over time.

Diego Usme

Okay. Thank you.

Operator

Your next question comes from the line of Felipe Santos with JPMorgan. Your line is open.

Felipe Santos — JPMorgan

Yes. Two quick questions; I noticed that you're expecting now the licence for CPE-6 for the second half of the year. Could you give us an overview, general review of the process of licensing in Colombia how it's evolving? We thought that this would be better in the first half of this year, but apparently it is still delaying. Could you give another view on that? Thank you.

Ronald Pantin

Yeah. Well, I really feel that they're getting more efficient. Still we have received a lot of licences. As you know, we received the Quifa licence and we have received other licences, but the problem is that we're waiting for the most important one that is CPE-6.

The problem with CPE-6 is that it's not an exploration licence. It's an exploration and production licence. We're expecting that to come anytime, but I'm not going to mention a date because I've done it before, and this is not in my control. But I think that the agency here, the environmental licence agency, have improved a lot here in Colombia.

Felipe Santos

That's great. Thank you.

Operator

Your next question comes from the line of Jamie Somerville with TD Securities. Your line is open.

Jamie Somerville — TD Securities

Hi, Ronald. I'm just intrigued by your comment that you've been able to reduce water production. I think you said because of the new wells, and I think you said 500,000 barrels a day of water production that you've reduced. I understand that you can reduce the average water cut by drilling new lower water cut wells, but truly the only way that you can actually reduce total water production is by potentially shutting in some wells. So is what you're saying that you could be producing more production if you were willing to produce more water?

Ronald Pantin

Yes. Our production capacity at wellhead is much higher than our daily production, and you're right. And so when we have—we have a limit in our facilities, and as well we're going to go up to very close to 220,000 by the end of the year. And yes, we have some wells that have very high water cut that we have optimized.

Jamie Somerville

Okay. Thank you.

Operator

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

Frank McGann

I'm sorry, my question was answered. I tried to take my name on the list, but it didn't work, I guess. Thank you.

Operator

Your next question comes from the line of Ian McQueen with CIBC World Markets. Your line is open.

Ian McQueen — CIBC World Markets

Hi, guys. Just a quick question on CPE-6; obviously your confidence level is extremely high if you're building facilities. Can you just give us a view on what you're building, what you're spending, and what gives you the confidence to do that?

Ronald Pantin

Yes. We're building some field mounted, and we have all the reservoir characteristics, porosity, permeability. We have an aquifer. We have the crude, the (unintelligible) to the crude in Quifa. So we have everything. We haven't tested, but we know that it's going to flow. It's just the Darcy equation, Ian.

Ian McQueen

Can you—just as far as what you're spending and what you're spending it on, can you just give a quick overview?

Ronald Pantin

We're building a facility for around 20,000 barrels gross, and that's going to be a skid mounted.

Ian McQueen

Okay. And that would be basically when you do get your permits, you'll drill your wells. And how will it progress? Will you get testing permits so that you could do long-term tests and produce up to 20,000 barrels? Like what—on a test...

Ronald Pantin

When we have the licence we'll be able to produce. Remember, that is an E&P licence.

Ian McQueen

Right. And you're projecting that you could ramp up to 20,000 relatively quickly?

Ronald Pantin

Well, all depends on when we have the licence. Yes. The idea is 20,000 gross. It all depends on the water cut to be able then to get the—when I mean gross it's not the gross of working interest. It's gross in doing water, total fluid production, and then all depends on the water cut.

Normally you get initially a water cut of 20 percent. It goes in three to four months to 30 percent, and then it jumps up to 70 percent and then goes very slowly to 90 percent.

Ian McQueen

Okay. Sorry, just so I'm clear on that. It's 20,000 barrels a day of total fluid? Or 20,000 barrels a day of oil with fluid handling?

Ronald Pantin

Fluid, fluid.

Ian McQueen

Okay. Okay.

Ronald Pantin

But that's to start. And so when we will have the licence—I expect that it is going to be soon...

Ian McQueen

Yeah.

Ronald Pantin

We'll be moving those facilities, and it's going to take—remember what we did last year, Ian? It took us only nine months to go from 5,000 to 35,000 in Quifa...

Ian McQueen

Yeah.

Ronald Pantin

Because we did exactly the same thing.

Ian McQueen

If it works, I'm very confident you guys can ramp it up quickly. It's...

Ronald Pantin

Yeah.

Ian McQueen

The licence that's the limiting factor.

Ronald Pantin

Yeah.

Ian McQueen

Thanks.

Ronald Pantin

Yeah. And Carlos is saying, yeah, for sure in parallel we'll be building the permanent facilities to continue ramping up in CPE-6.

Ian McQueen

Okay. That's helpful. Thanks, guys.

Operator

Ladies and gentlemen, this is the Operator. I have been informed that the time limit for this call has been met, and I would like to turn the conference over at this time to the Company for closing statements.

Ronald Pantin

Okay, guys. What you have seen here is the results of the first quarter, very impressive growth. When we say that in only one quarter we grew 20,000 barrels, that's the size of probably or larger than any of other our peer companies here in Colombia, so you see the kind of growth that Pacific Rubiales is having.

Some went through D&A. That was the case—M&A. That’s the case of C&C, but then you have organic growth. I would say 50/50 that was the growth of 20,000 barrels during the first quarter.

What I see and the way that I envision Pacific Rubiales, it's like an immense flying wheel. It's a flying wheel that have resources that are converted into reserves that are converted into production that are converted into money, and from that money we have the CapEx to again going around in that loop.

If you see only from the first quarter of last year to the first quarter of this year in that flying wheel, our resources have gone from 2.8 billion barrels to 4.3 certified resources. That's a growth of 54 percent. That's a huge growth.

Our reserves went from 407 to 514. That's a 26 percent growth. Our production went from 93,000 net to 128,000 net. That's a growth of 37 percent. And our revenues went from 932 million to over 1 billion, 1.259 billion. That's a growth of 35 percent.

And you see a very important growth in CapEx going from 267 million to $600 million. That is what it's doing again is that flying wheel is going again adding more growth to the Company.

So, guys, what I have seen here and this has been like that since the very beginning of the Company back in 2007 when we were producing only 14,000 barrels per day, and our EBITDA was 50 million to nowadays that we have a company that have 312,000 barrels per day gross to compare it with the 14,000, and an EBITDA 50,000 now compared with 1.250 billion.

So you see that every time that this flying wheel goes around year by year, what you have is a company that is growing like no other company in the world.

Thank you very much, guys.

Operator

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

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