PACIFIC RUBIALES ENERGY CORP.

MANAGEMENT DISCUSSION AND ANALYSIS

August 14, 2014

For the three months ending June 30, 2014

This Management Discussion and Analysis ("**MD&A**") contains forward-looking information based on the current expectations, estimates, projections and assumptions of Pacific Rubiales Energy Corp ("**Pacific Rubiales,**" or the "**Company**"). 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 3.

This MD&A is management's assessment and analysis of the results and financial condition of the Company and should be read in conjunction with the accompanying Interim Condensed Consolidated Financial Statements and related notes for the second quarter of 2014 and 2013. The preparation of financial information is reported in United States dollars and is in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board ("**IASB**"), unless otherwise noted. All comparative percentages are between the quarters ending June 30, 2014 and June 30, 2013, unless otherwise stated.

In order to provide shareholders with full disclosure relating to potential future capital expenditures, the Company has 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.

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

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

Message to Shareholders

Pacific Rubiales' strategic focus on growth and cash generation continued to deliver results to our shareholders this quarter, with new records being set for several key metrics including record funds flow from operations of $532 million (or a record $1.70 per share). The Company has now delivered double-digit compound average net production increases of 17%, 19% and 39%, respectively, over the past one, three, and five calendar-year periods. This has been achieved by remaining focused on organic growth supplemented with targeted and strategic acquisitions.

During the quarter, we delivered exceptionally strong results as measured by record sales, production, Adjusted EBITDA, funds flow from operations and net earnings. Our sales volume reached 155 Mboe/d, representing $1.3 billion in revenue. Our trading activities continued to deliver strong realized oil prices, averaging 99% of WTI pricing or $101.53/bbl for the quarter, $0.47/bbl higher than the first quarter of 2014. Sales volumes combined with strong netbacks drove net earnings for the quarter to $229 million, which translated into Adjusted EBIDTA of $722 million and funds flow from operations of $532 million.

We achieved production volumes of 149 Mboe/d (net after royalties) for the quarter while delivering on our strategic diversification beyond the Rubiales field. Production from the Rubiales field represented 43% of the quarter's production compared to 55% for the second quarter of 2013. This production level is made even more noteworthy by being delivered despite unexpected weather-induced impacts on operations at the Rubiales and Quifa fields and security-related disruptions of third-party pipelines that are affecting most oil producers in Colombia and national oil production levels as a whole.

Further highlighting the success of our production diversification strategy beyond the Rubiales field are production levels from the various strategic light oil acquisitions made during the past three years that continue to trend upwards. Light and medium crude oil average net production made up 33% of the production volumes this quarter, up from 15% during the second quarter of 2013. This has mainly been driven by our acquisition of strategic light oil production in Colombia and further delivery of a 9% increase in average net production from the Petrominerales Ltd. ("**Petrominerales**") blocks since their acquisition late last year, and 83% increase in average net production from the PetroMagdalena Energy Corp. ("**PetroMagdalena**") acquisition made in 2012. This supports our view that accretive growth can be delivered by acquiring underdeveloped or undercapitalized assets in South America.

Another metric that we believe showcases our focus on shareholder value creation is our ability to sustain and grow operating netbacks, which is supported by our operating cost reduction initiatives. Combined operating netbacks for oil and gas production remained strong during the quarter at $62.76/boe versus $60.54/boe in the same period of 2013. This increase in netbacks was delivered despite incurring additional transportation costs associated with the interruption of the Bicentenario pipeline that began earlier in the year. We were able to leverage various other transportation options, avoiding any disruption to our production and sales during the quarter.

G&A costs on a unit basis also continue to trend lower at $6.39 per boe sold this quarter, down 3% from the second quarter of 2013 with further unit-basis reductions expected as the multiple identified synergies from the Petrominerales acquisition are implemented in the second half of 2014.

One of our most important near-term objectives as part of the Company's growth strategy remains the development of heavy oil fields in Colombia. This is an area where we have demonstrated an ability to execute projects on time and on budget, delivering material growth to our shareholders. During the quarter, we continued to advance our development plans in both the CPE-6 and Rio Ariari blocks, with one appraisal well drilled in the CPE-6 block and five appraisal wells - including one horizontal - drilled in the Rio Ariari block. Extended production testing on the wells in these two blocks remained focused on providing us with the required reservoir data for our longer-term development plans. Construction of facilities to accommodate production start-up on both blocks will continue in the second half of 2014.

Our blocks in Peru are also a key pillar of future production growth, where average net production increased 6% this quarter compared to the first quarter of 2014 and 73% compared with the second quarter of 2013. The Los Angeles discovery in onshore Block 131 well-tested 1,188 boe/d of 45° API oil over a 40-day period. We are very encouraged by this discovery and are currently examining the commercial options available for this block. We are also excited about potential opportunities in Mexico and are closely monitoring the recent legislative developments.

The Company continues to progress its proprietary enhanced oil recovery technology ("**STAR**"), which is designed to significantly increase recovery factors in the Company's heavy oil fields. Under current primary production techniques, 85% or more of the total heavy oil remains in the ground. The Company's patented STAR technology has successfully demonstrated an estimated doubling of the recovery factor certified by three independent engineering firms in a relatively small pilot test area in the Quifa SW field. With the STAR pilot project completed, the Company, along with its partner Ecopetrol, S.A. ("**Ecopetrol**"), is reviewing the data with a view to determining the ultimate applicability of STAR across various heavy oil assets and opportunities in Colombia and elsewhere.

Ronald Pantin
Chief Executive Officer

Bogotá, August 14, 2014

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Legal Notice – Forward-Looking Information and Statements

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

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

For more information please see the Company´s Annual Information Form, which is available at www.sedar.com.

1. Highlights for the Second Quarter of 2014

(in thousands of US$ except per share amounts or as noted)	**Q2 2014**	**Q1 2014**	**Q2 2013 (1)**
Financials			
Adjusted EBITDA (2)	**721,572**	708,158	604,435
Adjusted EBITDA margin (Adjusted EBITDA/Revenues)	**54%**	55%	57%
Per share - basic ($) (3)	**2.30**	2.23	1.87
Funds flow from operations	**531,649**	473,609	475,001
Funds flow from operations margin (Funds flow from operations/Revenues)	**40%**	37%	45%
Per share - basic ($) (3)	**1.70**	1.49	1.47
Cash Flow from Operations	**510,886**	384,687	109,180
Per share - basic ($) (3)	**1.63**	1.21	0.34
Net earnings from operations (2)	**337,505**	330,789	271,544
Per share - basic ($) (3)	**1.08**	1.04	0.84
Net earnings (4)	**228,527**	119,240	74,279
Per share - basic ($) (3)	**0.73**	0.38	0.23
Cash dividends	**51,858**	51,933	53,363
Cash dividends per share	**0.17**	0.17	0.17
Shares repurchased ('000 $)	**-**	134,176	-
Sales and Production			
Average sales volumes (boe/d)	**155,027**	151,847	127,398
Average net production (boe/d)	**149,118**	148,827	127,555
Average net production oil (bbl/d)	138,756	138,118	116,604
Average net production gas (boe/d)	10,362	10,709	10,951
Combined price ($/boe)	**94.95**	93.38	90.91
Combined netback ($/boe)	**62.76**	63.80	60.54
Operating Activities			
Capital expenditures and farm-ins	**510,233**	481,409	490,196
Successful exploration and appraisal drilled wells (gross)	**7**	9	3

1. Net Earnings for 2013 have been restated upon the first-time adoption of IFRS 9 – Financial Instruments and the finalization of the purchase price allocation of the C&C Energia Ltd. acquisition. Refer to Note 27 and Note 3 of the second quarter 2014 Interim Condensed Consolidated Financial Statements.
2. See "Additional Financial Measures" on page 27.
3. The basic weighted average number of common shares outstanding for the second quarters of 2014 and 2013 were 313,581,537 and 323,000,819, respectively. The basic weighted average number of common shares outstanding for the first quarter of 2014 was 317,835,678.
4. Net earnings attributable to equity holders of the parent.

Second Quarter 2014 Highlights

- Record Adjusted EBITDA of $722 million compared to $708 million in the first quarter of 2014 as a result of record sales, production and strong netbacks.
- Funds flows from operations also reached a record $532 million, higher by 12% than the first quarter of 2014 on higher net earnings.
- Combined netback remained strong at $62.76/boe for the quarter, an increase of $2.22/boe from the same period in 2013 due to the reduction in dilution costs, and lower by $1.04/boe from the first quarter of 2014, primarily due to changes in overlift/underlift.
- Net earnings of $229 million, representing an increase of $110 million from $119 million in the first quarter of 2014, mainly due to higher production and sales volumes and a positive unrealized deferred income tax effect driven by the appreciation of the COP against the U.S. dollar during the second quarter of 2014.
- Net oil and gas production after royalties reached 149,118 boe/d, up 0.2% from the prior quarter and 16.9% from the second quarter of 2013, driven by organic growth in Colombia and Peru and increases from targeted acquisitions.
- Net oil and gas sales increased by 2% from the prior quarter to a record of 155,027 boe/d, and were also 22% higher in comparison with the second quarter of 2013, primarily driven by rising production.
- Capital expenditures of $510 million were focused on facilities, drilling investments, production facilities and other projects.
- On the exploration side, a new oil discovery was made in the Cubiro block. The well is currently producing 457 bbl/d.
- The STAR pilot project was concluded during the quarter after successfully achieving its operational and technical objectives. The Company and Ecopetrol are evaluating the results and the potential application of STAR in various heavy oil fields in Colombia.

2. Cash Flow and Netbacks

(in thousands of US$ except as noted)	Q2 2014	Q1 2014	Q2 2013
Funds flow from operations	**531,649**	473,609	475,001
Revenue			
Oil and gas	1,265,033	1,187,169	1,022,370
Trading	79,633	96,284	33,203
Total revenue	**1,344,666**	1,283,453	1,055,573
Total volumes sold in the quarter (boe)	**14,107,457**	13,666,230	11,593,173
Price			
Oil and gas $/boe	94.95	93.38	90.91
Tranding $/bbl	101.53	101.06	95.78
Total Realized price $/boe	**95.32**	93.91	91.05

During the quarter, our funds flow from operations was $532 million, an increase of 12% from $475 million in the second quarter of 2013 and $474 million in the first quarter of 2014. This increase in funds flow is the result of the growth in revenue and the strong netback realized during the quarter.

As a result of the increase in production, volumes sold for the quarter rose to 14.1 MMboe from 11.6 MMboe in the second quarter of 2013 and 13.7 MMboe in the first quarter of 2014. Total realized price also increased to $95.32/boe from $91.05/boe in the second quarter of 2013 and $93.91/boe in the first quarter of 2014. Excluding trading volumes, realized price on sold equivalent barrels increased to $94.95/boe from $90.91/boe in the same period of 2013 and $93.38/boe in the previous quarter of 2014.

Combined operating netback for the quarter remained strong at $62.76/boe, which was an increase of $2.22/boe compared to the second quarter of 2013 and a decrease by $1.04/boe compared to the first quarter of 2014, as summarized below.

	Three Months Ending						
	June 30, 2014			March 31, 2014			June 30, 2013
	Crude Oil	Natural Gas	Combined	Crude Oil	Natural Gas	Combined	Combined
Average daily volume sold (boe/day)(1)	**136,108**	**10,300**	**146,408**	**130,526**	**10,735**	**141,261**	**123,588**
Operating netback ($/boe)							
Crude oil and natural gas sales price	99.76	31.33	94.95	98.44	31.80	93.38	90.91
Production cost of barrels sold (2)	16.71	3.17	15.75	16.51	4.18	15.57	15.44
Transportation (trucking and pipeline) (3)	14.99	0.02	13.93	15.02	0.01	13.88	12.37
Diluent cost	2.19	-	2.03	2.90	-	2.68	5.78
Total operating cost	**33.89**	**3.19**	**31.71**	**34.43**	**4.19**	**32.13**	**33.59**
Overlift/Underlift (4)	(1.01)	(0.15)	(0.95)	(4.21)	0.64	(3.84)	(3.26)
Other costs (5)	1.34	2.55	1.43	1.24	1.93	1.29	0.04
Total operating cost including overlift/underlift and other costs	**34.22**	**5.59**	**32.19**	**31.46**	**6.76**	**29.58**	**30.37**
Operating netback crude oil and gas ($/boe)	**65.54**	**25.74**	**62.76**	**66.98**	**25.04**	**63.80**	**60.54**

1. Combined operating netback data is based on weighted average of daily volume sold, which includes diluents necessary for the blending of the Rubiales crude oil and excludes oil for trading volumes. Also includes the additional 40% interest in Cubiro acquired from FIHC effective April 1, 2014 pursuant to a transaction that closed on August 12, 2014. Refer to page 11 - Farm-in Transactions and Acquisitions.
2. Cost of production mainly includes lifting cost and other direct production costs such as fuel consumption, outsourced energy, fluid transport (oil and water) and personnel expenses, among others. Increases in oil production costs are driven by higher fluid (mainly water) production, which affects fuel consumption, outsourced energy and fluid transport costs, as compared to the prior period of 2014.
3. Includes the transport costs of crude oil and gas through pipelines and tank trucks incurred by the Company when taking the products to the delivery points for customers.
4. Corresponds to the net effect of the overlift position of $13 million income during the second quarter of 2014 ($49 million income for the first quarter of 2014).
5. Other costs mainly correspond to inventory fluctuation, storage cost and the net effect of the currency hedges of operating expenses incurred in Colombian pesos during the period, as well as royalties paid in cash on gas and oil production and external road maintenance at the fields.

Combined operating costs (before overlift and other costs) decreased to $31.71/boe for the quarter from $33.59/boe in the same period of 2013 and $32.13/boe in the first quarter of 2014.

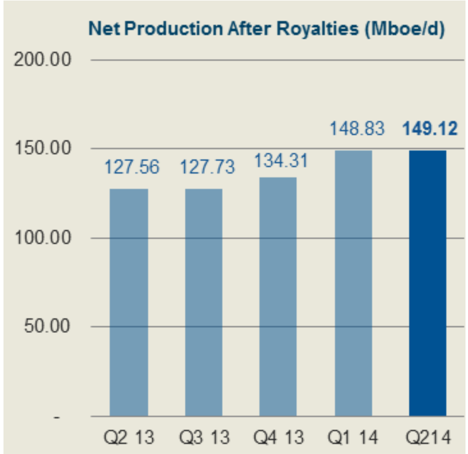
Since 2013, the Company has been undertaking several initiatives to reduce oil operating costs. Diluent cost has decreased by $3.75/boe compared to the same period in 2013, which was achieved through the targeted acquisition of light crude that has been used to replace more expensive diluent purchased from third parties. Production cost stayed stable at $15.75/boe compared to $15.44 for the second quarter of 2013. Transportation cost increased compared to the second quarter of 2013 as a result of a higher volume of oil being transported via tank truck, attributed to the temporary disruption at the Bicentenario pipeline. Despite the disruption of more than 40 Mbbl/d of pipeline transportation in the Bicentenario pipeline, the Company was able to maintain field production by diverting volumes to other pipelines through short-term agreements and by using tank trucks. Transportation costs were in line with those in the first quarter of 2014.

3. Operational Results

Production and Development Review

Net production after royalty for the quarter averaged at a record 149,118 boe/d, despite the unexpected weather conditions and the disrupted operations of pipelines impacting oil producers in Colombia. The Company drilled 71 development wells in Colombia and two wells in Peru. Operational highlights for the second quarter of 2014 include:

- Net production after royalties was up 0.2% over the first quarter of 2014 and 16.9% over the second quarter of 2013. Production remains on track to meet the 2014 guidance range of between 148 and 162 Mboe/d.
- We continued to advance our development plans in both the CPE-6 and Rio Ariari blocks with one appraisal well drilled in the CPE-6 block and five appraisal wells drilled in the Rio Ariari block. In the CPE-6 block, six wells under extended production tests averaged approximately 525 bbl/d total gross production at the end of the quarter.
- On the exploration side, in Block 131 in Peru, the Los Angeles discovery well produced over 3,400 bbl/d and later stabilized to an average rate of 1,159 bbl/d with a 0.6% water cut.
- Average net production after royalties from the Rubiales field represented 43% of the Company's total production for the quarter compared to 55% for the same quarter of 2013, further demonstrating the ongoing production base diversification.



The following table highlights the average daily production from all of the Company's producing fields located in Colombia and Peru:

	Average Q2 Production (in boe/d)						
	Total field production		Gross share before royalties (1)		Net share after royalties		
Producing fields - Colombia	**Q2 2014**	**Q2 2013**	**Q2 2014**	**Q2 2013**	**Q2 2014**	**Q2 2013**	**Q1 2014**
Rubiales / Piriri	189,055	209,990	79,353	88,358	63,482	70,687	64,676
Quifa SW (2)	54,607	54,678	32,520	32,533	22,543	23,464	22,327
	243,662	**264,668**	**111,873**	**120,891**	**86,025**	**94,151**	**87,003**
Other fields in Colombia							
Light and medium (3)	53,540	25,592	49,734	19,805	46,217	18,183	44,792
Gas (4)	11,235	11,639	10,362	10,951	10,362	10,951	10,709
Heavy oil (5)	6,453	5,239	4,226	3,018	3,973	2,836	3,899
	71,228	**42,470**	**64,322**	**33,774**	**60,552**	**31,970**	**59,400**
Producing fields in Peru							
Light and medium	5,188	2,927	2,541	1,434	2,541	1,434	2,424
	5,188	**2,927**	**2,541**	**1,434**	**2,541**	**1,434**	**2,424**
Total production Colombia and Peru	**320,078**	**310,065**	**178,736**	**156,099**	**149,118**	**127,555**	**148,827**

1. Share before royalties is net of internal consumption at the field and before PAP at the Quifa SW field.
2. The Company´s share before royalties in the Quifa SW field is 60% and decreases in accordance to a high-price clause that assigns additional production to Ecopetrol.
3. Mainly includes Cubiro, Cravoviejo, Casanare Este, Guatiquia, Casimena, Corcel, CPI Neiva, Cachicamo, Arrendajo and other producing fields. Also includes the additional 40% interest in Cubiro acquired from FIHC effective April 1, 2014 pursuant to a transaction that closed on August 12, 2014, which produced at 3,626 bbl/d. Refer to page. 11 - Farm-in Transactions and Acquisitions. Subject to Ecopetrol´s or ANH´s approval (as and if applicable), the Company is in the process of divesting its participation in the Moriche, Las Quinchas,Guasimo, Chipalo, Cerrito, Yamu, Dindal/Rio Seco, Abanico and Carbonera blocks.
4. Includes La Creciente, Dindal / Rio Seco, Abanico, Cerrito and Carbonera fields.
5. Includes Cajua, Sabanero, CPE-6, Rio Ariari and Prospecto S fields.

Colombia

During the second quarter of 2014, average net production after royalties in Colombia rose to 146,577 boe/d (314,890 boe/d total field production) from 126,121 boe/d (307,138 boe/d total field production) in the same period of 2013, representing an increase of 16.2%, with key developments as follows:

- 71 development wells were drilled during the second quarter of 2014.
- Net production at Rubiales and Quifa fields decreased 9% in comparison with the same period of 2013 due to restricted water disposal capacity and operational issues related to the abnormally wet weather conditions in the quarter. However, this reduction was compensated by a production growth of 89% from light and medium oil fields, mainly driven by the strategic acquisition of Petrominerales late last year, and the further increase in light oil production from other fields.

- Production in the La Creciente natural gas field decreased by 5% as compared with the second quarter of 2013 due to constraints in gas pipeline transport capacity.

Peru

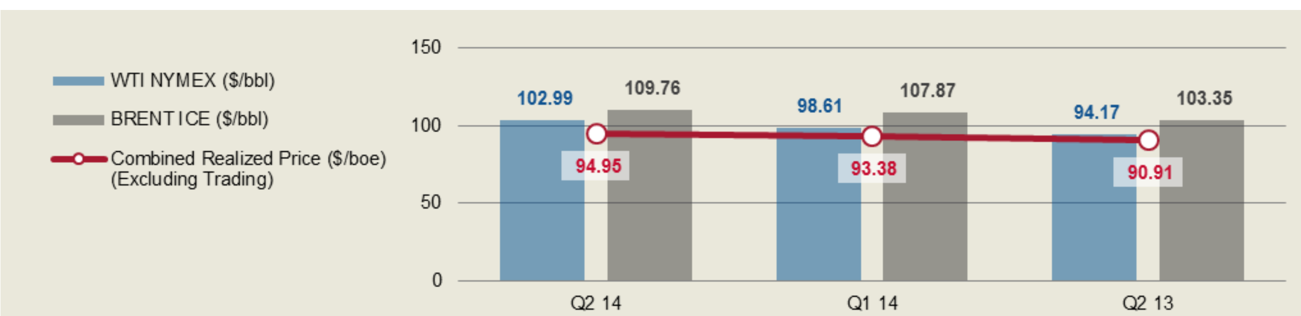
Sales, Trading and Pricing

The following table highlights the average daily crude oil and gas produced and available for sale, the trading volumes sold, and the respective realized and international prices:

Colombia and Peru	Q2 2014	Q1 2014	Q2 2013
Oil	136,108	130,526	112,701
Gas	10,300	10,735	10,887
Trading	8,619	10,586	3,810
Total barrels sold (in boe/d)	155,027	151,847	127,398
Prices			
Oil realized price $/bbl	99.76	98.44	95.84
Gas realized price $/boe	31.33	31.80	39.78
Trading realized price $/bbl	101.53	101.06	95.78
Combined realized price oil and gas $/boe (excluding trading)	94.95	93.38	90.91
WTI NYMEX ($/bbl)	102.99	98.61	94.17
BRENT ICE ($/bbl)	109.76	107.87	103.35
Guajira Gas Price ($/MMBTU) (1)	3.97	3.97	5.90
Henry Hub average Natural Gas Price ($/MMbtu)	4.58	4.73	4.02

1. The domestic natural gas sales price is referenced to Market Reference Price ("**MRP**") for gas produced in La Guajira field.

Total barrels sold is composed of production volumes, purchased diluent volumes, trading volumes and inventory balance changes. Sales volumes for the current quarter were a record of 155,027 boe/d, an increase of 22% as compared to the 127,398 boe/d reported for the same period in 2013, and a 2% increase from the first quarter of 2014. This record volume of sales was achieved due to rising volumes in producing fields and the additional production available for sale following the settlement of PAP related to Quifa SW with Ecopetrol in the prior quarter.



The Combined oil and gas realized price for the second quarter of 2014 was $94.95/boe, higher by $1.57/boe as compared to that of the first quarter of 2014 ($93.38/boe). In the second quarter of 2014, Colombian crude prices experienced a premium reduction versus WTI, mainly due to the $2.49/bbl narrowing in the ICE Brent - WTI NYMEX differential ($6.77/bbl in the second quarter of 2014 versus $9.26/bbl in the second quarter of 2013).

Exploration Review

During the second quarter of 2014, nine wells were drilled in Colombia consisting of two exploration wells, six appraisal wells and one stratigraphic well and resulting in a new discovery in the Cubiro Block and further confirmation and delineation of the Río Ariari and CPE–6 discoveries.

	Three Months Ending June 30		Six Months Ending June 30	
	2014	2013	2014	2013
Successful exploratory wells	1	3	3	7
Successful appraisal wells (1)	6	-	13	1
Successful stratigraphic wells	1	-	1	-
Dry wells	1	2	8	5
Total	**9**	**5**	**25**	**13**
Success rate	**89%**	**60%**	**68%**	**62%**

1. Includes horizontal appraisal wells.

Wells Drilled During the Second Quarter of 2014

Colombia

Appraisal drilling continued in the CPE-6 block during the quarter with the drilling of the Hamaca-7 vertical well, which encountered 41 feet of net pay in the Carbonera Basal Sands. Extended production tests continued in the block with average oil production for the month of June of 550 bbl/d from six wells. More extensive drilling and production testing is currently waiting on production facilities, which are under construction.

Three wells were drilled in the Rio Ariari block including a second horizontal well, Mochelo 6Hz, drilled to a vertical depth of 7,155 feet with a 950-foot horizontal leg. The well encountered 826 feet of net pay from petrophysical evaluation within the horizontal section. Currently, the well is being prepared for short-term testing. Two vertical wells were drilled and completed for planned testing (Mochelo-7D and -3D wells) with 47 and 58 feet of net pay, respectively (calculated from petrophysical logs). Two wells were drilled in the Helicona pad north of Mochelo (Helicona-2D and -5D wells) with 29 and 56 feet of net pay, respectively (calculated from petrophysical logs), and will be tested in the near future.

In the Cubiro block, the Copa-14 well was drilled to extend existing discoveries along the Copa Trend. The well was completed jointly in the two C-5 sands and is currently in production at 457 bbl/d of 40° API oil under natural flow.

In the CPO-17 block, the stratigraphic well CPO17-Est12 was drilled during the quarter and encountered 19 and 25 feet of net pay (calculated from petrophysical logs) in the C-8 and in Mirador, respectively.

In the Canaguaro block, the Canaguay-2 ST2 appraisal well encountered 32 feet of net pay in the Mirador formation based on petrophysical interpretation. On completion, the well flowed under natural conditions at an average rate of 2,500 bbl/d of 29.2° API oil with a 7.6% watercut (decreasing) over a three-day period.

In the Guama block, the Company continued civil works and logistical preparations for the extended tests of Pedernalito-1X, Cotorra-1X, Manamo-1X and Capure-1X exploration wells. These extended tests are planned to begin this month.

In the Quifa block, the acquisition of 721 km^2 of 3D seismic survey was concluded in the northwestern portion of the block aimed at identifying further exploration opportunities in the area. One exploration well drilled in the southeastern portion of the block (QFE-K-1X) did not encounter any pay and was plugged and abandoned.

Peru

In Block 131, the Los Angeles discovery well was tested with over 3,400 bbl/d with a 48/64" choke and then was stabilized at an average daily rate of 1,159 bbl/d with 0.6% watercut, a choke size between 16/64" and 48/64" and tubing head pressure between 150 psi and 514 psi. The well produced a total of 47,536 bbl of 45.3° API oil over a 40-day period. No evidence of pressure depletion was indicated during the 21-day pressure build-up following the production test. Based on the positive results from the short-term testing of the Los Angeles-1X (LA-1X) discovery, the current plan is to conduct an extended well test for approximately six months. This extended well test is tentatively scheduled to start in mid-September, 2014. Additionally, two appraisal wells are planned: the LA-3X well to be drilled in the fourth quarter of 2014 and the LA-2X well in the first quarter of 2015.

The Company continued drilling the Fortuna-1X exploration well in the onshore Block 116 during the quarter. The well is targeting limestone and sandstone reservoirs in the Cretaceous with a planned total depth ("**TD**") of 12,659 feet. Petrophysical evaluation of the non-target Tertiary sands revealed ten feet of gas pay. After delays related to rig equipment and drilling operations, the Company began drilling a second sidetrack with the well expected to reach TD during the third quarter.

Brazil

Two wells are currently planned for the Company's blocks in the offshore Santos Basin (S-M-1037, 1101, 1102, 1165, and 1166). Karoon Petróleo & Gás Ltda. ("**Karoon**"), the operator of the block, has contracted the "Olinda Star" semi-submersible rig to drill up to four wells. Two wells are planned during the second half of 2014. The first well, Kangaroo-2, is an up-dip appraisal of the Kangaroo-1 discovery and is expected to commence drilling in September 2014. The Kangaroo-1 discovery, previously announced in early 2013, encountered a 25-meter gross oil column identified on petrophysical logs and recovered multiple wireline samples of 42° API oil on a wireline test. The second well will follow immediately and will test the nearby Kangaroo West exploration prospect. Pacific Rubiales holds a 35% interest in these blocks.

In the Foz do Amazonas Basin, Offshore Block FZA-M-90, and as part of the commitment before the ANP, Spectrum-CGG are nearing completion of a multi-client 3D Seismic acquisition program over the exploration concession held jointly with Queiroz Galvão Exploração e Produção (the operator) and Premier Oil do Brasil Petróleo e Gás Ltda. The fast track 3D seismic volume is expected in early 2015.

In the Pará-Maranhão Basin, Offshore Blocks PAMA-M-265 and PAMA-M-337; Queiroz Galvão Exploração e Produção (the operator) is preparing for the committed 3D seismic acquisition program covering approximately 1,600 km2 over both blocks, expected to be completed by year-end 2014. The fast track 3D seismic volume is anticipated by the second quarter of 2015.

Guatemala

The Balam-1X well in in blocks N-10-96 and O-10-96 encountered hydrocarbon shows in several intervals, but no commercial hydrocarbon flow rates were achieved. Currently, the well is suspended pending review of the results and planning is underway to drill a second well (Choma-1X well) targeting the Todos Los Santos Formation at 16,175 feet TD to be drilled directionally from the Balam 1X location, approved by the government.

Belize

In Belize, the Company continued the acquisition of 650 km of 2D seismic data. The integration of aerogravity, aeromagnetic and geochemistry with the 2D seismic is expected to delineate future prospects on the block.

Papua New Guinea

In Block PRL-39, where the Company has a 10% net participating interest, the operator spudded the Raptor-1 exploration well in late March. The well is expected to reach a TD of 14,765 feet during the third quarter. The well has encountered gas shows while drilling.

Farm-in Transactions and Acquisitions

The following is a summary of the farm-in transactions and acquisitions completed during the second quarter of 2014.

Agreement with the Fondo de Capital Privado Hidrocarburos de Colombia

On June 26, 2014, the Company entered into an agreement (the "**Offer**") with the Fondo de Capital Privado de Hidrocarburos de Colombia ("**FIHC**"), which Offer became binding on August 12, 2014. Pursuant to the Offer, FIHC's participation interest in the Cubiro block in the Llanos Basin in Colombia was transferred to Pacific Rubiales effective as of April 1, 2014.

The cash consideration for FIHC's interest in the Cubiro block was $228 million of which 30% was paid upon signing of the Offer and the remaining was paid upon closing of the transaction. The consideration payable to FIHC may be adjusted as a result of the certification of the 2P reserves, if any, from the Copa E and Copa 6W prospects (located in the Cubiro block) at an agreed price of $21.93 per additional barrel. After payment of the purchase price adjustment all future production and reserves derived from these two prospects will be the exclusive property of the Company.

In addition, the Company has granted FIHC an exclusive option (exercisable within two years) over the Copa Oeste Lead (the "**Lead**"), pursuant to which, subject to a 100% carry obligation with respect to the next exploratory well to be drilled, FIHC may acquire a minimum 50% and a maximum of 100% participating interest in the Lead.

Farm-in Agreement in Colombia with Petroamerica Oil Corp.

On May 12, 2014, Petroamerica Oil Corp. ("**PTA**") and the Company executed a farm-in agreement, pursuant to which PTA acquired, subject to governmental approval, a 50% working interest in the LlA-19 onshore block located in Colombia. The consideration is a 100% carry obligation of up to $17 million for the next exploratory well to be drilled in the contract area. Pursuant to the terms of the agreement, Pacific Rubiales will retain a 100% participating interest in the Tormento field.

4. Financial Results

Revenues

Revenues for the second quarter of 2014 were $1,345 million, higher by 27% as compared to the same period of 2013 and mainly driven by higher sales volumes and a better realized price.

	Three Months Ending June 30		Six Months Ending June 30	
(in thousands of US$)	2014	2013	2014	2013
Net crude oil and gas sales	$ 1,265,033	$ 1,022,370	$ 2,452,202	$ 2,244,240
Trading revenue	79,633	33,203	175,917	70,095
Total Revenue	**$ 1,344,666**	**$ 1,055,573**	**$ 2,628,119**	**$ 2,314,335**
$ per boe oil and gas	94.95	90.91	94.18	94.20
$ per bbl trading	101.53	95.78	101.27	100.53
$ Total average revenue per boe	**95.32**	**91.05**	**94.63**	**94.38**

	Three Months Ending June 30			
	2014	2013	Difference	% Change
Total of boe sold (Mboe)	14,107	11,593	2,513	22%
Avg. combined price - oil & gas and trading ($/boe)	95.32	91.05	4.27	5%
	1,344,666	**1,055,573**	**289,093**	**27%**

The following is an analysis of the revenue drivers for the second quarter of 2014 in comparison to the same period of 2013:

Drivers for the revenue increase:		
Due to volume	$ 228,929	79%
Due to price	60,164	21%
	$ 289,093	

Operating Costs

	Three Months Ending June 30		Six Months Ending June 30	
(in thousands of US$)	2014	2013	2014	2013
Production cost of barrels sold	$ 209,884	$ 173,696	$ 407,844	$ 327,433
Per boe	15.75	15.44	15.66	13.74
Transportation cost	185,637	139,159	362,030	320,533
Per boe	13.93	12.37	13.90	13.45
Diluent cost	27,093	65,045	61,211	172,964
Per boe	2.03	5.78	2.35	7.26
Overlift/Underlift	(12,675)	(36,634)	(61,535)	(34,370)
Per boe	(0.95)	(3.26)	(2.36)	(1.44)
Other cost	19,047	450	35,452	11,267
Per boe	1.43	0.04	1.36	0.47
Operating cost	**$ 428,986**	**$ 341,716**	**$ 805,004**	**$ 797,827**
Average operating cost per boe	**$ 32.19**	**$ 30.37**	**$ 30.91**	**$ 33.48**
Take-or-pay fees on disrupted transport capacity Bicentenario	24,794	-	53,704	-
Per boe	1.86	-	2.06	-
Trading purchase cost	79,223	33,147	174,377	68,748
Per boe	101.01	95.62	100.39	98.60
Total Cost	**$ 533,004**	**$ 374,863**	**$ 1,033,085**	**$ 866,575**

Total operating costs for the second quarter of 2014 were $533 million, including $25 million in net take-or-pay fees paid to Bicentenario pipeline when the capacity was not available due to security issues. This amount consists of $45 million of fees paid in cash and is net of an accrued $20 million representing a return of a portion of the fees in the form of a dividend. Operating cost was higher as compared to $342 million for the same period of 2013 as a result of an increase in oil and gas produced and higher other costs and overlift movement. Total average cost for the second quarter of 2014 was $32.19/boe, higher by 6% as compared to $30.37/boe for the same period of 2013.

Depletion, Depreciation and Amortization

	Three months ending June 30		Six Months Ending June 30	
(in thousands of US$)	2014	2013	2014	2013
Depletion, depreciation and amortization	$ 382,703	$ 332,486	$ 758,345	$ 665,009
$/per boe sales	27.13	28.68	27.30	27.12

Depletion, depreciation and amortization ("**DD&A**") costs for the second quarter of 2014 were $383 million compared to $332 million in the same period of 2013. The increase of 15% over 2013 was primarily due to an increase in production and higher capitalized costs that are subject to depreciation. Unit DD&A for the second quarter of 2014 was $27.13/boe, 5% lower than the $28.68/boe for the same period of 2013. As a result of the additions of proved and probable reserves during 2013, starting with the fourth quarter of 2013 the majority of the Company's assets (with the exception of the Rubiales field) are being depleted over a larger 2P reserves pool.

General and Administrative Costs

	Three months ending June 30		Six Months Ending June 30	
(in thousands of US$)	2014	2013	2014	2013
General and administrative costs	$ 90,090	$ 76,275	$ 165,304	148,264
$/per boe sales	6.39	6.58	5.95	6.98

General and administrative ("**G&A**") costs increased to $90 million in the first quarter of 2014 from $76 million in the same period of 2013, mainly due to expanded operations and production. Unit G&A costs decreased by $0.19/boe from $6.58/boe to $6.39/boe corresponding to the increase in overall production and sales.

Finance Costs and Foreign Exchange

	Three months ending June 30		Six Months Ending June 30	
(in thousands of US$)	2014	2013	2014	2013
Finance costs	$ 64,655	$ 37,076	$ 126,150	$ 84,653

Finance costs include interest on the Company's bank loans, senior notes, revolving credit facilities, working capital loans, finance leases and fees on letters of credit, net of interest income received. For the second quarter of 2014, interest expenses totaled $65 million compared to $37 million for the same period of 2013. The increase in finance costs is mainly due to Company's outstanding the senior unsecured notes, which have a principal aggregate amount of $3.3 billion.

	Three months ending June 30		Six Months Ending June 30	
(in thousands of US$)	2014	2013	2014	2013
Foreign exchange gain (loss)	$ 13,644	$ (6,535)	$ 11,869	$ 8,436

The U.S. dollar is the Company's functional currency. Foreign exchange gains or losses primarily result from the movement of the Colombian peso ("**COP**") against the U.S. dollar. A significant portion of the Company's operating and capital expenditures, as well as assets and liabilities, are denominated in COP. During the second quarter of 2014, the COP appreciated against the U.S. dollar by 4.2% as compared to a depreciation of 5% during the same period of 2013. Foreign exchange income for the second quarter of 2014 was $13.6 million compared to a loss of $6.5 million for the same period of 2013. The foreign exchange income for the second quarter of 2014 was mainly due to unrealized income from the translation of COP-denominated balances into the U.S. dollar.

Income Tax Expense

	Three Months Ending June 30		Six Months Ending June 30	
(in thousands of US$)	2014	2013	2014	2013
Current income tax	$ 109,185	$ 101,344	$ 260,235	$ 262,663
Deferred income tax	(69,788)	31,652	(70,963)	34,951
Total income tax expense	**$ 39,397**	**$ 132,996**	**$ 189,272**	**$ 297,614**

The Canadian statutory combined income tax rate was 26.5% for the second quarter of 2014 and 2013.

The Colombian statutory tax rate for the second quarter of 2014 was 34%. The Colombian Congress approved a new tax law in December 2012 that came into effect on January 1, 2013, whereby the general income tax rate was reduced from 33% to 25%. In addition, the law introduced a fairness tax (“**CREE**”) at the rate of 9% to substitute for the elimination of certain payroll taxes primarily related to low-income salaries, which effectively increased the income tax rate to 34%.

The Peruvian statutory income tax rate was 30% for the second quarter of 2014 and 2013. The Peruvian income tax rate for Block Z-1 was 22% for the second quarter of 2014 and 2013.

The Company’s effective tax rate (income tax expenses as a percentage of net earnings before income tax) was 14.7% for the second quarter of 2014 compared to 70.8% for the same period in 2013. For the six-month period ending June 30, 2014, the cumulative effective tax rate was 35%, compared to 60% over the same cumulative period ending June 30, 2013.

The Company’s effective tax rate differs from the statutory rate due to the following:

- Expenses that are not deductible for tax purposes (such as share-based compensation, foreign exchange gains or losses, and other non-deductible expenditures in both Canada and Colombia);
- Corporate expenses that result in tax loss carry-forwards, but for which no deferred tax assets and recovery have been recognized. When the Company has a reasonable expectation to utilize those losses in the future, a deferred tax asset and a corresponding deferred tax recovery may be recognized which would reduce the income tax expense;
- Foreign exchange effect on the deferred tax, which is determined on COP-denominated assets and liabilities. The Company’s assets are primarily located in Colombia. As a result, the tax base of these assets is denominated in COP, and the related deferred tax balances are subject to fluctuations in the U.S.-COP exchange rate for IFRS purposes; and
- The appreciation of the COP against the U.S. dollar by 4.2% during the second quarter of 2014 resulted in an estimated unrealized deferred income tax recovery of $52 million. In comparison, the Company recorded $50 million of unrealized income tax expense during the same period of 2013 as a result of the depreciation of the COP against the U.S. dollar by 5%.

Capital Expenditures

	Three Months Ending June 30		Six Months Ending June 30	
(in thousands of US$)	2014	2013	2014	2013
Production facilities [(1)]	$ 107,867	$ 139,647	$ 222,885	$ 286,676
Exploration activities [(2)]	118,559	93,724	252,987	172,087
Early facilities and others	47,662	-	69,624	-
Development drilling [(1)]	205,553	149,277	379,405	302,968
Other projects (STAR, Gas export, PEL)	30,592	40,963	54,241	67,252
Farm-in Agreement and others [(3)]	-	66,585	12,500	265,673
Total capital expenditures	**$ 510,233**	**$ 490,196**	**$ 991,642**	**$ 1,094,656**

1. Includes investment in Maurel & Prom Colombia B.V., in which the Company holds a 49.999% participation.
2. Exploration activities for the second quarter of 2014 include drilling, seismic and other geophysical expenditures in Colombia, Peru, Brazil, Guatemala, Belize, and Papua New Guinea.
3. For the second quarter of 2013, mainly includes capital expenditures of $64.2 million related to the 35% interest in the offshore contract located in the Santos Basin in Brazil, currently operated by Karoon and subject to governmental approval.

Capital expenditures during the second quarter of 2014 totaled $510 million, higher by $20 million as compared to $490 million in the second quarter of 2013. A total of $108 million was invested in the expansion and construction of production infrastructure, primarily in Rio Ariari, Casanare Este, Sabanero, La Creciente, Block Z-1, Quifa SW and in the Rubiales fields; $118 million went into exploration activities including drilling, seismic and other geophysical activities in Colombia, Peru, Brazil, Guatemala, Belize and Papua New Guinea; $48 million was included in early facilities and others; $205 million went into development drilling; and $31 million was invested in other projects including the small-scale LNG project, the Petroelectrica de los Llanos (“**PEL**”) Power Transmission Line project and others.

Financial Position

Debts and Credit Instruments

The Company was compliant with all of its debt covenants during the second quarter of 2014. The following debts were outstanding as at June 30, 2014:

Senior Unsecured Notes

The Company has a number of senior unsecured notes outstanding with an aggregate principal of $3.3 billion outstanding as of June 30, 2014. The senior notes are listed on the Official List of the Luxembourg Stock Exchange and are guaranteed by the Company's main operating subsidiaries. The maturities of the senior notes range from 2019 to 2023 and the interest rates range from 5.125% to 7.25%, payable semi-annually.

Working Capital Loans

From time to time, the Company maintains working capital facilities with several banks. As of June 30, 2014, our current facilities are with Citibank, N.A., Bank of America, N.A., JPMorgan Chase Bank, N.A., Itau BBA, Bank of Tokyo and Mercantil Commerce Bank, N.A. The terms of these loans are generally less than a year. As at June 30, 2014, we had $400 million in borrowings outstanding under these working capital facilities and the interest rates have a range between LIBOR + 0.95% and LIBOR + 1.5%.

New Credit Facilities

On April 25, 2014, the Company entered into a new revolving credit and guaranty agreement of $1 billion (the "**2014 U.S. Dollar Facility**") with a syndicate of international and Colombian lenders and Bank of America, N.A. as the administrative agent. The U.S Dollar Facility has an interest rate determined in accordance with the ratings assigned to the Company's senior debt securities by Standard & Poor's, Moody's and Fitch Inc. Based on the Company's credit rating as of April 2014, the interest rate was LIBOR + 2.25%. In addition, the Company is required to pay commitment fees of 0.95% on the unutilized portion under the U.S. Dollar Facility and is fully committed to its maturity in 2017. As at June 30, 2014, the Company had drawn down $100 million.

On April 4, 2014, the Company entered into a $75 million credit agreement with Banco Latinoamericano de Comercio Exterior, S.A. ("**Bladex**") as lender. Proceeds from this facility were used for general corporate purposes. This loan has a maturity of 48 months from the date of the loan and an interest rate of LIBOR + 2.7%.

On April 8, 2014, the Company entered into a $250 million credit and guaranty agreement with HSBC Bank (USA), N.A. ("**HSBC**") as lender. Proceeds from this facility were used for the share buyback program and general corporate purposes. This loan has a maturity of 36 months from the date of the loan and an interest rate of LIBOR + 2.75%.

On May 2, 2013, the Company entered into a $109 million credit and guaranty agreement with Bank of America, N.A. as lender. Proceeds from this credit facility were used in part to fully repay a credit facility with Banco Itau BBA (Nassau Branch) ("**Itau**") in the amount of $100 million. This credit agreement has a maturity of 44 months from the date of the loan and an interest rate of LIBOR + 1.5%.

On June 27, 2014, the Company entered into a $120 million Credit Agreement with Sumitomo Mitsui Banking Corporation ("**Sumitomo**") as lender. Proceeds from this facility were used to prepay the PEL leasing agreement with Banco de Bogota and BBVA. This loan has a maturity of 6 months from the date of the loan and an interest rate of LIBOR + 2.0%.

Letters of Credit

As at June 30, 2014, the Company had issued letters of credit and guarantees for exploration and operational commitments for a total of $443.8 million.

Outstanding Share Data

Common Shares

As of June 30, 2014, 314,290,258 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 June 30, 2014, there were no warrants outstanding. 25,042,892 stock options were outstanding, of which all were exercisable. As of May 28, 2014, the Board has committed to no longer granting stock options and instead implemented a Deferred Share Unit ("**DSU**") Plan for eligible employees.

Deferred Share Units

As at June 30, 2014, there were 443,222 DSUs outstanding. The DSUs are cash settled instruments that track the price of the common shares and are payable to eligible participants upon their retirement, resignation or termination from the Corporation.

Liquidity and Capital Resources

Liquidity

Funds flow provided by operating activities for the second quarter of 2014 totaled $532 million ($475 million in the same period of 2013). The increase in funds flow for the second quarter of 2014 was the result of an increase in production and higher combined crude oil and gas netback. The Company has been generating cash flows from operations from the sale of crude oil and natural gas and expects this to continue and increase with production growth.

As at June 30, 2014, the Company had negative working capital of $447 million, mainly comprised of $396 million of cash and cash equivalents, $32 million in restricted cash, $1,117 million of account receivables, $78 million of inventory, $83 million of income tax receivable, $1 million of prepaid expenses, $6 million of risk management assets, $1,652 million of accounts payable and accrued liabilities, $9 million of risk management liability, $44 million of income tax payable, $438 million of the current portion of long-term debt and $17 million of the current portion of obligations under finance lease.

In April 2014, the Company's $700 million U.S. dollar facility was fully repaid, replaced by the 2014 U.S. Dollar Facility. As at June 30, 2014, the Company had drawn down $100 million on the 2014 U.S. Dollar Facility.

The Company believes it has adequate resources to fund its capital plan for 2014 with its cash flows from operations and current debt facilities. With respect to the Company's broader integration strategy, the Company will pay for the expansion plan with its own cash flow. However, if additional resources are required, there are possible sources of funds available to the Company to finance additional capital expenditures and operations including the revolving credit facility, existing working capital incurring new debt, and the issuance of additional common shares if necessary.

As of June 30, 2014, our current facilities are with Citibank, N.A., Bank of America, JPMorgan Chase Bank, N.A., Itau, Bank of Tokyo, HSBC, and Mercantil Commerce Bank, N.A. The terms of these loans are generally less than a year. As at June 30, 2014, the Company had $400 million in borrowings outstanding under these working capital facilities and the interest rates have a range between LIBOR + 0.95% and LIBOR + 1.5%.

5. Project Status Review

The following is an update on the current status and working-interest share of costs incurred as of June 30, 2014 for the Company's major projects:

Project	Project financed by	As of June 30, 2014 Total cost to complete the project	 Cost incurred to date	 Expected future costs to incur
STAR project in the Quifa field	Internally generated funds	$ 131,600	$ 115,780	$ 15,820
Bicentenario pipeline	Equity and debt combination	804,661	661,371	143,290
PEL-Power transmission line project	Equity and debt combination	230,000	205,000	25,000
Small-scale LNG project	Equity and debt combination	211,000	28,100	182,900
Water treatment for agricultural development	Equity and debt combination	170,000	70,000	100,000
Puerto Bahia project	Equity and debt combination	239,439	146,095	93,344
OLECAR	Equity and debt combination	171,520	32,957	138,563
		$ 1,958,220	**$ 1,259,303**	**$ 698,917**

STAR Project in the Quifa SW Field

A joint technical report prepared by Ecopetrol and the Company during the second quarter concluded that the STAR pilot project has met its operational and technical objectives, and also provides sufficient information required for the evaluation of the technology. Since the thermal front has largely swept through the pilot area, it will be shut down during the second half of 2014.

The STAR pilot project allowed the companies to acquire valuable technical information and experience concerning the use of in-situ combustion recovery. A technical team has been formed to conduct a comprehensive post-pilot study and the companies have agreed to continue to work together on the development of STAR and other initiatives that will help increase recovery factors and hydrocarbon production in jointly operated heavy oil fields to the benefit of both companies and the country.

Bicentenario Pipeline

As of June 2014, Phase One of the project is almost completed and two tanks with a total capacity of 600 Mbbl are operating from Coveñas terminal. As of the date of this report, approximately 8.3 MMbbl has been pumped through the system.

PEL – Power Transmission Line Project

The power line commenced operation on January 20, 2014, and as of June 30, 2014, the line has transmitted 361,682 MWh to Rubiales and Quifa fields and the ODL pipeline. As of the date of this report, the Quifa substation construction was 76.8% completed and the results from studies to increase transmission capacity from 192 MW to 262 MW have been positive; therefore, the formal proposal of the project is going to be submitted shortly to authorities for its approval, which approval is expected to be received in the following months. This expansion will help the Company meet current demands of the Rubiales and Quifa fields and the future developments in the Llanos basin with significant cost savings.

The conceptual engineering for the power transmission line to the CPE-6 block is currently in progress, the development of the environmental alternative analysis and land surveys are ongoing and environmental permits are expected to be filed with the corresponding authorities in the fourth quarter of 2014.

Caribbean FLNG (World's First Floating LNG Project)

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

The project comprises an 88-km, 18-inch gas pipeline from La Creciente Gas field to the Colombian Atlantic Coast and a Floating, Liquefaction and Storage Unit ("**FLSU**"). The FLSU will be connected to a Floating Storage Unit ("**FSU**") in order to allow FOB exports to standard carriers (130,000 to 150,000 CBM). Caribbean FLNG (the project name) will be the first floating liquefaction plant worldwide. The project was nominated for an innovation prize at the last LNG World Summit.

As of June 2014, basic and detailed engineering for the gas pipeline and the offshore jetty has been completed. Port concession terms for the LNG terminal have been released, and environmental permits for the gas pipeline have been filed with the corresponding authorities. As of the date of this report, the bidding process to select the EPC contractor is in progress.

Water Treatment for Agricultural Development

As of June 2014, the construction of the reverse osmosis water treatment plants reached 65% completion. The main plant operation now has 1,300 hectares of palm trees and an additional 1,200 hectares will be planted during the rainy season this year. The environmental permits to allow the use of treated water for agricultural purposes have been initiated.

This project represents an innovative approach for water disposal in Colombia. It brings benefits to oil producers in terms of lower operating costs and extending the economic life of the oil fields, and is also an excellent example of "shared value" with communities, bringing sustainable development from a social point of view to areas in need of development. The concept will be replicated by the Company in future developments in oil fields with high water-production rates.

Pacific Infrastructure: Puerto Bahía Terminal and Olecar Pipeline

As of June 30, 2014, the Company had a 41.65% interest in Pacific Infrastructure Ventures Inc. ("**Pacific Infrastructure**"), a private company that is currently developing Puerto Bahía, an oil export terminal located in Cartagena Bay in Colombia. Puerto Bahía will be developed in three phases: (i) 1.7 MMbbl of oil and petroleum product storage capacity, a berthing position for vessels of up to 80K DWT, a truck loading and unloading station with a capacity of up to 30 Mbbl/d and a fixed bridge; (ii) additional storage capacity of up to 3 MMbbl, an additional berthing position for vessels of up to 150K DWT and barge handling facilities with a capacity of up to 45 Mbbl/d; and (iii) a liquids terminal with capacity of up to 4 MMbbl, a multi-purpose terminal handling bulk materials, containers and a berthing platform with a length of 300 meters to handle dry materials. As of June 30, 2014, construction activities have had the following progress: the liquids terminal has reached 71%, the truck loading and unloading station is at 55% and the fixed bridge was 100% completed in March 2014.

Recognizing the strategic importance of the Puerto Bahía Terminal, Pacific Infrastructure signed an O&M agreement with Oiltanking International ("**Oiltanking**"). Oiltanking is recognized globally as a world-class operator of large-scale liquids terminals. During the second quarter of 2013, Pacific Infrastructure signed a credit agreement with Itau for $370 million, which was closed on February 25, 2014.

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

As of the date of this report, environmental permits for the Olecar pipeline have been granted by the ANLA and right-of-way negotiations are in progress. Engineering for the Coveñas and Reficar are under way. Purchase orders for long-lead items have been placed, including valves and main pumps, and the pipe has been received on site. CONCOCAR Consortium has been selected as the EPC Company for the construction of the pipeline. The Olecar project is currently 30% complete.

6. Commitments and Contingencies

Tax Review in Colombia

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

The DIAN has officially reassessed several value-added tax ("**IVA**") declarations on the basis that the volume of oil produced and used for internal consumption at certain fields in Colombia should have been subject to IVA. For the second quarter of 2014, the new amount reassessed, including interest and penalties, is estimated at $14.2 million. The Company disagrees with the DIAN's reassessment and official appeals have been initiated. Several other taxation periods back to 2011 in respect to IVA on field oil consumption are also currently under review by the DIAN. For the periods that are under review, if the DIAN's views were to prevail, the Company estimates that the IVA, including interest and penalties, could range between $12 million and $50.3 million. The Company continues to utilize oil produced for internal consumption, which is an accepted practice for the oil industry in Colombia.

The DIAN is also reviewing certain income tax deductions in respect to the special tax benefit for qualifying petroleum assets as well as other exploration expenditures. As of the date of this report, the DIAN has reassessed $77 million of tax owing, including estimated interest and penalties, with respect to the denied deductions.

As of June 30, 2014, the Company believes that the disagreements with the DIAN related to IVA and denied income tax deductions will be resolved in favour of the Company. As a result, no provision has been made in the financial statements.

High-Price Royalty in Colombia

The Company is currently in discussion with the ANH with respect to the interpretation of the high-price participation clause in certain exploration contracts. Please refer to "PAP Disagreement with the ANH" on page 25 for details relating to this contingency.

Commitments

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

Disclosures concerning the Company's significant commitments can be found in Note 21 of the Interim Condensed Consolidated Financial Statements. The Company has no off-balance sheet arrangements.

Risk Management Contracts

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

Disclosures concerning the Company's risk management contracts can be found in Note 24 of the Interim Condensed Consolidated Financial Statements.

7. Related-Party Transactions

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

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

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

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

a) During the three and six months ending June 30, 2014, the Company paid $2.1 million and $4.7 million (2013: $10 million and $22.8 million) to Transportadora Del Meta S.A.S. ("**Transmeta**") in crude oil transportation costs. In addition the Company has accounts receivable of $1.4 million (December 31, 2013: $1.5 million) from Transmeta and accounts payable of $1.6 million (December 31, 2013: $1.7 million) to Transmeta as at June 30, 2014. Transmeta is controlled by German Efromovich, a director of the Company.

b) As at June 30, 2014, the Company had trade accounts receivable of $3.8 million (December 31, 2013: $0.2 million) from Promotora de Energia Electrica de Cartagena & Cia, S.C.A.E.S.P. ("**Proelectrica**") in which the Company has a 24.9% indirect interest and which is 31.49% owned by Blue Pacific Assets Corp. ("**Blue Pacific**"). The Company and Blue Pacific have indirect interests held through Pacific Power Generation Corp. ("**Pacific Power**"). The Revenue from Proelectrica in the normal course of the Company's business was $4.4 million and $6.9 million for the three and six months that ended June 30, 2014 (2013: $10.7 and $21.9 million respectively).

   Three directors and officers, and an executive officer of the Company (Serafino Iacono, Miguel de la Campa, José Francisco Arata and Laureano von Siegmund) control, or provide investment advice to the holders of, 78% of the shares of Blue Pacific.

c) In October 2012, the Company and Ecopetrol signed two Build, Own, Manage, and Transfer ("**BOMT**") agreements with Consorcio Genser Power-Proelectrica and its subsidiaries ("**Genser-Proelectrica**") to acquire certain power generation assets for the Rubiales field. Genser-Proelectrica is a joint venture between Proelectrica and Genser Power Inc., which is 51% owned by Pacific Power. Total commitment under the BOMT agreements is $229.7 million over ten years. In April 2013 the Company and Ecopetrol entered into another agreement with Genser-Proelectrica to acquire additional assets for a total commitment of $57 million over ten years. At the end of the Rubiales Association Contract in 2016, the Company's obligations along with the power generation assets will be transferred to Ecopetrol. During the three and six months ending June 30, 2014 those assets were under construction and the Company paid cash advances of $9.7 million and $9.7 million, which were recorded in other assets (2013: $8.9 million and $9.4 million). The Company has accounts payable of $9.8 million (December 2013: $0.4 million) due to Genser-Proelectrica. On May 5, 2014, Meta provided a guarantee in favour of XM Compania de Expertos en Mercados S.A. on behalf of Proelectrica guaranteeing obligations pursuant to an energy supply agreement in the aggregate amount of approximately $16.7 million. To ensure that Meta would not be liable for any obligations beyond PRE's pro-rata share of Proeléctrica pursuant to the exercise of the guarantee, there is a promissory note in place between Meta and Proeléctrica. The cost of the guarantee was paid entirely by Proeléctrica.

d) In June 2007, the Company entered into a 5-year lease agreement with Blue Pacific for administrative office space in one of its Bogota, Colombia locations. Monthly rent expense of $0.087 million was payable to Blue Pacific under this agreement. Three directors and officers of the Company control, or provide investment advice to the holders of, 78% of the shares of Blue Pacific. During 2011, the lease was amended to include additional space in Bogota for a 10-year term with a monthly rent of $0.5 million and assignment of the lessor to an entity controlled by Blue Pacific. Effective January 1, 2014, Blue Pacific ceased to be a party to the lease agreements upon assigning the rights under these agreements to a third party that is not related to the Company.

e) The Company has entered into aircraft transportation agreements with Helicopteros Nacionales de Colombia S.A.S. ("**Helicol**"), a company controlled by German Efromovich, a director of the Company. During the three and six months ending June 30, 2014, the Company paid $3.7 million and $6.0 million (2013: $2.5 million and $6.9 million) in fees as set out under the transportation agreements. As at June 30, 2014, the Company had accounts payable of $4.5 million to Helicol (December 31, 2013: $2.5 million).

f) During the three and six months ending June 30, 2014, the Company paid $34.6 million and $63.2 million to ODL (2013: $28.1 million and $60.5 million), a pipeline company in which the Company has a 35% interest, for crude oil transport services under the pipeline take or pay agreement, and has accounts payable of $20.1 million to ODL as at June 30, 2014 (December 31, 2013: $7.4 million). The Company received $0.9 million and $1.0 million from ODL during the three and six months ending June 30, 2014 (2013: $0.2 million and $0.5 million) with respect to certain administrative services and rental equipment and machinery. The Company has accounts receivable from ODL as at June 30, 2014 of $0.5 million (December 31, 2013: $0.1 million).

g) During the three and six months ending June 30, 2014, the Company paid $45.0 million and $73.9 million to Bicentenario (2013: Nil), a pipeline company in which the Company has a 43% interest, for crude oil transport services under the pipeline take-or-pay agreement. As at Jun 30, 2014 the balance of loans outstanding to Bicentenario under the agreement in note 16 (other assets), is $42 million (December 31, 2013: $42 million). Interest income of $0.65 million and $1.3 million was recognized during the three and six months ended June 30, 2014 (2013: $0.5 million and $1.0 million). The Company has received Nil and $0.5 million during the three and six months ending June 30, 2014 (2013: $0.3 million and $0.7 million) with respect to certain administrative services and rental equipment and machinery. The Company has accounts receivable from Bicentenario as at June 30, 2014 of $42 million (December 31, 2013: $42 million) and advanced $110 million to Jun 30, 2014 (December 31, 2013: $90 million) to Bicentenario as a prepayment of transport tariff, which is amortized against the barrels transported. As of June 30, 2014 the Company has a receivable from Bicentenario of $20 million representing the return of a portion of the tariffs paid during the period of disrupted pipeline service.

h) The Company has established one charitable foundation in Colombia, the Pacific Rubiales Foundation, with the objective of advancing social and community development projects in the country. During the three and six months ending June 30, 2014, the Company contributed $13.9 million and $20.9 million respectively to this foundation (2013: $8.3 million and $19.1 million) and advanced $8.7 million to June 30, 2014 (December 31, 2013: $0.4 million). The Company's 2014 Sustainability Report provides additional details on various projects that the Pacific Rubiales Foundation supports and the amount disbursed to these projects. The Company's Executive Committee (comprised of Ronald Pantin, José Francisco Arata, Serafino Iacono and Miguel de la Campa) and an officer of the Company (Federico Restrepo) sit on the board of directors of the Pacific Rubiales Foundation.

i) As at June 30, 2014, the Company has a demand loan receivable from Pacific Infrastructure in the amount of $38 million. The loan is guaranteed by Pacific Infrastructure pipeline project and bears interest at 7% per annum. The Company owns 41.65% of Pacific Infrastructure. Ronald Pantin, José Francisco Arata, Serafino Iacono, Miguel de la Campa, Laureano von Siegmund and Federico Restrepo are on the board of directors of Pacific Infrastructure.

New standards, interpretations and amendments adopted by the Company

The accounting policies used in the preparation of the Interim Condensed Consolidated Financial Statements are consistent with those followed in the preparation of the Company's Annual Consolidated Financial Statements for the year that ended December 31, 2013, and the Interim Consolidated Financial Statements for the three months ending March 31, 2014.

Standards Issued but Not Yet Effective

IFRS 15 Revenue from Contracts with Customers

IFRS 15, "Revenue from Contracts with Customers" ("**IFRS 15**"), was issued in May 2014 and will replace IAS 11, "Construction Contracts," IAS 18, "Revenue Recognition," IFRIC 13, "Customer Loyalty Programmes," IFRIC 15, "Agreements for the Construction of Real Estate," IFRIC 18, "Transfers of Assets from Customers," and SIC-31, "Revenue – Barter Transactions Involving Advertising Services." IFRS 15 provides a single, principle-based five-step model that will apply to all contracts with customers with limited exceptions, including, but not limited to, leases within the scope of IAS 17 and financial instruments and other contractual rights or obligations within the scope of IFRS 9 "Financial Instruments" IFRS 10, "Consolidated Financial Statements" and IFRS 11, "Joint Arrangements." In addition to the five-step model, the standard specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities. IFRS 15 is required for annual periods beginning on or after January 1, 2017; earlier adoption is permitted. The Company is in the process of assessing the impact of IFRS 15 on its consolidated financial statements.

IFRS 9 (2014)

On July 24, 2014 the IASB issued the final version of IFRS 9 Financial Instruments ("IFRS 9 (2014)"), bringing together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard is effective for annual periods beginning on or after January 1 2018, with early application permitted. Retrospective application will be required; however, transition reliefs are provided (including no restatement of comparative period information). The Company is in the process of assessing the impact of IFRS 9 (2014) on its consolidated financial statements.

9. Internal Controls over Financial Reporting

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

During this quarter, 141 controls over four corporate processes were evaluated. From this evaluation, the Company concluded that there were no material weaknesses or significant deficiencies in the design and effectiveness of the controls evaluated.

During this quarter, Internal Audit continued reviews focused on identifying, evaluating, and addressing critical and material risks for the organization. The following are some of the most significant risks identified, as well as the actions initiated by management to mitigate them:

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

10. Outlook

The Company will continue to implement its growth strategy through the second half of 2014 by expanding its resource and reserve base and developing its production and transport capacity. The outlook for the remainder of 2014 includes:

- The Company is on track to grow average daily production by 15% – 25% from 2013 to approximately 148 to 162 Mboe/d.
- Total capital expenditures will be approximately $1.58 billion for the remainder of 2014, largely driven by development drilling, exploration and production facilities in Colombia and Peru. At least 85% of this capital program is expected to be funded by internally generated cash flow in a WTI oil price environment of $95.
- The exploration campaign is on schedule. For the remainder of the year, we will continue our plan of exploration drilling, seismic data acquisition and investment in early facilities, expected to total approximately $188 million.
- An estimated $602 million for the remainder of 2014 will be invested to drill 287 development wells (excluding workovers and injector wells). The focus will be on the development of Rio Ariari block, infill drilling in Quifa SW, Rubiales and Sabanero fields, and light oil development in the Cubiro block in Colombia. In addition, we will continue development drilling in Block Z-1 in Peru.
- The construction of facilities and infrastructure is on track, and we expect to incur around $589 million for the second half of the year. Investments will be directed primarily to Rubiales and Quifa SW fields, as well as light oil fields in Colombia.

11. Further Disclosures

Royalties and High-Price Participation

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

Additional Production Share in the Quifa SW Field

The Company's share of production after royalties in the Quifa SW field is 60%. However, this participation may change monthly as a function of the PAP formula stipulated in the Quifa Association Contract. Starting in April 2013, the Company initiated the delivery of the additional PAP production from the Quifa SW field to Ecopetrol. In addition, during the second half of 2013, the Company agreed to deliver to Ecopetrol approximately 6,500 bbl/d to settle the accumulated PAP prior to the final arbitration decision (previously recorded as a financial provision in the Company's financial statements starting at year-end 2012). During the first quarter of 2014, the Company fully delivered the remaining balance of prior period-accumulated PAP volumes.

Carrizales Field (Cravoviejo Block)

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

PAP Disagreement with the ANH

Through various business acquisitions, the Company secured certain exploration contracts where there existed outstanding disagreements with the ANH relating to the interpretation of the PAP clause. These contracts require PAP to be paid to the ANH once an exploitation area within a contracted area has cumulatively produced five million or more barrels of oil. The disagreement is around whether the exploitation areas under these contracts should be determined individually or combined with other exploitation areas within the same contracted area for the purpose of determining the five million barrel threshold. The ANH has interpreted that the high-price participation should be calculated on a combined basis.

The Company disagrees with the ANH's interpretation, and asserts that in accordance with the exploration contracts, the five million barrel threshold should be applied on each of the exploitation areas within a contracted area. The Company has several contracts that are subject to the ANH high-price participation. One of these contracts is the Corcel Block, which was acquired as part of the Petrominerales acquisition and which is the only one for which an arbitration process has been initiated. However, the arbitration process for Corcel was under suspension at the time the Company acquired Petrominerales. The amount under arbitration was approximately $150 million plus related interest of $70 million as of June 30, 2014. The Company also disagrees with the interest rate that the ANH has used in calculating the interest cost. The Company asserts that since the high-price participation is denominated in the U.S. dollar, the contract requires the interest rate to be three-month LIBOR plus +4%, whereas the ANH has applied the highest legally authorized interest rate on Colombian Peso liabilities, which was over 20%. The amount under discussion with the ANH for another contract is approximately $90 million plus interest.

The Company and the ANH are currently in discussion to further understand the differences in interpretation of these exploration contracts, and expect to resolve these differences within six to twelve months. The Company believes that it has a strong position with respect to the high-price participation based on legal interpretation of the contracts and technical data available. However, in accordance with IFRS 3, to account for business acquisitions the Company is required to and has recorded a liability for such contingencies as of the date of acquisition, even though the Company believes the disagreement will be resolved in favour of the Company. The Company does not disclose the amount recognized as required by paragraphs 84 and 85 of IAS 37, on the grounds that this would be prejudicial to the outcome of the dispute resolution.

Update on Environmental Permits

Colombia

During the second quarter of 2014, the Company requested the following environmental permits from the Environmental Authority in Colombia ("**ANLA**"):

- The global environmental licence for the Rio Ariari field to drill up to 720 wells that will allow the Company to develop the field.
- The environmental licence for the LNG export project, including the underwater pipeline and the offshore facilities, a process that was officially initiated by the ANLA. The Company is expecting to obtain the environmental licence in the third quarter of 2014.

12. Additional Financial Measures

This report contains the following financial terms that are not considered in IFRS: Adjusted Net Earnings, Adjusted EBITDA, Net Earnings from Operations, and Funds Flow from Operations. These non-IFRS measures do not have any standardized meaning and therefore are unlikely to be compared to similar measures presented by other companies. These non-IFRS financial measures are included because management uses this information to analyze operating performance, leverage and liquidity. Therefore, these measures should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

a) Adjusted Net Earnings

	Three Months Ending June 30		Six Months Ending June 30	
(in thousands of US$)	2014	2013	2014	2013
Adjusted net earnings	**$ 233,754**	**$ 105,820**	**$ 354,320**	**$ 221,788**
Non-operating items				
Other expenses	(14,681)	(24,282)	(35,150)	(20,560)
Gain (loss) from foreign exchange	13,644	(6,535)	11,869	8,436
(Loss) Gain on risk management	(2,530)	(537)	1,325	(6,188)
(Loss) Gain from equity investments	(1,660)	(187)	15,403	(1,819)
Total non-operating items	**(5,227)**	**(31,541)**	**(6,553)**	**(20,131)**
Net earnings attributable to equity holders of the parent, as reported	**$ 228,527**	**$ 74,279**	**$ 347,767**	**$ 201,657**

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

b) Adjusted EBITDA

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

A reconciliation of Net Earnings to Adjusted EBITDA follows:

	Three Months Ending June 30		Six Months Ending June 30	
(in thousands of US$)	2014	2013	2014	2013
Net earnings	**$ 228,527**	**$ 74,279**	**$ 347,767**	**$ 201,657**
Adjustments to net earnings				
Income taxes expense	39,397	132,996	188,855	297,614
Foreign exchange (gain) loss	(13,644)	6,535	(11,869)	(8,436)
Finance cost	64,655	37,076	126,150	84,653
Loss (gain) on risk management contracts	2,530	537	(1,325)	6,188
Gain (Loss) from equity investment	1,660	187	(15,403)	1,819
Other expenses	14,681	24,282	35,150	20,560
Share-based compensation	1,364	405	3,091	35,937
Loss attributable to non-controlling interest	(301)	(4,348)	(1,031)	(5,504)
Depletion, depreciation and amortization	382,703	332,486	758,345	665,009
Adjusted EBITDA	**$ 721,572**	**$ 604,435**	**$ 1,429,730**	**$ 1,299,497**

c) Net Earnings from Operations

(in thousands of US$)	Three Months Ending June 30 2014	Three Months Ending June 30 2013	Six Months Ending June 30 2014	Six Months Ending June 30 2013
Net earnings	**$ 228,527**	$ 74,279	**$ 347,767**	$ 201,657
Finance costs	64,655	37,076	126,150	84,653
Share of profit of equity-accounted investees	1,660	187	(15,403)	1,819
Foreign exchange (loss) gain	(13,644)	6,535	(11,869)	(8,436)
Gain (loss) on risk management	2,530	537	(1,325)	6,188
Other expenses	14,681	24,282	35,150	20,560
Income tax expense	39,397	132,996	188,855	297,614
Loss attributable to non-controlling interest	(301)	(4,348)	(1,031)	(5,504)
Net earnings from operations	**$ 337,505**	$ 271,544	**$ 668,294**	$ 598,551

d) Funds Flow from Operations

(in thousands of US$)	Three Months Ending June 30 2014	Three Months Ending June 30 2013	Six Months Ending June 30 2014	Six Months Ending June 30 2013
Cash flow from operating activities	$ 510,886	$ 109,180	$ 895,573	$ 731,713
Changes in non-cash working capital	(20,763)	(365,821)	(109,685)	(249,448)
Funds flow from operations	**$ 531,649**	**$ 475,001**	**$ 1,005,258**	**$ 981,161**

13. Sustainability Policies

- Our Sustainability and Stakeholder Engagement policies were approved on May 28, 2014 by the Board of Directors. Both policies will guarantee that all actors acting on behalf of the Company implement the best practices and conduct transparent engagement processes with all stakeholders.
- Our Company's water recycling initiative was featured in Professor Michael Porter's paper on Shared Value in Extractives. Pacific Rubiales was exhibited as a company committed to innovation by reconceiving the traditional use of residual water and finding a market opportunity for agricultural activities in water-stressed areas within the areas of operation.
- Pacific Rubiales was selected to present its paper "Water Recycling, a Shared Value Initiative" at the September 2014 Rio Oil & Gas Conference.
- We partnered with the IFC in the implementation of a financial valuation tool to measure the impact of our sustainability model and investments, allowing us to track our performance using financial metrics.
- We began a pilot project with Stakeware to systematize our sustainability indicators and our stakeholder engagement processes in our fields and administrative sites. This system will allow us to monitor our processes so as to map risks and guarantee timely and inclusive responses to all of our stakeholders.
- Our Annual and Sustainability Report 2014 was among the few to obtain the GRI4 materiality check, complying with the latest reporting standards implemented by the GRI international standard. The report was externally verified by Deloitte, guaranteeing the veracity of the information reported.
- In April we had our MAP Award ceremony to recognize companies within our supply chain that have complied with our policies and that have taken up projects that favour their competitiveness and our surroundings. We invited all of our suppliers to participate: 97 suppliers submitted projects for evaluation and 23 were recognized during the ceremony.
- Pacific Rubiales, through its CSR area, subscribed to a cooperation agreement with the government of the department of Meta so as to improve, enhance and develop the entrepreneurship and innovation potential of nine local municipalities. This effort is set to increase the competitiveness of the region, bringing prosperity and wealth to the inhabitants.
- Pacific Rubiales, generated an alliance with the IFC to structure and promote infrastructure projects that develop the technical skills of the departments in which we operate. The main objective is to train department officials to access national royalties. Pacific Rubiales has effectively supported 12 successful projects, representing a total investment of $25 million.

14. Risks and Uncertainties

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

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

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

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

Finding Costs

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

Boe Conversion

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

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

Prospective Resources

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

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

Translations

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

16. Abbreviations

The following abbreviations are frequently used in our MD&A.

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