



**PACIFIC RUBIALES ENERGY CORP.**

**ANNUAL INFORMATION FORM**

**FOR THE YEAR ENDED**

**DECEMBER 31, 2011**

**DATED: MARCH 14, 2012**

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## ABBREVIATIONS AND DEFINITIONS

bbl	barrels	MMboe	million barrels of oil equivalent
bbl/d	barrels per day	Mcf	thousand cubic feet
Bcf	billion cubic feet	Mcf/d	thousand cubic feet per day
boe	barrels of oil equivalent	MMBtu	million British thermal units
boe/d	barrels of oil equivalent per day	MMcf	million cubic feet
Btu	British thermal units	MMcf/d	million cubic feet per day
COP	Colombia pesos	NGL	natural gas liquids
km	kilometers	Psi	pounds per square inch
m	meters	Psia	pounds per square inch absolute
m <sup>2</sup>	square meters	Psig	pounds per square inch gauge
m <sup>3</sup>	cubic meters	Tcf	trillion cubic feet
Mbbl	thousand barrels	U.S.\$	United States dollars
MMbbl	million barrels	WI	working interest
Mboe	thousand barrels of oil equivalent		

**NOTE:** Disclosure provided herein that is expressed in barrels of oil equivalent (boe) is derived by converting natural gas to oil in the ratio of five thousand seven hundred cubic feet (Mcf) of natural gas to one barrel (bbl) of oil. Boe may be misleading, particularly if used in isolation. A boe conversion ratio of 5.7 Mcf: 1 bbl 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 Annual Information Form, the Company has expressed boe using the Colombian conversion standard of 5.7 Mcf: 1 bbl required by the Colombian Ministry of Mines and Energy.

## GLOSSARY OF TERMS

The following terms used but not otherwise defined in this Annual Information Form have the meanings set out below. Words importing the singular, where the context requires, include the plural and vice versa and words importing any gender include all genders.

### Non-Technical Terms

**“2009 Indenture”** has the meaning given to such term under the heading entitled “Historical Overview – 2009 Senior Notes Financing”.

**“2011 Indenture”** has the meaning given to such term under the heading entitled “Historical Overview – 2011 Senior Notes Financing”.

**“2009 Senior Notes”** has the meaning given to such term under the heading entitled “Historical Overview – 2009 Senior Notes Financing”.

**“2011 Senior Notes”** has the meaning given to such term under the heading entitled “Historical Overview – 2011 Senior Notes Financing”.

**“Abanico Contract”** has the meaning given to such term under the heading entitled “Oil and Natural Gas Contracts and Properties – Producing Properties”.

**“Amalgamation”** means the amalgamation of Pacific Stratus and a wholly-owned subsidiary of the Company pursuant to the Plan of Arrangement.

“**ANH**” means Agencia Nacional de Hidrocarburos, the governmental entity in the Republic of Colombia with responsibility for the granting of exploration and exploitation agreements with respect to hydrocarbons.

“**Annual Information Form**” means this Annual Information Form dated March 14, 2012 in respect of the fiscal year ended December 31, 2011.

“**Arauca TEA**” means the Arauca Technical Evaluation Agreement.

“**Arauca Contract**” means the Arauca Exploration & Production (E&P) contract.

“**Association Contract**” means a contract entered into with Ecopetrol, as amended, giving rights to the Company to explore and exploit Colombian state-owned hydrocarbons with participation rights for Ecopetrol, excluding those surface rights, easements and permits used, useful or held for use in connection with such contract.

“**Audit Committee**” means the Audit Committee of the Board of Directors.

“**BCBCA**” means the *Business Corporations Act* (British Columbia) including the regulations promulgated thereunder, as amended.

“**BDRs**” means Brazilian depository receipts representing Common Shares listed for trading on the BOVESPA.

“**Blue Pacific**” means Blue Pacific Assets Corp.

“**Board of Directors**” means the board of directors of the Company.

“**BOVESPA**” means BM&FBOVESPA S.A. - Bolsa de Valores Mercadorias e Futuros (or the Brazilian Stock Exchange).

“**Buganviles Contract**” has the meaning given to such term under the heading entitled “Oil and Natural Gas Contracts and Properties – Producing Properties”.

“**BVC**” means the Bolsa de Valores de Colombia (or the Colombian Stock Exchange).

“**Cerrito Contract**” has the meaning given to such term under the heading entitled “Oil and Natural Gas Contracts and Properties – Producing Properties”.

“**Cerrito MOU**” has the meaning given to such term under the heading entitled “Oil and Natural Gas Contracts and Properties – Producing Properties”.

“**CGX**” means CGX Energy Inc.

“**Chipalo Contract**” has the meaning given to such term under the heading entitled “Oil and Natural Gas Contracts and Properties – Producing Properties”.

“**Cicuco Contract**” has the meaning given to such term under the heading entitled “Oil and Natural Gas Contracts and Properties – Producing Properties”.

“**Common Shares**” means the common shares in the capital of the Company.

**“Company”** or **“Pacific Rubiales”** means Pacific Rubiales Energy Corp.

**“Consents”** has the meaning given to such term under the heading entitled “Historical Overview – 2009 Senior Notes Exchange Offer”.

**“Consent Solicitation”** has the meaning given to such term under the heading entitled “Historical Overview – 2009 Senior Notes Exchange Offer”.

**“Consent Solicitation Statement”** has the meaning given to such term under the heading entitled “Historical Overview – 2009 Senior Notes Financing”.

**“Consolidation”** has the meaning given to such term under the heading entitled “Information Concerning the Company”.

**“Contracted Area”** is the surface and its projection in the subsoil of the boundaries of the block, on which the Company is authorized, by virtue of different contracts, to carry out exploration for and evaluation and exploitation of hydrocarbons which are the object thereof.

**“Debentures”** has the meaning given to such term under the heading entitled “Historical Overview – Kappa Acquisition and Offering of Convertible Debentures”.

**“Debenture Indenture”** has the meaning given to such term under the heading entitled “Historical Overview – Kappa Acquisition and Offering of Convertible Debentures”.

**“Dindal Contract”** has the meaning given to such term under the heading entitled “Oil and Natural Gas Contracts and Properties – Producing Properties”.

**“Early Conversion Period”** has the meaning given to such term under the heading entitled “Historical Overview – Early Conversion of the Debentures”.

**“Early Participation Date”** has the meaning given to such term under the heading entitled “Historical Overview – 2009 Senior Notes Exchange Offer”.

**“Ecopetrol”** means Ecopetrol, S.A., a company majority-owned by the state of Colombia and involved in the exploration and exploitation of hydrocarbons.

**“E&P”** means exploration and production.

**“ELE”** means ELE Financial S.A.

**“Exchange Offer and Consent Solicitation”** has the meaning given to such term under the heading entitled “Historical Overview – 2009 Senior Notes Exchange Offer”.

**“Expiration Date”** has the meaning given to such term under the heading entitled “Historical Overview – 2009 Senior Notes Exchange Offer”.

**“forward-looking information”** has the meaning given to such term under the heading entitled “Forward-Looking Information”.

**“GMP”** means GMP Securities L.P.

“**HOCOL**” means HOCOL, S.A.

“**Kappa**” means Kappa Energy Holdings Ltd.

“**Kappa Acquisition**” has the meaning given to such term under the heading entitled “Historical Overview – Kappa Acquisition and Offering of Convertible Debentures”.

“**Kappa Agreement**” has the meaning given to such term under the heading entitled “Historical Overview – Kappa Acquisition and Offering of Convertible Debentures”.

“**La Creciente Contract**” has the meaning given to such term under the heading entitled “Oil and Natural Gas Contracts and Properties – Producing Properties”.

“**Lando**” means Lando Industrial Park, S.A.

“**Las Quinchas Contract**” has the meaning given to such term under the heading entitled “Oil and Natural Gas Contracts and Properties – Producing Properties”.

“**Letter Agreement**” has the meaning given to such term under the heading entitled “Oil and Natural Gas Contracts and Properties – Producing Properties”.

“**M&P Colombia**” means Maurel & Prom Colombia B.V.

“**Major**” means Major International Oil, S.A., a company duly incorporated under the laws of Panama and a direct wholly-owned subsidiary of the Company.

“**Maurel**” means Les Etablissements Maurel & Prom, S.A.

“**Mercantile**” means Mercantile Colombia Oil and Gas, a company duly incorporated under the laws of British Virgin Islands, which is currently named “Interoil Colombia Exploration and Production”, with a branch office duly incorporated in Colombia.

“**Meta**” means Meta Petroleum Corp., a company duly incorporated under the laws of Panama and an indirect wholly-owned subsidiary of the Company.

“**MME**” is the Colombian Ministry of Mines and Energy.

“**NI 51-101**” means National Instrument 51-101 – *Statement of Reserves Data and Other Oil and Gas Information*.

“**OAM**” means Oleoducto Alta Magdalena.

“**OBC**” means Oleoducto Bicentenario de Colombia.

“**OBC Pipeline**” means the pipeline between Araguaney, in the Casanare Department of central Colombia, to the Coveñas Export Terminal in the Caribbean.

“**OCENSA**” means Oleoducto Central S.A.

“**OCENSA Pipeline**” means the pipeline between the Monterrey Station to the Coveñas Export Terminal in the Caribbean.

“**ODC**” means Oleoducto de Colombia S.A.

“**ODC Pipeline**” means the pipeline that runs from the Vasconia Station in Puerto Boyacá (Boyaca Department) to the Caribbean Port of Coveñas (Cordoba Department).

“**ODL**” means Oleoducto de los Llanos Orientales S.A.

“**ODL Pipeline**” means the pipeline between the Rubiales field and the Monterrey Station in Casanare, Colombia.

“**OGD**” means Guaduas-La Dorada pipeline.

“**Pacific Acquisition**” has the meaning given to such term under the heading entitled “Information Concerning the Company”.

“**Pacific Coal**” means Pacific Coal Resources Ltd., and any predecessor company.

“**Pacific Infrastructure**” means Pacific Infrastructure Inc. and any predecessor company.

“**Pacific Power**” means Pacific Power Generation Corp. (formerly Ronter Inc.), a company duly incorporated under the laws of Panama in which the Company has a 20.15% equity interest.

“**Pacific Stratus**” means Pacific Stratus Energy Corp.

“**PAP Formula**” has the meaning given to such term under the heading entitled “Exploration Properties – Ecopetrol Contracts – Quifa Contract”.

“**Participation Risk Contract**” means a contract entered into with Ecopetrol giving rights to the Company to explore and exploit Colombian state-owned hydrocarbons with participation rights for Ecopetrol in the exploratory phase, and excluding those surface rights, easements and permits used, useful or held for use in connection with such contract.

“**person**” includes an individual, body corporate, partnership, syndicate or other form of unincorporated entity.

“**Petroamerica**” means Petroamerica Oil Corp.

“**Petrodorado**” means Petrodorado Ltd.

“**Petroelectrica**” means Petroeléctrica de los Llanos, S.A.

“**PetroMagdalena**” means PetroMagdalena Energy Corp.

“**Petrotech**” means Petrotech Engineering Ltd. of Burnaby, British Columbia, Canada, an independent petroleum engineering consulting firm.

“**PF One**” means PF One Limited, a company duly incorporated under the laws of the Cayman Islands.

“**Plan of Arrangement**” means the arrangement in which the Company effected the acquisition of Pacific Stratus.

**“PRE-PSIE”** means PRE-PSIE CÖOPERATIEF U.A., a Dutch subsidiary beneficially owned by the Company.

**“Proelectrica”** means Promotora de Energia Electrica de Cartagena & Cia, S.C.A. E.S.P.

**“PSIE”** means Pacific Stratus International Energy Ltd., a direct wholly-owned subsidiary of the Company, formed upon the Amalgamation and the successor company to Pacific Stratus.

**“Puli-B Contract”** has the meaning given to such term under the heading entitled “Oil and Natural Gas Contracts and Properties – Producing Properties”.

**“Quifa”** means Quifa Petroleum Corp., a company duly incorporated under the laws of Panama and an indirect wholly-owned subsidiary of the Company.

**“Quifa Contract”** has the meaning given to such term under the heading entitled “Oil and Natural Gas Contracts and Properties – Producing Properties”.

**“Quifa SW”** means the south western region of the Quifa field.

**“RBL Facility”** has the meaning given to such term under the heading entitled “Historical Overview – RBL Facility”.

**“Revolving Credit Facility”** has the meaning given to such term under the heading entitled “Historical Overview – Revolving Credit Facility”.

**“RHL”** means Rubiales Holdings Corp., a company duly incorporated under the laws of Panama and a direct wholly-owned subsidiary of the Company.

**“RHL Acquisition”** means the acquisition by the Company of a 75% share interest in RHL.

**“Rio Seco Contract”** has the meaning given to such term under the heading entitled “Oil and Natural Gas Contracts and Properties – Producing Properties”.

**“RPS”** means RPS Energy Canada Ltd., of Calgary, Alberta, an independent petroleum engineering consulting firm.

**“Rubiales field”** means the Company’s producing oil field located within the Rubiales and Piriri concessions.

**“Shareholder”** means a holder of Common Shares.

**“Superfinanciera”** has the meaning given to such term under the heading entitled “Historical Overview – BVC Listing”.

**“TEA”** means Technical Evaluation Agreement.

**“Tethys”** means Tethys Petroleum Company Inc., a company duly incorporated under the laws of Panama and an indirect, wholly-owned subsidiary of the Company.

**“Topoyaco MOU”** has the meaning given to such term under the heading entitled “Oil and Natural Gas Contracts and Properties – Producing Properties”.



“**Transmeta**” means Transportadora Del Meta, S.A.

“**TSX**” means the Toronto Stock Exchange (including any predecessor exchange thereto).

“**TSXV**” means the TSX Venture Exchange (including any predecessor exchange thereto).

“**Warrants**” means the warrants in the capital of the Company issued in connection with the RHL Acquisition.

### **Technical Terms**

“**barrel**” means the volume unit of measure of liquid hydrocarbons equivalent to forty-two (42) U.S. gallons, corrected to standard conditions (a temperature of sixty degrees Fahrenheit (60°F) and to one (1) atmosphere of absolute pressure).

“**DRA**” means drag reducing agents.

“**ESP**” means Electro-Submersible Pump.

“**hydrocarbons**” are all the organic compounds mainly composed of the natural mixture of carbon and hydrogen, as well as of those substances which accompany them or are derived from them.

“**natural gas**” is the mixture of hydrocarbons in a gaseous state, under standard conditions (a temperature of sixty degrees Fahrenheit (60° F) and one (1) atmosphere of absolute pressure), composed of the most volatile members of the paraffin series of hydrocarbons.

“**reserves**” means estimated reserves of natural gas, natural gas liquids and crude oil.

“**SFD**” means stress field detector.

“**STOOIP**” means Stock Tank Original Oil in Place, and represents the oil in place before commencement of production.

“**TVDSS**” means true vertical depth sub-sea.

“**undeveloped reserves**” means reserves that are expected to be recovered from a known accumulation where a significant expenditure is required to render them capable of production (e.g. in comparison to the costs of drilling a well). Such reserves must fully meet the requirements of the reserves classification to which they are assigned (proved or probable).

“**working interests**” means the percentage of participation within a specified area for the exploration and/or production of hydrocarbons.

“**workover**” means an operation carried out in the walls of a well after being completed to ensure, restore or improve production in a zone that is currently open for production in the well. Said operations will include, but are not limited to, well stimulation operations, excluding however any routine repair or maintenance work, drilling, sidetracking, deepening, completion, recompletion or retroplugging of a well.

## FORWARD-LOOKING INFORMATION

This Annual Information Form may contain or incorporate by reference information that constitutes “forward-looking information” or “forward-looking statements” (collectively, “**forward-looking information**”) within the meaning of the applicable securities legislation which involves known and unknown risks, uncertainties, and other factors which may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking information. When used in this Annual Information Form, such information uses words such as “may”, “will”, “expect”, “believe”, “plan”, “intend” and other similar terminology. This forward-looking information reflects current expectations regarding future events and operating performance and speaks only as of the date of this Annual Information Form. Forward-looking information involves significant risks and uncertainties, should not be read as a guarantee of future performance or results, and will not necessarily be an accurate indication of whether or not such results will be achieved and accordingly undue reliance should not be placed on such statements. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking information, including, but not limited to, the factors discussed under the heading entitled “Risk Factors”. Although the forward-looking information contained in this Annual Information Form is based upon what management of the Company believes are reasonable assumptions, the Company cannot assure readers that actual results will be consistent with the forward-looking information. This forward-looking information is made as of the date of the Annual Information Form, and the Company assumes no obligation to update or revise it to reflect new events or circumstances.

In particular, this Annual Information Form contains, or incorporates by reference, forward-looking information pertaining to the following:

- drilling inventory, drilling plans and timing of drilling, re-completion and tie-in of wells;
- plans for facilities construction and completion and the timing and method of funding thereof;
- the performance characteristics of the Company’s oil and natural gas properties;
- drilling, completion and facilities costs;
- results of various projects of the Company;
- timing of development of undeveloped reserves;
- the Company’s oil and natural gas production levels;
- the size of the Company’s oil and natural gas reserves;
- projections of market prices and costs;
- supply and demand for oil and natural gas;
- expectations regarding the ability to raise capital and to continually add to reserves through acquisitions, exploration and development;
- treatment under governmental regulatory regimes and tax laws; and
- capital expenditure programs and the timing and method of financing thereof.

With respect to forward-looking information contained in this Annual Information Form, the Company has made assumptions regarding, among other things:

- future prices for oil and natural gas;
- future currency and interest rates;
- the Company’s ability to generate sufficient cash flow from operations and access existing credit facilities and capital markets to meet its future obligations;
- the regulatory framework representing taxes and environmental matters in the countries in which the Company conducts its business; and

- the Company's ability to obtain qualified staff and equipment in a timely and cost-efficient manner to meet the Company's demand.

Forward-looking information is based on current expectations, estimates and projections that involve a number of risks which could cause actual results to vary and in some instances to differ materially from those anticipated by the Company and described in the forward-looking information contained in this Annual Information Form. The material risk factors include, but are not limited to:

- volatility in market prices for oil and natural gas;
- the potential for the return of conditions persisting during the recent global financial crisis and economic downturn;
- liabilities inherent in oil and gas operations;
- uncertainties associated with estimating oil and natural gas reserves;
- competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel;
- incorrect assessments of the value of acquisitions;
- geological, technical, drilling and processing problems;
- fluctuations in foreign exchange or interest rates and stock market volatility;
- changes in income tax laws or changes in tax laws and incentive programs relating to the oil and gas industry; and
- the other factors discussed under the heading entitled "Risk Factors".

Information relating to "reserves" or "resources" is deemed to be forward-looking information, as it involves the implied assessment, based on certain estimates and assumptions about the profitable production of the resources and reserves described.

Readers are cautioned that the foregoing lists of factors are not exhaustive. The forward-looking information contained in this Annual Information Form is expressly qualified by this cautionary statement. The Company does not undertake any obligation to publicly update or revise any forward-looking information, other than as required by applicable securities laws.

## **GENERAL MATTERS**

In this Annual Information Form, unless otherwise indicated, all dollar amounts are expressed in Canadian dollars and references to "\$" are to Canadian dollars.

The industry and other statistical data presented in this Annual Information Form, except where otherwise noted, have been compiled from sources and participants which, although not independently verified by the Company, are considered by the Company to be reliable sources of information. References in this Annual Information Form to research reports or articles should not be construed as depicting the complete findings of the entire referenced report or article and such report or article is expressly not incorporated by reference into this Annual Information Form.

## **EXCHANGE RATE INFORMATION**

### **United States Exchange Rate Information**

The following table sets out: (1) the rate of exchange for one Canadian dollar in U.S. dollars in effect at the end of each of the periods set out immediately below; (2) the high and low rate of exchange during those periods; and (3) the average rate of exchange for those periods, each based on the noon spot rate as

published on the Bank of Canada's website. On March 13, 2012 the noon nominal rate for one Canadian dollar in U.S. dollars as published by the Bank of Canada was CDN\$1.00 = U.S.\$1.0096.

	High	Low	Average	End of Period
Years ended December 31,				
2011	1.0583	1.0110	0.9430	0.9833
2010	1.0054	0.9278	0.9709	1.0054
2009	0.9716	0.7692	0.8757	0.9555

### Colombia Exchange Rate Information

The following table sets out: (1) the rate of exchange for one Canadian dollar in Colombian pesos (COP) in effect at the end of each of the periods set out immediately below; (2) the high and low rate of exchange during those periods; and (3) the average rate of exchange for those periods, each based on the noon spot rate as published on the Bank of Canada's website. On March 13, 2012 the noon nominal rate for one Canadian dollar in Colombian pesos as published by the Bank of Canada was CDN\$1.00 = COP 1,776.1989.

	High	Low	Average	End of Period
Years ended December 31,				
2011	1,968.5039	1,792.1147	1,867.4484	1,904.7619
2010	1,960.7843	1,709.4017	1,840.9001	1,930.7619
2009	2,079.0021	1,763.6684	1,882.9001	1,956.9472

## INFORMATION CONCERNING THE COMPANY

### Name, Address and Incorporation

The full legal name of the Company is Pacific Rubiales Energy Corp. The head office of the Company is located at 333 Bay Street, Suite 1100, Toronto, Ontario M5H 2R2 and its records office is located at Suite 650 - 1188 West Georgia Street, Vancouver, British Columbia, V6E 4A2.

The Company was incorporated under the laws of the Province of British Columbia on April 10, 1985 under the name Agincourt Explorations Inc. On September 13, 1995, the Company changed its name to AGX Resources Corp. The Company was continued as a corporation of the Yukon Territories on May 22, 1996. On November 26, 1999, the Company changed its name to Consolidated AGX Resources Corp. The Company was continued back into the Province of British Columbia on July 9, 2007.

On July 13, 2007 in conjunction with the Company's acquisition of a 75% share interest in RHL completed on the same date, the Company changed its name to Petro Rubiales Energy Corp. The Company subsequently acquired the remaining 25% interest in RHL in November, 2007.

On January 23, 2008, the Company completed the acquisition of Pacific Stratus (the "**Pacific Acquisition**") and, in conjunction with the Pacific Acquisition, the Company changed its name to Pacific Rubiales Energy Corp. The Pacific Acquisition was effected through the Amalgamation, pursuant to the Plan of Arrangement, under which Pacific Stratus shareholders received 9.5 pre-Consolidation Common

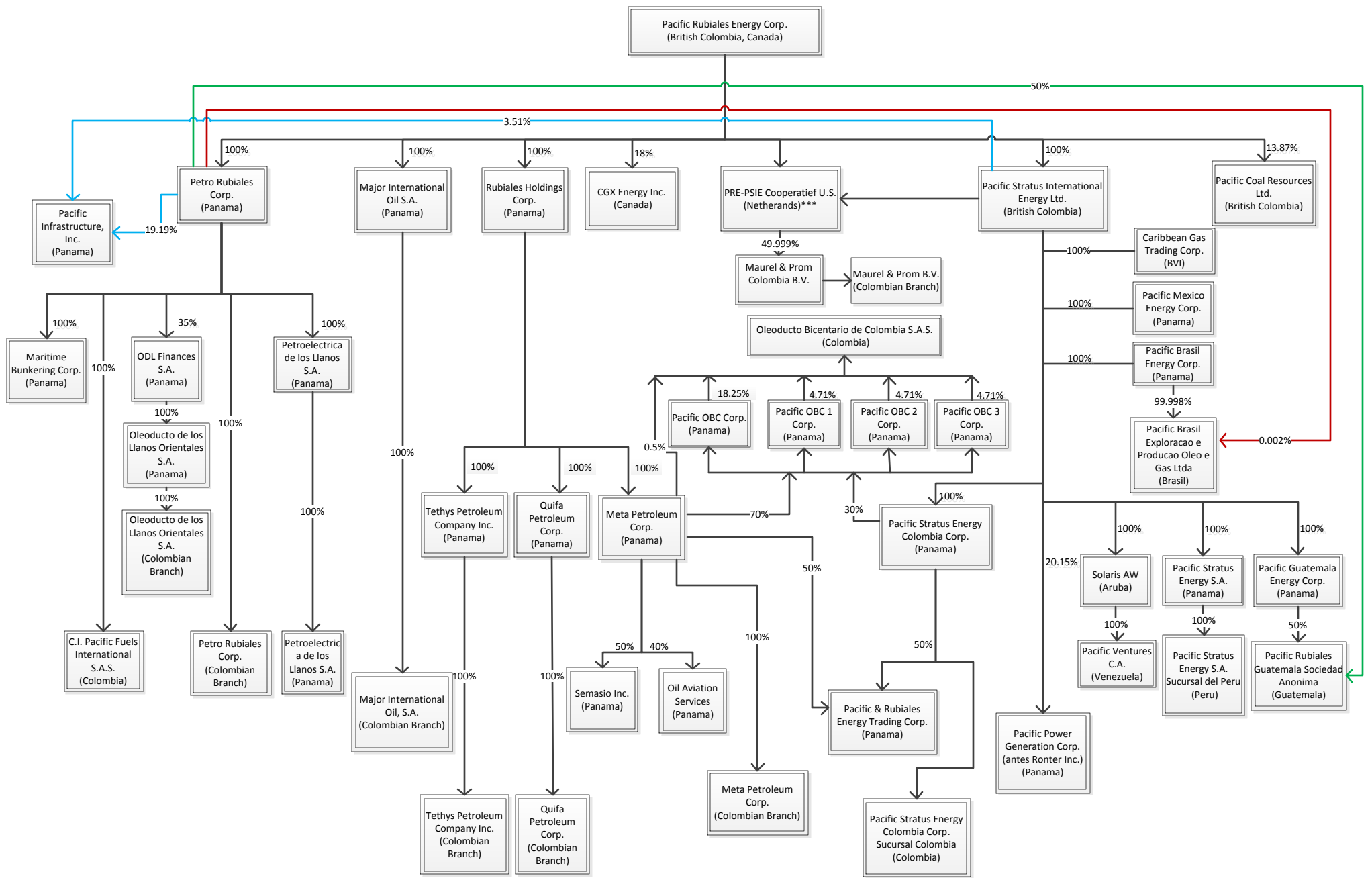
Shares for every Pacific Stratus share held at closing. Warrants and options of Pacific Stratus were exchanged based upon the same ratio.

On May 9, 2008, the Company consolidated its Common Shares on a 1:6 basis (the “**Consolidation**”) by issuing one Common Share for every six Common Shares then outstanding.

The Common Shares trade on the TSX, the BVC and as BDRs on the BOVESPA.

### **Intercorporate Relationships**

The following chart illustrates the principal subsidiaries of the Company, together with the jurisdiction of incorporation of each company and the percentage of voting securities beneficially owned or over which control or direction is exercised by the Company as at December 31, 2011:



\*\*\* A Dutch Coop is not a corporation with a capital divided into shares/interests but is a form of an association where the members have Membership rights.

## GENERAL DEVELOPMENT OF THE BUSINESS

Pacific Rubiales is a producer of natural gas and heavy crude oil and owns 100 percent of Meta, a Colombian oil operator which operates the Rubiales, Piriri and Quifa oil fields in the Llanos Basin in association with Ecopetrol, and also operates the La Creciente natural gas field. The Company is focused on identifying opportunities primarily within the eastern Llanos Basin of Colombia as well as in other areas in Colombia, northern Peru and Guatemala. In 2011, the Company had average net production of 86,497 boe/d, after royalties, with working interests in 43 blocks in Colombia, Peru and Guatemala.

### Historical Overview

The following describes the significant events in the development of the Company's business over the last three years.

#### *ODL Pipeline*

On January 2, 2008, the Company signed a memorandum of understanding with Ecopetrol for the construction and operation of the ODL Pipeline, through a special purpose company, ODL, owned 65% by Ecopetrol and 35% by Pacific Rubiales.

On March 12, 2009, ODL secured a debt facility from Grupo Aval, a Colombian banking group led by Banco de Bogotá for approximately U.S.\$200 million (disbursed in Colombian Pesos) to finance the construction of this pipeline.

The construction of the ODL Pipeline, initially having a length of 235 km, a diameter of 24 inches and a capacity of 170,000 bbl/d, was concluded in early September 2009, representing a total construction time of only 21 months. Line-fill commenced on September 10, 2009, four days before its inauguration by the then President of Colombia, Mr. Alvaro Uribe. The completion of this first phase of the project allowed the transportation of 68,000 bbl/d of diluted crude through the ODL Pipeline to the Monterrey station for dilution to 18.5° API where the blended product is transported through the OCENSA Pipeline system to the export terminal port of Coveñas on the Caribbean coast, as part of the Castilla crude stream (18.5° API Colombian commercial grade).

The second phase of the ODL Pipeline project was fully commissioned in February 2010. Operations and maintenance of the pipeline was transferred to Ecopetrol in April 2010, as set out in the shareholders agreement governing ODL. Since then, the ODL Pipeline has been fully operational. The maximum capacity has exceeded 200,000 bbl/d with the use of DRA.

In November 2009, the ODL board of directors approved an expansion of the pipeline from 170,000 bbl/d to 340,000 bbl/d. The project included construction of a pipeline branch to the Cusiana station (already in operation), construction of two booster stations and increased storage capacity at the Rubiales pumping station. As of December 31, 2011, all construction for the expansion project was completed.

In addition, ODL is pursuing a project involving an extension of the existing pipeline and consisting of a new 85 km and 36 inch diameter pipeline with capacity to transport up to 460,000 bbl/d between Cusiana and Araguaney. This will allow the connection of the ODL Pipeline to the OBC Pipeline. Once this project is in operation, oil production from the Company's blocks in the Llanos Basin will have access to the export terminal of Coveñas through the existing Caño Limón pipeline. Engineering and environmental permits for the extension of the ODL Pipeline started in late 2011.

For further details regarding the ODL Pipeline see the heading entitled "Pipelines".

### *Proelectrica Investment*

In June 2008, the Company announced that it had acquired a 21.7% indirect interest in Proelectrica, a Colombia-based 90 megawatt electrical utility. The Company acquired an indirect interest in Proelectrica through two equity investments totaling U.S.\$8.7 million in Pacific Power, a private Panamanian company which owns 100% of the shares of Proelectrica. Proelectrica is paid a premium as a peak demand energy supplier to the fast growing Cartagena area. The Company has entered into several take or pay agreements as well as interruptible gas sales and transport agreements to supply gas from the La Creciente natural gas field to Proelectrica's gas-fired plant. For further information see the heading entitled "Related Party Transactions".

### *Port Investment*

In July 2008, the Company acquired from ELE an option to purchase two lots of land in Cartagena. The intent of the Company was to build a gas compression plant for export purposes on one of the lots and to use the second lot to build an oil products terminal. The option had previously been acquired by ELE from Lando. The total consideration for the lots was U.S.\$11 million, consisting of a payment for the option and the actual purchase price for the lots, of which the Company advanced Lando U.S.\$6 million. Since then, the Company has decided to locate its gas export project in Coveñas, thereby eliminating the need for one of the two lots.

Subsequently, pursuant to a settlement agreement dated January 29, 2010, Lando agreed that the Company could return the first lot without penalty and the Company agreed to grant Lando an extension until July 31, 2010, to transfer to the Company ownership over the second lot. The U.S.\$6 million paid initially by the Company was credited as full payment of the amount due to ELE for the assignment of the option and the purchase price for the first lot, due to Lando.

On September 29, 2010, Petro Rubiales entered into a share purchase agreement with Energy Power Consulting and Services Corp. with respect to the purchase of a 4% equity interest in Lando on a fully-diluted basis. On September 30, 2010, Lando changed its name to Pacific Infrastructure Inc.

In 2011, the Company acquired an additional 5.83% equity interest in Pacific Infrastructure as a result of two separate share purchase agreements with third party sellers. The aggregate cost for this additional interest was U.S.\$7,287,500.

As a result of the Company's participation in a private placement investment in Pacific Infrastructure, a reorganization of its share capital, and the purchase of additional equity interests, the Company currently holds a 22.7% equity interest in Pacific Infrastructure for a total aggregate investment of U.S.\$17,787,500.

Pacific Infrastructure is developing a new crude oil and products terminal and port in Cartagena, as well as a new pipeline that will link Coveñas with Cartagena in the Caribbean region. With a relatively small investment, the Company has secured alternative storage and port capacity for both its imports and growing exports. For further information see the heading entitled "Related Party Transactions".

### *Kappa Acquisition and Offering of Debentures*

On September 3, 2008, the Company acquired 100% of Kappa for U.S.\$170.4 million in cash and acquisition costs of U.S.\$2.7 million (the "**Kappa Acquisition**") pursuant to a purchase and sale agreement dated July 4, 2008 (the "**Kappa Agreement**") among the Company and each shareholder of



Kappa. Kappa was a Colombian oil and gas exploration and production company which held exploration and production licenses in Colombia, where it had been operating since 1997.

Financing for the Kappa Acquisition was provided through an offering of \$220 million principal amount of 8% convertible unsecured subordinated debentures (the “**Debentures**”), due August 29, 2013, which are convertible into Common Shares. A syndicate of underwriters, led by GMP, purchased the Debentures pursuant to an underwriting agreement dated August 7, 2008 and exercised an over-allotment option to purchase an additional \$20 million principal amount of Debentures at the same offering price. Excess funds from the offering of Debentures were committed to the general working capital requirements of the Company. The Debentures were issued under a debenture indenture (the “**Debenture Indenture**”) dated August 28, 2008 between the Company and Equity Financial Trust Company (formerly Equity Transfer & Trust Company).

In 2009, the Company, in order to achieve financial and administrative efficiency, merged its two wholly-owned subsidiaries, PSIE and Kappa, with the former being the surviving company. In turn, all of the assets, rights and obligations of Kappa and its subsidiaries were absorbed by PSIE.

#### *Llanomulsion Project*

In January 2009, the Company started the development of a special transport emulsion formula (oil in water), which could eliminate the need for diluents. The formula, called “Llanomulsion”, increases pipeline capacity by reducing fluid viscosity to one-third of the original viscosity of the diluted crude.

At the end of 2011, the commissioning process for facilities for manufacturing Llanomulsion in CPF-1 was completed. Operating and management procedures and the protocol for the industrial test were conveyed to the stakeholders – being the Company, ODL, OCENSA and Ecopetrol – in order to make the decision to perform an industrial test in the second half of 2012. In the meantime, the design parameters for breaking down the emulsion, engineering and construction continue to be developed.

Successful implementation of this technology is expected to have a significant impact on the transportation costs for the Rubiales and Quifa fields, and could represent a breakthrough for the development of the Llanos Basin.

#### *RBL Facility*

During the second quarter of 2009, the Company put in place and secured commitments for a U.S.\$250 million senior secured revolving reserves-based credit facility (the “**RBL Facility**”) with BNP Paribas, Calyon, Banco Davivienda, Banco de Bogotá, Bancolombia, Banco de Occidente and WestLB AG. The RBL Facility had a maturity of June 30, 2013, and bore interest at LIBOR plus 5.50%. The Company paid commitment fees of 1.50% on the unutilized portion of outstanding commitments under the RBL Facility. The RBL Facility was subsequently terminated and repaid in full by the Company on November 10, 2009 upon closing of the 2009 Senior Notes financing, as described below.

#### *2009 Senior Notes Financing*

On November 10, 2009, the Company closed an offering of U.S.\$450 million senior unsecured notes (the “**2009 Senior Notes**”) at a rate of 8.75%. The 2009 Senior Notes were issued at a price of 99.09% of the principal amount, for aggregate net proceeds to the Company of approximately U.S.\$442 million, after taking into account discounts, commissions and expenses of the offering. The net proceeds from the 2009 Senior Notes were used by the Company to: (i) repay U.S.\$250 million, equal to the entire principal outstanding, plus accrued interest, under the RBL Facility; and (ii) for general corporate purposes.

The 2009 Senior Notes are direct, unsecured senior obligations of the Company and rank equal in right of payment with all of its existing and future senior unsecured debt. The Company will redeem a portion of the principal of the 2009 Senior Notes on each of November 10, 2014 (33.33%), November 10, 2015 (33.33%), and November 10, 2016 (33.34%). The Company may, at its option at any time, redeem the 2009 Senior Notes, in whole but not in part, at the greater of: (i) 100% of their principal amount plus accrued interest and additional amounts, if any; and (ii) the sum of the present values of the remaining scheduled payments of principal and interest and additional amounts, if any, on the notes, discounted to the date of redemption at the applicable treasury rate plus 75 basis points.

Effective November 10, 2009, the Company listed the 2009 Senior Notes on the Official List of the Luxembourg Stock Exchange and they trade on the Euro MTF market.

In June 2010, the Company commenced a consent solicitation process with respect to an amendment to the indenture governing the 2009 Senior Notes (the “**2009 Indenture**”) pursuant to the Company’s consent solicitation statement dated as of June 30, 2010 (the “**Consent Solicitation Statement**”). Pursuant to the Consent Solicitation Statement, the Company successfully solicited consents to amend the 2009 Indenture to provide the Company with needed flexibility to invest in minority equity investments in joint venture entities that are engaged in any business that is related, ancillary or complementary to the business of the Company, and to provide guarantees of the indebtedness of such entities. On July 14, 2010, the Company received the requisite number of consents from holders of the 2009 Senior Notes in order to effect the proposed amendment to the 2009 Indenture. In connection with the consent solicitation process, the Company paid each noteholder who validly delivered a consent prior to July 14, 2010, U.S.\$2.50 for each U.S.\$1,000 in principal amount of 2009 Senior Notes.

#### *BVC Listing*

On December 18, 2009, the Company received approval from the Superintendencia Financiera de Colombia (“**Superfinanciera**”), the Colombian regulatory entity responsible for supervising public issuers, for the listing of its Common Shares on the BVC. The Company was the first international issuer to have its shares listed on the BVC. The Common Shares commenced trading on the BVC beginning the week of December 21, 2009 under the symbol “PREC”.

The listing did not involve the issuance of new Common Shares or any other securities or derivatives, as it was structured solely to allow the Common Shares that were then issued and outstanding, and trading on the TSX, to be tradeable by investors through the facilities of the BVC. Other than enabling investors to buy and sell the Common Shares in Colombian Pesos, the listing did not result in any changes to the rights and entitlements of holders of Common Shares, irrespective of whether investors purchased their Common Shares through the TSX or the BVC.

#### *Early Exercise of Warrants*

On January 12, 2010, more than 66 2/3% of the Company’s Warrants outstanding as of December 14, 2009 were exercised allowing the Company to complete a subsequent squeeze out transaction for any Warrants not exercised. The Warrants no longer trade on the TSX. As of the date hereof, there are 6,851 Warrants issued and outstanding, which represent Warrants that were held by U.S. holders and not subject to the squeeze out process. For further information see the heading entitled “Description of Capital – Warrants”.

### *Revolving Credit Facility*

During April 2010, the Company closed the syndication of a U.S.\$250 million unsecured revolving credit facility (the “**Revolving Credit Facility**”). On April 13, 2011, the Company closed an amendment to the Revolving Credit Facility (the “**Amendment**”) increasing the Revolving Credit Facility to U.S.\$350 million. The Amendment was limited to the same lenders under the Revolving Credit Facility and, in addition to increasing the aggregate amount of the facility from U.S.\$250 million to U.S.\$350 million, under the terms of the Amendment the Company extended the term of the Revolving Credit Facility to April, 2013 and reduced the applicable commitment fees from 1% to 0.75% and the applicable margin from 3.25% to 2.50% over LIBOR based on the Company’s current rating assigned to the Company’s senior debt securities by Standard & Poor’s Ratings Group and Fitch Inc.

Subject to customary acceleration events set forth in the credit agreement relating to the Revolving Credit Facility, or unless terminated earlier by the Company without penalty, repayment of outstanding principal on the Revolving Credit Facility will be made in full on April 26, 2013.

As at December 31, 2011 the Company had drawn down U.S.\$193 million under the U.S.\$350 million Revolving Credit Facility.

### *Pacific Coal*

During the third quarter of 2010, the Company acquired 24 million common shares in the capital of Pacific Coal (representing a 20% interest at the time of the subscription), a then private company incorporated in Panama, for U.S.\$24 million. Since the time of the initial subscription by the Company, Pacific Coal has gone public and the Company has invested an additional approximately U.S.\$30 million in Pacific Coal. Pacific Coal is engaged in the acquisition and development of coal mining and asphaltite assets and related businesses in Colombia. Four directors and one officer of the Company are also directors of Pacific Coal.

The investment in Pacific Coal represents a decision by the Company to participate in the development of asphaltite and coal assets. The asphaltite resources, in particular, if economically developed, will afford the Company access to large and very profitable markets for export and domestic needs as Colombia tackles its burgeoning need to expand its road infrastructure as well as service other industrial uses that arise in a growing economy.

Pacific Coal’s common shares and warrants trade on the TSXV. As of the date hereof, the Company holds 10.8% of the issued and outstanding common shares in the capital of Pacific Coal on a fully diluted basis or 14.35% on a non-diluted basis. For further information see the heading entitled “Related Party Transactions”.

### *OBC Pipeline*

During the fourth quarter of 2010, the Company obtained a 32.88% equity interest in OBC, the company that will build, own and operate the OBC Pipeline in Colombia.

OBC is a special purpose vehicle promoted by Ecopetrol, which has a 55.97% interest together with its affiliates, with the participation of other oil producers operating in Colombia, who will control the remaining 11.15% interest. OBC will be responsible for the financing, design, construction and eventual operation of the OBC Pipeline, which will run from Araganey, in the Casanare Department of central Colombia, to the Coveñas Export Terminal in the Caribbean.

The Company has representation on the board of directors of OBC and plays an active role in the financing and construction of the project. It is expected that the Company's equity contributions in the initial phases of the OBC Pipeline will be funded through internally generated cash flow.

The OBC Pipeline is planned to be executed in four phases:

Phase 0: Truck off-loading facility in Banadia with a capacity of 40,000 bbl/d  
Phase 1: Pipeline Araguaey – Banadia, 120,000 bbl/d  
Phase 2-3: Pipeline Banadia – Coveñas, 330,000 bbl/d

Phase 0 was completed in 2011. Construction of Phase 1 is in progress and it is expected to be operational by the second half of 2012.

It is estimated that Phase 1 of this project will require an aggregate investment of U.S.\$1.2 billion, excluding financing costs. The partners intend to finance the OBC Pipeline through project financing, with a debt/equity ratio of 70/30.

For further details regarding the OBC Pipeline project see the heading entitled "Pipelines".

#### *Petroelectrica*

In 2010, the Company incorporated a new legal entity called Petroelectrica de los Llanos, S.A. ("**Petroelectrica**"), which will be responsible for the design, construction and operation of a new power transmission line of 230 kilovolts that will connect the Rubiales field to Colombia's national energy grid. The new transmission line will originate at the Chivor substation and will have an extension of 260 km to the Rubiales field. The line includes two substations to supply power to the booster stations of the ODL Pipeline, as well as a main station for the Rubiales and Quifa fields.

The main activities carried out for the project in 2011 included:

- Purchase of long lead items such as transformers and aluminum conductors.
- Completed fabrication of 66% of suspension towers.
- 91% of rights of ways (221 land negotiations) were acquired.
- Environmental license process was granted as of the date of this report.

An important milestone for this project was reached on December 21, 2011 – the entering into of a lease agreement with Banco de Bogotá and BBVA in the amount of COP 200,000 million (or approximately U.S.\$107 million).

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

#### *Dividends*

On November 24, 2010, the Company announced its intention to pay a cash dividend on a quarterly basis in the aggregate amount of U.S.\$25 million or U.S.\$0.093 per common share. The first dividend was paid on December 16, 2010 to shareholders of record as of December 3, 2010, and the Company continues to pay a quarterly dividend in the amount of U.S.\$0.093 per common share, subject to approval

of the Board of Directors. For further information see the heading entitled “Risk Factors – Dividends” and the heading entitled “Dividends”.

### *STAR Project*

In 2009, the Company announced the development of the STAR (Synchronized Thermal Additional Recovery) technology based on concepts of “in situ” combustion, modified by the Company’s proprietary knowledge and experience to suit the specific physical conditions of the Rubiales reservoir and the specific drainage pattern used in the present primary recovery development.

In March 2011, the Company and Ecopetrol agreed to advance the STAR project in the Quifa SW field as a preliminary step to expanding the technology in the future. The project will make full utilization of all production facilities and infrastructure already acquired for the Rubiales field and carry out the main specialized studies and lab tests under a fast track strategy. This pilot test will be executed under the existing terms and conditions of the Quifa Contract.

The Quifa SW field was selected as the pilot test area because its reservoir represents similar or average conditions of the entire Quifa field. Initial reservoir numerical simulations have been done using the existing geological and reservoir model. The results thus far have corroborated the feasibility of carrying out the pilot test in the Quifa field and the additional recovery factors. If the STAR project is successful, it will add significant secondary recovery reserves.

As of the date hereof, eight out of the nine wells have been drilled using a nine pattern spot inverted in two main clusters in a 25 acre area. All reservoir, geological and petrophysical data have been gathered and the initial cold production evaluation program, under primary conditions, has been successfully initiated. Total cold production has reached more than 2,000 bbl/d, excluding the air injector, which is a positive early sign for this process.

Production and air compression facilities have been constructed and installed in the Quifa pilot area. A three air compressors system, one production pad, automation and instrumentation system, gas treatment plant and all accessories have been fully commissioned.

After completing geological and reservoir data evaluation, a new static model has been generated and new reservoir simulations have been initiated, not only to review and refine the production forecast and reservoir determination, but to also prepare the injector well for further tests before starting the ignition process.

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

### *Maurel & Prom Colombia*

On May 6, 2011, PRE-PSIE, a Dutch subsidiary beneficially owned by the Company, successfully completed the acquisition of a 49.999% interest in M&P Colombia for cash consideration of U.S.\$63.4 million and certain exploratory commitments. M&P Colombia owns the following hydrocarbon interests located on-shore in Colombia:

- 100% participation in the Sabanero block located in the central region of Colombia in the Department of Meta.

- 100% participation in the Muisca block located in the central region of Colombia in the Departments of Boyaca and Cundinamarca.
- 50% participation in the SSJN-9 block located in the northern region of Colombia in the Departments of Bolivar, Cesar and Magdalena. The remaining 50% interest is currently held by HOCOL.
- 50% participation in CPO-17 block located in the central region of Colombia in the Department of Meta. The remaining 50% interest is currently held by HOCOL.
- 100% participation in the COR-15 block located in the central region of Colombia in the Department of Boyaca.

#### *Normal Course Issuer Bid*

On April 6, 2011, the Company announced that it had filed a Notice of Intention to commence a normal course issuer bid with the TSX. Under the bid, the Company has the right to purchase for cancellation up to a maximum of 11,598,513 Common Shares through the facilities of the TSX and the BVC.

Management of the Company determines the actual number of Common Shares that may be purchased and the timing of any such purchases, subject to compliance with applicable TSX rules. Daily purchases are limited to 442,322 Common Shares, other than block purchase exceptions. Purchases made pursuant to the bid are made in the open market through the facilities of the TSX and BVC and the price that the Company will pay for any such Common Shares will be the market price at the time of the acquisition. To date, no Common Shares have been purchased for cancellation. The bid will remain open until the earlier of April 7, 2012 or the date on which the Company has purchased the maximum number of Common Shares permitted under the bid. To date, no purchases have been made under the bid.

#### *CGX Energy Investment*

On October 29, 2011, the Company purchased 58,720,000 common shares in the capital of CGX (TSX-V: OYL) at a price of \$0.70 per common share for an aggregate investment of \$41,104,000. CGX is a Canadian-based oil and gas exploration company focused on the exploration for oil in the Guyana/Suriname Basin, an area that is ranked second in the world for oil and gas prospectivity by the United States Geological Service.

#### *Early Conversion of the Debentures*

On October 25, 2011, the Company provided notice to all holders of the Debentures of an incentive opportunity to voluntarily convert their Debentures at the then current conversion rate, plus an incentive amount payable in Common Shares for a temporary period commencing November 9, 2011 and expiring at 5:00 p.m. (Toronto time) on November 29, 2011 (the “**Early Conversion Period**”).

Debenture holders who converted their Debentures during the Early Conversion Period received: (i) all of the Common Shares contractually due under the current conversion rate of 77.9359 Common Shares per \$1,000 face value of Debentures; and (ii) an additional number of Common Shares with value equal to \$200 per \$1,000 face value of Debentures comprised of a “make whole” payment representing the coupon to maturity and an incentive for converting early. Holders who converted their Debentures during the Early Conversion Period received accrued and unpaid interest up to and including the date that is one day prior to the conversion date payable in cash pursuant to the terms of the Debenture Indenture.

During the Early Conversion Period, \$236,223,000 or 98.9% of the Debentures were converted early, representing an issuance of 20,450,600 Common Shares, of which 2,040,352 represented the incentive Common Shares.

For further information see the heading entitled “Description of Capital Structure – Debentures”.

#### *2009 Senior Notes Exchange Offer*

On December 5, 2011, the Company commenced an offer to exchange its 2009 Senior Notes and a solicitation of consents (the “**Consents**”) to proposed amendments to the 2009 Indenture (the “**Consent Solicitation**”), and together with the Exchange Offer, the “**Exchange Offer and Consent Solicitation**”). The purpose of the Exchange Offer was to amend the covenant package of the 2009 Senior Notes and to diversify the maturity profile of the Company’s existing debt by extending the maturity of the 2009 Senior Notes until 2021, which is the maturity of the Company’s 2011 senior unsecured notes bearing a rate of 7.25% (the “**2011 Senior Notes**”).

The Exchange Offer and Consent Solicitation expired at 11:59 p.m. (Toronto time) on January 3, 2012 (the “**Expiration Date**”). Holders who validly tendered 2009 Senior Notes prior to December 16, 2011 (the “**Early Participation Date**”) received an aggregate principal amount of 2011 Senior Notes equal to U.S.\$1,150, which included an early participation fee of U.S.\$30. Holders who validly tendered 2009 Senior Notes after the Early Participation Date, but on or prior to the Expiration Date, received an aggregate principal amount of 2011 Senior Notes equal to U.S.\$1,120. All holders whose 2009 Senior Notes were validly tendered and accepted also received a cash payment equal to the accrued and unpaid interest on their 2009 Senior Notes accepted for exchange from the last applicable interest payment date up to, but excluding, the applicable exchange date.

As of the Early Participation Date, U.S.\$336.4 million aggregate principal amount of 2009 Senior Notes were validly tendered and accepted in exchange for 2011 Senior Notes, representing approximately 74.75% of the total outstanding 2009 Senior Notes.

As of the Expiration Date, the Exchange Offer resulted in U.S.\$358.5 million aggregate principal amount of the 2009 Senior Notes being validly tendered and accepted in exchange for 2011 Senior Notes. This represents approximately 80% of the total outstanding 2011 Senior Notes.

For further information see the heading entitled “Description of Capital Structure – 2009 Senior Notes”.

#### *2011 Senior Notes Financing*

On December 12, 2011, the Company closed an offering of U.S.\$300 million in 2011 Senior Notes. The net proceeds from the sale of the 2011 Senior Notes will be used by the Company for general corporate purposes, which may include acquisitions and investments in oil and gas sector assets and related infrastructure.

The 2011 Senior Notes are governed by an indenture (the “**2011 Indenture**”) which sets out the principal terms of the notes. The 2011 Senior Notes are direct, unsecured, subordinated obligations and will rank *pari passu* without preference among themselves. The 2011 Senior Notes bear interest at an annual rate of 7.25% on the outstanding principal amount, payable semi-annually in arrears on June 12 and December 12 of each year, commencing on June 12, 2012. The 2011 Senior Notes will mature on December 12, 2021.

The 2011 Senior Notes have been assigned ratings of BB by Fitch Ratings and Standard & Poor's Corporation, and Ba2 by Moody's Investors Services.

The 2011 Senior Notes were placed through a syndicate of underwriters, led by Merrill Lynch, Pierce, Fenner & Smith Incorporated, as Joint Lead Manager and Sole Bookrunner, and including J.P. Morgan Securities LLC and RBC Capital Markets, LLC, as Joint Book-running Managers, and GMP, as Co-Manager. The Notes were placed with Qualified Institutional Buyers in the United States pursuant to the registration exemptions provided by Rule 144A of the Securities Act of 1933, and on a private placement basis in certain provinces of Canada, as well as internationally as permitted by applicable securities laws in such jurisdictions.

For further information see the heading entitled "Description of Capital Structure – 2011 Senior Notes".

### *BDR Listing*

In December 2011, the Company received approval from the *Comissão de Valores Mobiliários*, the Brazilian regulatory entity in charge of supervising public issuers, and the BOVESPA for the trading on the Brazilian Stock Exchange of BDRs representing the Common Shares. Pacific Rubiales is the first Canadian company to have BDRs listed on the Brazilian stock exchange. The BDRs began trading at the opening of market on February 2, 2012 under the symbol "PREB".

## **Reserves Reports**

### *2011 Results*

In February 2012, the Company received independent reserves evaluation reports for the year ended December 31, 2011 in respect of the Rubiales-Piriri, Quifa SW, La Creciente, Guaduas, Abanico, Sabanero, Quifa Norte, CPE-6, Puli, Buganviles and Cerrito blocks in Colombia, being all the blocks or fields of the Company that have been sufficiently explored and/or developed to be reviewable for reserves evaluation purposes. The reports were prepared by Petrotech and by RPS, each an independent petroleum engineering consulting firm, in accordance with NI 51-101. Petrotech and RPS are each independent qualified reserves evaluators appointed pursuant to NI 51-101.

RPS prepared the following reserves reports: (i) the report dated February, 2012, effective December 31, 2011, entitled "Reserves Certification Report for the Rubiales field, Colombia"; and (ii) the report dated February 2012, effective December 31, 2011, entitled "Reserves Certification Report for the Quifa Field, South West Region, Colombia". Petrotech prepared the report dated February, 2011, effective December 31, 2011, entitled "Evaluation of the Proved & Probable Reserves of Pacific Rubiales Energy Corp. in La Creciente, Guadas, Abanico, Sabanero, Quifa Norte, CPE-6, Puli, Buganviles and Cerrito Blocks in Colombia".

In 2011, the Company increased its production by 10.8 MMbbl and had a net production of 31.0 MMboe of oil and gas. The reserve replacement ratio, from exploration efforts only, incorporated approximately 5.5 barrels of oil for every barrel produced during 2011.

The following tables summarize the year-over-year proved plus probable (2P) reserves growth in the Rubiales Piriri, Quifa, CPE-6, Sabanero and La Creciente blocks as well as the Company's other blocks:



Reserves at December 31, 2011 (MMboe <sup>1</sup> )										
Field	P1			P2			2P			Hydrocarbon Type
	100%	Gross	Net	100%	Gross	Net	100%	Gross	Net	
Rubiales	344.2	146.9	117.6	1.3	0.6	0.5	345.5	147.5	118.0	Heavy Oil
Quifa SW	120.1	72.1	56.2	18.5	11.1	8.7	138.6	83.2	64.9	Heavy Oil
Quifa Norte	119.6	71.8	58.5	45.4	27.3	22.7	165.0	99.0	81.3	Heavy Oil
CPE-6	-	-	-	115.3	57.7	44.3	115.3	57.7	44.3	Heavy Oil
Sabanero <sup>2</sup>	10.3	5.1	4.8	21.2	10.6	10.0	31.5	15.7	14.8	Heavy Oil
La Creciente	83.1	83.1	77.3	-	-	-	83.1	83.1	77.3	Gas & Condensate
Other Blocks	9.4	4.9	4.3	4.7	2.9	2.5	14.1	7.8	6.8	L&M Oil & Associated Gas
<b>Total at Dec. 31, 2011</b>	<b>686.6</b>	<b>383.8</b>	<b>318.7</b>	<b>206.5</b>	<b>110.0</b>	<b>88.6</b>	<b>893.1</b>	<b>493.8</b>	<b>407.3</b>	
Total at Dec. 31, 2010	539.9	285.5	238.4	70.8	39.8	30.4	610.7	326.3	268.8	
Difference	146.7	97.3	80.4	135.7	70.3	58.1	282.4	167.6	138.5	
<b>2011 Production</b>	<b>79.5</b>	<b>37.9</b>	<b>31.0</b>	<b>Total Reserves Incorporated</b>			<b>361.9</b>	<b>205.5</b>	<b>169.5</b>	

**Note:** <sup>1</sup>The term "boe" is used in this AIF. 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 AIF we have expressed boe using the Colombian conversion standard of 5.7 Mcf: 1 bbl required by the Colombian Ministry of Mines and Energy.

<sup>2</sup>Pre-Psie Cooperatief U.A. holds a 49.999% participation in Maurel & Prom Colombia B.V., which indirectly owns a 49.999% working interest in the Sabanero block. Pre-Psie Cooperatief U.A. is a wholly owned subsidiary of the Company.

In the table above, 100% refers to total 100% field interest; Gross refers to WI before royalties; Net refers to WI after royalties

2011 Year-end Net Proved and Probable Reserves								
	Condensate, Light & Medium Oil (MMbbl)		Heavy Oil (MMbbl)		Associated and Non-Associated Natural Gas (Bcf)		Total Oil Equivalent (MMboe) <sup>1</sup>	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
<b>Proved Producing</b>	<b>1.7</b>	<b>1.6</b>	<b>66.1</b>	<b>52.6</b>	<b>478.1</b>	<b>444.5</b>	<b>151.7</b>	<b>132.2</b>
<b>Proved Non-Producing</b>	<b>0.2</b>	<b>0.2</b>	<b>15.6</b>	<b>12.5</b>	<b>3.1</b>	<b>3.0</b>	<b>16.4</b>	<b>13.2</b>
<b>Proved Undeveloped</b>	<b>0.3</b>	<b>0.3</b>	<b>215.4</b>	<b>173.0</b>	<b>0.2</b>	<b>0.2</b>	<b>215.7</b>	<b>173.4</b>
<b>Total Proved</b>	<b>2.2</b>	<b>2.1</b>	<b>297.1</b>	<b>238.1</b>	<b>481.4</b>	<b>447.7</b>	<b>383.8</b>	<b>318.8</b>

The reserves estimates in this Annual Information Form are based on forecast prices (based on WTI oil price futures traded on the New York Mercantile Exchange) and costs and are estimates only. Actual reserves on the Company's properties may be greater or less than those calculated. Under NI 51-101, proved reserves are reserves that have a 90% chance of being exceeded at the reported level. Proved reserves, by definition, are conservative. Nine times out of ten actual reserves will be greater than the proved estimate. Proved plus probable reserves are defined as those reserves that have a 50% probability of being exceeded at the reported level. They are the best estimate, or the most realistic case. It is equally likely that the actual reserves will be higher or lower than the estimate.

## DESCRIPTION OF THE BUSINESS

### Summary

The Company, which commenced generating revenues on July 16, 2007 with the closing of the RHL Acquisition, is involved in the exploration, development and production of certain oil and natural gas interests, primarily located in the Republic of Colombia but also located in the Republic of Peru and the Republic of Guatemala. The Company strives to enhance shareholder value through the acquisition, exploration and development of highly prospective oil and gas exploration areas. As part of its business strategy, the Company continues to analyze various projects to diversify its portfolio, principally in Latin America but also worldwide.

## **Oil and Gas Production**

Production for the year ended December 31, 2011 averaged 218,450 boe/d (86,497 boe/d net to the Company after royalties), representing a 52% growth over the average for the year ended December 31, 2010. This growth in net production came about mainly through the increase in production at the Rubiales and Quifa SW fields. During 2011, the Company was one of the most active exploration and production companies operating in Colombia, showing one of the highest growths in operated hydrocarbon production of any company in the country. The Company's gross average oil production increased during 2011, from an average of 133,989 bbl/d during 2010 to an average in 2011 of 206,651 bbl/d. This resulted from the continuous growth in production of heavy oil in the Rubiales and Quifa SW fields, leveraged by the operation of the ODL Pipeline.

### *Heavy Oil - Rubiales and Quifa fields*

The Rubiales and Quifa fields are the Company's main assets and the Rubiales field continues to be one of Colombia's fastest growing production fields. During 2011, gross production at the Rubiales field averaged 165,446 bbl/d. In February 2012, gross production at the Rubiales field averaged 172,468 bbl/d.

As of the date of this Annual Information Form, the Rubiales field produces heavy oil (~12.5° API) and has gross daily production in excess of 172,000 bbl/d, with net production above 57,000 bbl/d. The production is transported through the ODL Pipeline to the Monterrey station and the OCENSA station at Cusiana where the diluted crude oil is transported through the OCENSA Pipeline system to the export terminal port of Coveñas on the Caribbean coast, as part of the Castilla crude stream (18.5° API Colombian commercial grade).

During the first quarter of 2010, the Company obtained the declaration of commerciality for the Quifa SW field which is now one of the Company's most important producing properties. The average gross production of the Quifa field for December 2011 was 41,547 bbl/d. The average production for the Quifa field throughout 2011 was 36,459 bbl/d.

During 2011, the Company continued to be one of the largest operators drilling horizontal wells in Colombia. During 2011, the Company drilled 121 producing wells at the Rubiales field and 62 producing wells at the Quifa SW field. This, together with the upgrade of facilities in both fields, allowed the Company to increase its gross production capacity to 235,000 boe/d in these areas, which will be fully realized when the expansion of OCENSA Pipeline is completed.

The new infrastructure built in the Rubiales and Quifa SW fields in 2011 included: 104 km of new roads, 148 km of flow lines, 40 new electrical power substations, 100 km of new field electric network and 300,000 bbl/d of water injection facilities.

### *Other Oil*

The medium and light oil fields of the Company, most of which had been originally acquired with the purchase of Pacific Stratus and Kappa in 2008, averaged a gross production of 4,676 bbl/d (1,516 net) during 2011.

### *Natural Gas*

In 2011, the improved facilities for handling and treating gas in La Creciente allowed for a stable production of approximately 58 MMcf/d.

## **Exploration**

The Company's exploration portfolio currently covers 7,201,930 hectares (17,796,358 acres), and it remains the largest portfolio of any independent oil and gas company in Colombia, second only to the state-owned Ecopetrol. The Company further expanded its portfolio in 2011 by acquiring an interest in five blocks in Colombia through the Company's indirect investment in Maurel & Prom Colombia.

During 2011, and as part of its exploration drilling campaign, the Company drilled a total of 69 wells: 19 exploratory and 50 appraisal and stratigraphic wells, of which 58 wells were successful, representing a success ratio of 84%.

Total net exploration expenditure for 2011 was \$324.4 million, of which \$101.9 million were for the fourth quarter of 2011.

For further information see the heading entitled "Exploration Properties".

## **Specialized Skill and Knowledge**

Operations in the oil and natural gas industry mean that the Company requires professionals with skills and knowledge in diverse fields of expertise. In the course of its exploration, development and production, the Company requires the expertise of drilling engineers, exploration geophysicists and geologists, petrophysicists, petroleum engineers, petroleum geologists, and well-site mud specialists. To date, the Company has not experienced any difficulties in hiring and retaining the professionals and experts it requires for its operations. For further details regarding this risk factor see "Risk Factors – Ability to Attract and Retain Qualified Personnel".

## **Competitive Conditions**

The oil and natural gas industry is inherently competitive. The Company faces competition in the areas of finance, technical facilities, and acquisition of assets. While the Company has been successful in its ability to acquire properties from other organizations in the industry, there is no guarantee that it will continue to do so. Nonetheless, management of the Company believes that it will be able to be competitive with other local and foreign oil and gas companies in Colombia and elsewhere in Latin America. For further details regarding this risk factor see "Risk Factors - Competition".

## **Environmental Protection**

The oil and natural gas industry in Colombia, Peru and Guatemala is subject to environmental laws and regulations. Compliance with such obligations and requirements can mean significant expenditures and/or may constrain the Company's operations in the applicable jurisdiction. Breach of environmental obligations could lead to suspension or revocation of requisite environmental licenses and permits, civil liability for damages caused and the possible fines and penalties, all of which may significantly and negatively impact the Company's position and competitiveness. For further details regarding this risk factor see "Risk Factors – Environmental Factors".

## **Employees**

As of March 13, 2012, the Company has 16 employees at its head office in Toronto, Canada, and approximately 1,633 employees in its project offices and field offices throughout Colombia. At its project offices in Lima, Peru, the Company has 20 employees. The Company also has 4 employees in Guatemala.

## **Foreign Operations**

The Company's revenues are generated through the sale of hydrocarbons; all of the Company's hydrocarbon production activity is located in Colombia and all of the Company's exploration properties are located in Colombia, Peru and Guatemala. The Company has an interest in 43 blocks in total, comprised of 38 blocks in Colombia, 3 blocks in Peru and 2 blocks in Guatemala.

## **Social or Environmental Policies**

The Company has established guidelines and management systems to comply with the laws and regulations of Colombia and other countries in which it operates. During 2009, Meta and PSIE received certification of their environmental, health and safety management systems under ISO 9001, ISO 14001 and OHSAS 18001 standards, and both subsidiaries continue to be in compliance. These management systems are developed to comply with applicable international health, safety, environmental and quality regulations and global performance standards.

The Company devotes significant time and resources to achieve its environmental and safety performance goals. The Company has dedicated employees responsible for all matters affecting the environment and local communities. While the Company endeavours to meet all of its environmental obligations, it cannot guarantee that it has and will be in compliance at all times. Nonetheless, management believes that operations are in substantial compliance with all material environmental laws and regulations. For further details regarding this risk factor see "Risk Factors - Environmental Factors".

The Company has instituted social programs specific to the areas in which it operates, which are carried out by employees or staff in Colombia. The Company's social workers attend in the various municipalities where it operates to determine the community's needs and formulate the Company's programs to meet the requirements of each particular area. The Company has been involved in the provision of educational and health supplies, the building of schools and funding of hospitals, and the sponsorship of other local, cultural, sporting and other organizations and events.

In September 2010, the Company founded the Regional Center for Latin America and the Caribbean in support of the United Nations Global Compact. The United Nations Global Compact is an international initiative proposed by the United Nations whose purpose is to achieve a voluntary commitment of public and private entities to social responsibility, by means of implementation of certain principles regarding human, labour, environmental rights and the fight against corruption. As a member of the United Nations Global Compact since January 25, 2011, the Company has undertaken to report its progress with respect to human, labour and environmental rights to the United Nations on an annual basis.

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

Pacific Rubiales was the first company to implement the EITI standards in Colombia and is committed to taking a leading role in the implementation of EITI in Colombia by collaborating with all stakeholders

within the EITI. In Canada, which is an EITI supporting country, and Peru and Guatemala, which are EITI candidate countries, Pacific Rubiales is committed to actively supporting EITI processes.

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

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

For further details regarding the Company's sustainability policies, please see our Sustainability Report, which is available on our website at [www.pacificrubiales.com](http://www.pacificrubiales.com).

## **OIL AND NATURAL GAS CONTRACTS AND PROPERTIES**

The following describes the Company's principal oil and gas contracts, properties and areas under evaluation as of December 31, 2011. Readers are cautioned that any estimates of reserves and future net revenue for individual properties disclosed in this Annual Information Form may not reflect the same confidence level as estimates of reserves and future net revenue for all properties, due to the effects of aggregation.

### **Producing Properties**

The Company holds indirect interests in certain hydrocarbon producing properties through its wholly-owned subsidiaries, pursuant to certain agreements with Ecopetrol and the ANH described below.

#### *Rubiales and Piriri Contracts*

The Company holds an interest in the Rubiales and Piriri contracts pursuant to a 40% interest in a Participation Risk Contract and a 50% interest in an Association Contract, such contracts known as the Rubiales Contract and the Piriri Contract, respectively.

The Rubiales field, which is one of the Company's main oil assets, is located within the Rubiales and Piriri contract areas in the south-eastern portion of the Llanos Basin (Department of Meta) of Colombia which is also known as the Guyana Shelf. The Llanos Basin is one of a series of hydrocarbon producing basins paralleling the eastern margin of the Andes Mountains from Colombia to Argentina. These features obtained their current configuration during the Tertiary period and are associated with the Andean mountain formation. Oil accumulation is concentrated in the sandstones of the Lower Tertiary Basal Carbonera formation (Eocene – Oligocene) within a general depth of 2,400 feet to 2,900 feet measured depth (732 to 884 m). These reservoirs lie unconformably on the Paleozoic basement. They underlie an Oligocene sequence of inter-bedded fluvial to marginal marine sandstone, shale, limestone and coal. The structure of the Rubiales field has been defined as a monocline gently dipping in the northwest direction with an average dip angle of one to two degrees.

The Rubiales and Piriri Contracts expire in June 2016. The average gross production of the Rubiales field for December 2011 was 180,274 bbl/d. The average gross production for this field throughout 2011 was 165,446 bbl/d.

### *Quifa Contract*

The Company holds a 60% interest in the Quifa Contract, relating to a property known as the Quifa block. During the first quarter of 2010, the Company obtained the declaration of commerciality for the Quifa Southwest field which is now one of the Company's most important producing properties. Additional information on this contract can be found in the exploration properties section, below. The average gross production of this field for December 2011 was 41,547 bbl/d. The average production for this field throughout 2011 was 36,496 bbl/d.

### *Abanico Contract*

The Company holds a 25% interest in an Association Contract (the "**Abanico Contract**") relating to the Abanico oil field, which may vary from well to well pursuant to operating agreements between the parties to the Abanico Contract. The Abanico oil field is located within the Upper Magdalena Basin (Department of Tolima) of Colombia. The Upper Magdalena Basin is one of a series of hydrocarbon producing basins located within Colombia's eastern and central mountain ranges. These features obtained their current configuration during the Tertiary period and are associated with the Andean mountain formation. Oil accumulation is concentrated in the sandstones of the Cretaceous Guadalupe formation within a general depth of 2,800 feet to 3,200 feet measured depth (853 to 975 m). These reservoirs lie below the sealing Tertiary shales. The Abanico oil field is a stratigraphic trap, consisting of a truncated monocline gently dipping in the northwest direction with an average dip angle of close to fifteen degrees.

The Abanico Contract is in its production phase and will be valid without further work commitments until 2024. The average gross production of this field for December 2011 was 1,613 boe/d. The average production for this field throughout 2011 was 2,183 boe/d.

### *Las Quinchas Contract*

The Company holds a 50% interest in an Association Contract (the "**Las Quinchas Contract**") which is primarily composed of the Arce field, the Baul field and the Acacia Este Field. The Arce field currently has three producing wells, the Baul field currently has one producing well and the Acacia Este field currently has three producing wells.

The Las Quinchas Contract is in its exploitation phase and will be valid without further work commitments until October 2024. A final area relinquishment is under preparation by the Company for Ecopetrol's approval, after which the Company will retain only producing fields and protection areas as determined under the Las Quinchas Contract.

The fields within the Las Quinchas Contract were closed during December 2011. Their average gross production throughout 2011 was 17 bbl/d.

### *Chipalo Contract*

The Company holds a 100% interest in an Association Contract (the "**Chipalo Contract**") relating to the Samarkanda oil field. The Chipalo Contract is in its exploitation phase and will be valid without further work commitments until February 2026. A final area relinquishment is being prepared by the Company for Ecopetrol's approval, after which the Company will retain only producing fields and protection areas as determined under the Chipalo Contract.

The Samarkanda field remained closed and had no production in 2011.

### *Cerrito Contract*

The Company is the registered holder of an 81% interest in an Association Contract (the “**Cerrito Contract**”) pursuant to which it is the operator of record of the Cerrito gas field. However, in October 2008, the Company executed a memorandum of understanding (the “**Cerrito MOU**”) with PetroMagdalena, under which the Company agreed to assign to PetroMagdalena its interest in the Cerrito Contract for U.S.\$7.5 million. The Cerrito MOU and the transactions contained therein is subject to regulatory approvals; until such approvals are obtained, PetroMagdalena must bear the costs of the Cerrito operation by the Company and is entitled to any profits obtained from such operation. In 2011, PetroMagdalena was not accepted by the applicable authorities as the operator of the block and as a result the Cerrito MOU was terminated and the Company retained its interest in the block.

The average gas production of this field for December 2011 was 143 boe/d. The average production for this field in 2011 was 186 boe/d.

### *Puli-B Contract*

Until February 2012, the Company held a 50% participating interest in the Puli-7 well, located in the northern Upper Magdalena Valley Basin of Colombia, under an Association Contract (the “**Puli-B Contract**”). InterOil Colombia Exploration and Production, the Colombian branch of Mercantile, was the operator of the Puli-7 well.

The average gross production of this well in December 2011 was 90 bbl/d. The average gross production for this well throughout 2011 was 78 bbl/d.

### *Dindal and Rio Seco Contracts (Guaduas Field)*

The Company holds a 90.6% working interest in two Association Contracts (the “**Dindal Contract**” and the “**Rio Seco Contract**”) relating to the Guaduas field. The remaining 9.4% working interest belongs to Cimarrona LLC.

The Guaduas field, which covers 30,665 acres in the Middle Magdalena Valley approximately 100 km northwest of Bogotá, is located on the west flank of the Guaduas syncline and produces 19° API oil from naturally fractured Cretaceous Cimarrona carbonates. The wells at the Guaduas field produce through a combination of electrical submersible pumps and gas lift. Produced gas is used for fuel, reinjected, or flared. Produced water is re-injected for disposal. A review of gas-oil ratio performance indicates that gas breakthrough has occurred in a number of producing wells.

The Dindal Contract expires in March 2021 and the Rio Seco Contract expires in August 2023.

The average gross production of this field for December 2011 was 607 bbl/d. The average gross production for this field throughout 2011 was 669 bbl/d.

### *Caguan Contract*

The Company holds an interest in the Rio Ceibas field, located in the Caguan block, pursuant to the Caguan Contract. The drilling of the Rio Ceibas 1 and 2 wells at the beginning of 1988 established the discovery of a hydrocarbon field, and production began in 1994. Most development and drilling activity took place between 1997 and 1999, with a secondary recovery project beginning in 1999. The Rio Ceibas field’s crude oil production is marketed by Ecopetrol, and is exported to the Caribbean and the United States Gulf Coast.

The Company has a 27.27% working interest in the Caguan Contract. The operator is Petrobras with a working interest of 22.73%. Ecopetrol elected to back-in to the Rio Ceibas field and has the remaining 50% working interest. The contract on this block expired on December 31, 2011.

The Rio Ceibas field, located in the northeastern part of the Neiva sub-basin of the Upper Magdalena Valley Basin, covers 1,674 acres in the Upper Magdalena Valley approximately 200 km southwest of Bogotá. The block includes a field development area and a surrounding exploration area that covers a total of 1,674 acres. The basin is structurally complex due to its multiple evolutionary stages. The basin is characterized as a backarc basin in the Cretaceous and a foreland basin in the early Tertiary.

The average gross production of this field for December 2011 was 1,911 bbl/d. The average gross production for this field throughout 2011 was 1,777 bbl/d.

#### *La Creciente Contract*

Pacific Stratus, the Company's wholly owned subsidiary, holds a 100% interest in an agreement (the "**La Creciente Contract**") with the ANH relating to the La Creciente natural gas field, located in the Lower Magdalena Basin, Colombia. The La Creciente Contract, which expires in August 2034, includes the following: (i) five exploration phases totaling 65 months; (ii) 2 to 4 years for an evaluation phase; and (iii) a 24 year exploitation phase, with the exploitation phase extendable for an additional 10 years or its economic limit.

Late in December 2007 the production facilities at the La Creciente natural gas field were officially certified by the MME and as a result, at the beginning of 2008, the Company began delivering 35 MMcf of gas per day to the Guepaje-Sincelejo main pipeline.

The Company is focused on developing a commercial strategy with respect to the La Creciente Contract. For this reason, the Company organized a natural gas auction in December 2008, which was ultimately cancelled due to the uncertain market conditions and volatility in oil and gas pricing. As a result, the Company entered into bilateral negotiations with interested bidders for the natural gas volumes on offer, and the Company entered into certain take or pay contracts, and interruptible contracts, adding up to a total of 65 MMcf/d for the period 2009 to 2013.

The average gas production of this field for December 2011 was 55 MMcf/d. The average production for this field throughout 2011 was 58 MMcf/d.

On January 18, 2010 the minimum exploratory program for the block was completed, but the Company elected to request an additional exploratory phase from the ANH. This additional phase consisted of two additional exploratory phases, each lasting 24 months and includes the drilling of one exploratory well per phase, which will allow the Company to explore additional prospects within the block. On January 18, 2012, the Company completed the first additional exploratory phase and drilled one exploratory well. Currently the Company is in the second additional exploratory well and will drill another exploratory well.

At the La Creciente field in 2011, the delineation of the Apamate-2 well was initiated with drilling on December 1, 2011 and by December 31, 2011 the well was in progress at 8,263 feet.



## Exploration Properties

During 2011, total new exploration expenditure was U.S.\$267 million with exploration activity consisting of: (i) drilling a total of 69 exploratory wells (58 successful); acquisition of 1,557 km of 2D seismic and 554 km<sup>2</sup> of 3D seismic; and (iii) the initiation of exploration activity in the CPE-6 block, with four successful stratigraphic wells drilled during the year.

### Ecopetrol Contracts

The Company holds indirect interests in certain exploration properties through its wholly-owned subsidiaries, pursuant to certain agreements with Ecopetrol described below.

#### *Quifa Contract*

The Company holds a 60% interest in the Quifa Contract, relating to a property known as the Quifa block. During the first quarter of 2010, the Company accomplished the commitments for the last phase of the exploratory program, and in April, 2010, the Company obtained the declaration of commerciality for the Quifa Southwest field. In May 2010, Ecopetrol approved the extension of the exploratory program for two additional years. The Quifa block covers an area of 234,254 km<sup>2</sup> surrounding the Rubiales field, located in the Puerto Gaitan area, within the Meta Department in Colombia.

In the Quifa North area, the Company continued its exploration drilling activity with a total of nine wells consisting of four exploration and five appraisal wells drilled during the period. Three of the exploration wells (Azabache-1, Ambar-5 and Ambar-10) resulted in new discoveries and along with two vertical and three horizontal appraisal wells (Ambar-6ST, Ambar-7, Opalo-9H, Opalo-10H and Ambar-13H), are currently under extended production testing. The Rubi-1 exploration well resulted with uneconomic pay thickness and was abandoned. The Company started production in the Quifa North area in late December and reached a total gross field production of 3 Mbbbl/d at the year-end.

Under the terms of the Quifa Contract, capital costs and operational expenses must be borne 70% by the Company and 30% by Ecopetrol. The Company holds a 60% participation interest in the production from the Quifa block less: (i) the applicable government royalty; and (ii) any additional participation percentage attributable to Ecopetrol when the cumulative production of each commercial field in the Quifa block, including the volume corresponding to royalties, exceeds five million barrels of liquid hydrocarbons.

The additional participation percentage for Ecopetrol is calculated based on the following formula (the “**PAP Formula**”):

$$\text{PAP} = \left[ \frac{\text{P} - \text{P}_0}{\text{P}} \right] \times 30\%$$

Where:

**PAP** = Additional participation percentage in production for Ecopetrol.

**P** = For liquid hydrocarbons, is the simple arithmetic average price per barrel of “West Texas Intermediate” (WTI) marker crude oil in U.S. dollars per barrel. This average price is for the relevant calendar month, whose specifications and quotations are published in media of recognized international

prestige. For gaseous hydrocarbons, it is the simple arithmetical average price for “U.S. Gulf Coast Henry Hub” marker natural gas in U.S. dollars per MMBtu. This average price is for the relevant calendar month whose specifications and quotations are published in media or recognized international prestige.

**Po** = For liquid hydrocarbons, the base price of the market crude oil, expressed in U.S. dollars per barrel as indicated in the table below:

<b>API grade produced</b>	<b>PI (U.S.\$/bbl)</b>
< 10° and ≤ 15°	\$40
< 15° and ≤ 22°	\$28
< 22° and ≤ 29°	\$27
< 29° and	\$26

**(Note: For calculation purposes, Po should be expressed in current money terms using the US department of Labor Producer Price Index – PPI.)**

The PAP Formula may also be triggered in respect of gaseous hydrocarbons five years after the start of production of a gas field being declared commercial; however, the Company does not currently expect the Quifa block to yield significant gas resources.

On September 27, 2011, Ecopetrol and the Company agreed on an arbitration process to define the interpretation of the PAP Formula. In the meantime, both companies have agreed to apply the formula of the ANH to assign the additional share to Ecopetrol, from April 2011, until the arbitration is concluded.

The Quifa Contract expires in 2031.

The average gross production of the Quifa field for December 2011 was 40,995 boe/d. The average gross production for this field throughout 2011 was 36,496 boe/d. In 2011, in the northern part of the Quifa block, the exploratory campaign consisted of a total of 17 wells.

#### *Cicuco*

The Company holds a 94% interest in an agreement (the “**Cicuco Contract**”). The Cicuco Contract finalized its exploration phase on December 17, 2009. The area covered by the Cicuco Contract contains various old and inactive discoveries which the Company evaluated during 2009 and found to be uneconomical. The Company and Ecopetrol continue negotiating a termination of the Cicuco Contract which would release the Company from completing the minimum exploratory program stated in the Cicuco Contract. The termination is subject to Ecopetrol approval.

#### *Buganviles*

The Company holds a 49.375% interest in the Buganviles Contract for a block located in the Department of Tolima, Colombia.

In November 2009, pursuant to a competitive bid process (farm-out process) the Company awarded Petrodorado certain rights in the Buganviles block. The Company awarded 29.5% of its working interest in the Buganviles block to Petrodorado in exchange for Petrodorado providing 100% of total investment for future exploratory work in the block, This exploration phase involves a minimum investment of U.S.\$4.6 million, which will be spent on the drilling of one new exploratory well. The Company will

retain a 19.875% working interest in this future exploratory activity and a 49.375% working interest in the rest of the block.

The average gross production of this field for December 2011 was 20 bbl/d. The average gross production for this field in 2011 was 27 bbl/d.

### **ANH Contracts**

Pursuant to agreements with the ANH, the Company holds indirect interests through certain of its wholly-owned subsidiaries in various exploration properties in Colombia as described in more detail below.

#### *Moriche Block*

The Company retains a 37.5% working interest in the Mauritia East Prospect and an 87% working interest in the rest of the block, as per an agreement signed on January of 2010. The Moriche Contract expires in February 20, 2035.

In November 2009, pursuant to a Participation Agreement signed by and between the Company and Petrodorado, the Company has assigned certain private interests in the Moriche block. The Company has awarded 49.5% of its working interest in the Mauritia East Prospect to Petrodorado in exchange for Petrodorado providing 100% of the total investment for the current exploratory phase for the block, equal to U.S.\$5.53 million. This exploration phase requires a minimum investment of U.S.\$6.5 million, which will be spent on the drilling of one exploratory well.

Average gross production of the Mauritia East field for December 2011 was 27 bbl/d. The average gross production for 2011 was 203 bbl/d.

#### *Guama*

On March 14, 2007, the Company was awarded a 100% interest in the 87,465-hectare Guama block located in the Lower Magdalena Valley Basin in the north of Colombia. Commitments for the first 18-month phase of this contract included reprocessing of 300 km of 2D seismic and the acquisition of 200 km of 2D seismic; during 2007, these commitments were accomplished. U.S.\$3.5 million was spent on this phase. In August 2009, the Company requested the merger of phases 2 and 3 of the Guama contract, which was approved in 2009.

As part of the contract commitments of merged phases 2 and 3, during 2010 the Company finished drilling the Pedernalito-1X exploratory well, on the flank of an incipient diapiric feature with a 2,355 acre closure, with a target in the thinly laminated sands of the Middle Miocene Porquero Formation. The well reached a final depth of 7,100 feet MD, penetrating the massive Porquero from surface down to true depth. The well resulted in a new gas discovery, and the petrophysical evaluation indicated a total of 29 feet of net pay in low-resistivity, thinly laminated sands in eight different prospective zones, of which four were completed and tested, with a flowing an average of 1 MMcf/d.

In the Guama block, the Company started drilling the Cotorra-1X exploration well (exploration phase 4), and reached final depth in early January, 2011 and in February, 2012 tested gas and condensate at economic rates (reported in news release on February 15, 2012). The Company also carried out a hydraulic frac workover on the Pedernalito-1X exploration well, drilled in 2010. The fracing operation was successful and the well produced at a stable rate of 1.6 MMscf/d and 48 bbl/d of 57° API condensate.

### *SSJN3*

The Company holds a 100% working interest in the SSJN3 block. This block has an area of 256,718 hectares and is located 70 km north of the La Creciente natural gas field. The first exploration phase includes work commitments of 500 km of 2D seismic and one exploratory well, for a total investment of U.S.\$20.6 million. During the last quarter of 2010, seismic acquisition started and completion is expected in the second quarter of 2011. The contract is currently suspended pending an ANH review because the Ministry of Environment denied the environmental license for E&P activities in this block due to the existence of a Ramsar Wetland.

### *SSJN7*

The SSJN-7 Contract was signed in 2008. The Company holds a 50% working interest, acting as operator, with ONGC Videsh Limited holding the remaining 50%. The block has an area of 270,702 hectares and is adjacent to the La Creciente natural gas field. The first exploration phase requires an investment of U.S.\$24.6 million, expected to be spent on the acquisition of 590 km of 2D seismic and the drilling of one exploratory well. During 2010, social and environmental activities and geochemical and geological studies were carried out.

During the fourth quarter of 2011, the Company started 651 km of 2D seismic surveys in the SSJN7 block and the CR-1 block. Due to regulatory delays with respect to the certification of the presence of indigenous communities in the area, the Company requested an extension from the ANH of 28 months and 26 days to explore phase 1. The contract is still pending ANH approval.

### *CR-1*

The CR-1 contract was awarded to a joint venture pursuant to which the Company holds a 60% interest and Petrobras Colombia Limited holds a 40% interest, with the Company acting as operator. This block, which has a total area of 124,394 hectares, is located in the northernmost part of the Cesar-Rancheria Basin in the La Guajira Peninsula on the boundary with Venezuela. The first exploration phase requires an investment of U.S.\$12 million, to be spent on the acquisition of 250 km of 2D seismic and one exploratory well. Due to regulatory delays with respect to the certification of the presence of indigenous communities in the area and the negotiation with El Cerrejon (a mining company in the area), the Company requested an extension from the ANH of 14 months to explore phase 1. The contract is still pending ANH approval.

### *CPO-1*

The Company originally held a 100% working interest in the CPO-1 block, which has an area of 61,776 hectares and is located 80 km north of the Rubiales field. For the first exploration phase (36 months), the Company has agreed to invest in the acquisition of 200 km of 2D seismic, drilling of one exploratory well and geophysical and geological studies, for a total investment of U.S.\$8.6 million.

In November 2009, pursuant to a competitive bid round (farm-out process), the Company awarded 50% of its working interest in the block to Petroamerica, a Calgary-based oil and gas company, in exchange for Petroamerica providing 100% of the total investment required to complete the first phase of the minimum exploratory program for the block, equal to U.S.\$8.6 million. The final agreement was signed by the parties on March, 2010.

During the fourth quarter of 2011, the Company started 376 km<sup>2</sup> of 3D seismic surveys targeting heavy oil prospects on the CPO-1 and CPO-12 blocks.

#### *CPO-12*

This block was awarded to a joint venture formed by an indirect wholly-owned subsidiary of the Company as operator (40%), CEPCOLSA (30%) and Talisman Colombia Oil and Gas Ltd. (30%). This block has an area of 286,827 hectares located to the southwest of the Rubiales field. During the first exploration phase, the consortium has agreed to invest in the acquisition of 898 km of seismic and the drilling of three exploratory wells, for a total amount of U.S.\$35 million. During the last quarter of 2010, the Company finished the acquisition, processing and interpretation of 417 km of 2D seismic. The Company started the acquisition of the remaining 481 km during 2011 and is expected to finish in March 2012. After the seismic acquisition program is concluded the Company will start the drilling of three exploratory wells.

#### *CPO-14*

This block was awarded to a joint venture formed by an indirect wholly-owned subsidiary of the Company as operator (62.5%) and CEPCOLSA (37.5%). This block has an area of 209,488 hectares and is located to the southeast of the Rubiales field. The first exploration phase requires a minimum working program which includes the acquisition of 850 km of 2D seismic and drilling three exploratory wells for a total investment of U.S.\$32 million. As part of the permitting requirements, the Company is in the process of consulting with affected communities in order to start the seismic acquisition program. The contract is suspended until previous consultation processes with two communities are officially registered.

#### *Topoyaco*

In July 2008, the Company executed a memorandum of understanding (the “**Topoyaco MOU**”) with PetroMagdalena under which the Company acquired 50% of the rights of PetroMagdalena under the Letter Agreement dated as of May 28, 2008 (the “**Letter Agreement**”) pursuant to which PetroMagdalena acquired a 100% participating interest in the Topoyaco block. The Topoyaco MOU, the Letter Agreement and the transactions contained therein were subject to all necessary approvals from the ANH and the successful assignment of certain rights to PetroMagdalena. Additional 50 km of 2-D seismic were shot during 2009 and two commitment exploration wells were drilled in 2010. Until the necessary approvals are obtained, Trayectoria continues to be the formal operator of the Topoyaco block, under the supervision of PetroMagdalena and the Company.

As consideration for the participating interest in the Topoyaco block, the Company agreed to pay PetroMagdalena U.S.\$15.5 million, U.S.\$8 million of which was paid in cash upon execution of the Topoyaco MOU and U.S.\$7.5 million of which was offset against the obligations of PetroMagdalena in connection with the Cerrito MOU.

On September 8, 2011, Ecopetrol notified the Company that the Topoyaco block could not be transferred to PetroMagdalena. As a result, the Company and PetroMagdalena entered into a settlement agreement on December 13, 2011 whereby certain debts between the companies were set off against the remaining U.S.\$7.5 million owing to PetroMagdalena and the Company now maintains a 50% interest in the Topoyaco block. On December 30, 2011, the ANH approved the assignment of its Topoyaco block rights from Trayectoria to the Company.

In the Topoyaco block, the Company finished drilling the Yaraqui-1 exploration well, but production tests resulted in non-commercial flow of heavy oil from the Neme Member of the Rumiyo Formation, and the well was subsequently suspended. The Company continues further evaluation of the block.

### *Guásimo*

The Company has a 100% working interest in the Guásimo Block. This block has an area of 346 hectares and is located 20 km southwest of the Abanico oil field. With the Lisa-1 discovery well the contract has entered into the exploitation phase and will be valid through December 2032 without further work commitments for exploration.

### *Arrendajo*

The Company has a 32.5% working interest in the Arrendajo contract. The Arrendajo block has a total area of 31,607 hectares and is located in the Llanos Basin. The contract is in exploration phase 5 & 6 expiring on February 20, 2012 and requires a work commitment of 114.7 km<sup>2</sup> of seismic 3D and one exploratory well. During the last quarter of 2010, the Company finished the acquisition of 3D seismic, which was processed and interpreted during the first quarter of 2011 and the exploratory well was drilled. The Company presented ANH Evaluation Plan for well Azor-1 and requested additional exploratory program consisting in two phases of 24 months with a work commitment of one exploratory well per phase.

On November 16, 2011, Pacific Stratus entered into a conditional assignment agreement with a subsidiary of PetroMagdalena whereby the Company agreed to transfer its interest in the Arrendajo block for U.S.\$10 million upon approval of the ANH. Under the terms of the transaction, PetroMagdalena agreed to assume a full carry obligation of Pacific Stratus under the Arrendajo contract until the assignment is approved.

### *Arauca*

On May 3, 2007, the ANH awarded the Company a technical evaluation contract over an area of approximately 300,000 hectares in the Arauca Department, Llanos Basin, Colombia. The exploratory costs required under the Arauca TEA were approximately U.S.\$2.5 million. The Arauca TEA covered 301,377 hectares, 60 km east of the Caño Limón field, south of the Colombian-Venezuelan border and 60 km from the oil-delivery point to the pipeline Caño Limón-Coveñas. Upon the termination of the Arauca TEA, the Company applied for an E&P agreement covering an area of 173,584 hectares. The Arauca Contract was executed on June 30, 2009. The contract commitment for the first exploratory phase is two exploratory wells within a 24 month period. During 2010 social and environmental permits were obtained.

On the Arauca block, the Company finished a production test on the VACO-1X exploration well. The well reached total depth in late September, 2011, but failed to produce hydrocarbons and was abandoned.

The contract is currently in exploration phase 1, which is for 24 months commencing on December 30, 2011 and ending December 29, 2013 and with a work commitment of 2 exploratory wells.

### *Tacacho*

The Tacacho E&P contract was awarded by the ANH on November 10, 2009 with a work commitment of 480 km of 2D seismic for the first phase. The Tacacho block covers 238,363 hectares and is located in the Putumayo basin.

In November 2009, pursuant to a competitive bid round (farm-out process), the Company awarded 49.5% of its working interest in the block to Petrodorado, in exchange for Petrodorado providing 100% of the total investment required to complete the first phase of the minimum exploratory program for the block,

equal to U.S.\$8 million. The 36 month-long first exploration phase requires a minimum investment of U.S.\$8 million, which will be spent on the acquisition, processing and interpretation of 480 km of 2D seismic. The Company will retain a 50.5% working interest in the block. The final agreement relating to the transaction was executed in January 2010.

Throughout 2010, the Company took the necessary steps to obtain the environmental and social permits required by the Colombian authorities in order to start the seismic acquisition program. As of the date hereof, as part of the permitting requirements, the Company is consulting with the communities residing within certain parts of the block area. This process was expected to conclude in the third quarter of 2011, but due to delays of the governmental authorities the seismic acquisition program has not started. The exploration phase 1 ends on May 9, 2012, and as such the Company will request unification of phase 2 from the ANH in order to comply with its work commitments.

#### *Teracay*

On November 10, 2009 the Company executed the Teracay E&P contract, which has an area of 237,399 hectares located in the Putumayo oil basin, in the foreland of the southeastern Cordillera of Colombia near Ecuador. The minimum exploratory commitments include in the first phase of the exploration period the acquisition of 476 km of 2D seismic with a minimum investment of U.S.\$8.1 million.

As with the Tacacho block, during 2010 the Company engaged in taking the steps needed to obtain the environmental and social permits required by the Colombian authorities in order to start the seismic acquisition program. Similarly, the Company is consulting with the communities residing within certain parts of the block area. This process was expected to conclude in the third quarter of 2011, but due to delays by the governmental authorities the seismic acquisition program has not started. The exploration phase 1 ends on May 9, 2012, and as such the Company will request unification with phase 2 from the ANH in order to comply with work commitments.

#### *CPE-1 TEA*

In September, 2008 the Company was awarded a 100% interest in the CPE-1 in the offering organized by the ANH of certain heavy oil evaluation and exploration blocks for the Llanos Basin (the “**Heavy Oil Round**”). CPE-1 block has an area of 989,963 hectares and is located in the northern part of the basin on the border with Venezuela, east of the Caño Limon oil field. It is also located at the eastern limit of the Arauca block, where the Company has performed exploration activities. The ANH granted an extendable period for 21 months on the 24 month-long exploration only phase. The total investment for the block will be U.S.\$31.1 million and includes the acquisition of 500 km of 2D seismic and drilling four stratigraphic wells.

Current activity is focused on geological studies, and social and environmental permits. Seismic acquisition program has not started. In March 2012, the Company will start drilling of the stratigraphic wells that are part of its work commitment.

#### *CPE-6*

In September 2008, and as part of the Heavy Oil Round, the CPE-6 block (technical evaluation contract) was awarded to a joint venture made up of the Company (50%) and Talisman (Colombia) Oil & Gas Ltd. (50%), with the Company as operator. The CPE-6 block has an area of 608,247 hectares and is located to the southwest of the Rubiales field and the Quifa block. The ANH granted an extendable period for 13 months on the 24 month-long exploration only phase.

During 2011, the Company applied for an E&P agreement covering an area of 239,985 hectares. The CPE-6 E&P Contract was executed on September 26, 2011. The contract commitment for the first exploratory phase is 1 exploratory well A3 and 480 km of 2D seismic or 300 km<sup>2</sup> of 3D seismic within a 36 month period.

On the CPE-6 block, the Company started exploration activities including the drilling of six stratigraphic wells. During the fourth quarter of 2011, the Company finished drilling the Hamaca-1, Hamaca-2, Hamaca-4 and Hamaca-6 wells and started drilling the Hamaca-3 and Hamaca-5 wells. All of the four drilled wells showed hydrocarbon columns between 9 and 54 feet of net pay. Also, during the fourth quarter, the Company initiated the process to obtain the environmental licensing for the entire block and finished the bidding process for the acquisition of 366 km<sup>2</sup> of 3D seismic to be executed during the first half of 2012.

#### *La Creciente Block*

PSIE, the Company's wholly-owned subsidiary, holds a 100% interest in an agreement (the "**La Creciente Contract**") with the ANH relating to the La Creciente natural gas field, located in the Lower Magdalena Basin, Colombia. The La Creciente Contract, which expires in 2034, started in August 2004, covering five consecutive exploration phases that ended in January 18, 2010. At that point, two additional 2-year exploration phases were requested and approved, with commitments of one exploratory well each. The first of these additional phases expires in January 2012.

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

#### *Sabanero*

On the Sabanero block, M&P Colombia, the operator of the block, drilled three stratigraphic and two appraisal wells. The Sab-Strat-3, Sab-Strat-4 and Sab-Strat-5 stratigraphic wells resulted in hydrocarbon columns between 3 and 15 feet thick and the horizontal appraisal wells Sab-2HZ1 and Sab-4HZ1, found oil pay between 965 and 1157 feet. The appraisal wells are the first horizontal wells drilled on the block and along with an earlier drilled deviated well are on long term production testing. Also, during the fourth quarter of 2011, M&P Colombia obtained the first production from the Sabanero block, with total gross field production reaching 1.8 Mbbl/d at year-end. The Company holds an indirect ownership interest of 49.999% in M&P Colombia, which is party to the exploration and production contract relating to the Sabanero block.

In 2011, M&P Colombia drilled a total of nine wells, including stratigraphic and appraisal wells.

### **Properties in Peru**

In July 2007, Pacific Stratus was awarded blocks 135, 137 and 138 offered by Perupetro in the 2007 bidding program. These blocks total 1,883,553 hectares and are located in the prolific Marañon and Ucayali Basins, to the south of the producing Ecuadorian Napo (Oriente) and Colombian Putumayo Basins. The commitments for the first exploration phase include regional studies and seismic acquisition. Upon the successful completion of phase one, the Company has the option to continue the exploration program with additional seismic acquisition and drilling one well for each block.



### *Block 135*

Block 135 is located in the Marañon Basin. In 2009, the Company awarded 45% of its working interest in Block 135 to Petrodorado in exchange for Petrodorado providing 45% of the total investment for the second exploratory phase for the block, equal to U.S.\$16.2 million. This exploration phase requires a minimum investment of U.S.\$36 million, which will be spent on the planned acquisition of 789 km of 2D seismic. Pacific Stratus Energy S.A., an indirect wholly-owned subsidiary of the Company, is currently waiting for the environmental license for seismic acquisition. This license was expected to be awarded by the Peruvian authorities in June 2011. The Company will retain a 55% working interest in the block. This contract is in force majeure since December 1st 2011 until approval of a pending easement.

### *Block 137*

Block 137 is located in the Marañon Basin on the northeastern part of Block 135. The minimum work commitment requires the acquisition of 200 km of 2D seismic; the acquisition of data from remote sensors and satellite images; and integration of such data with the technical information and analysis of maintain by Perupetro. This block is currently in force majeure due to the refusal of representatives of indigenous communities to attend the workshops required by law to complete the socio-environmental study. Negotiations are still underway, and upon successful resolution of this matter the Company plans to proceed with the acquisition of 753 km of 2D seismic. The Company has a 100% working interest in the block.

### *Block 138*

Block 138 is located in the Ucayali Basin. In 2009, the Company awarded 45% of its working interest in Block 138 to Petrodorado in exchange for Petrodorado providing 45% of the total investment for the second exploratory phase for the block, equal to U.S.\$15.3 million.

Exploration activities started in Block 138, located in the Ucayali Basin, on December 9, 2010. The Company started the environmental permits for the exploration well to be drilled during the second half of 2012. This contract is in force majeure since January 5, 2012 until approval of an environmental management plan.

## **Properties in Guatemala**

### *Blocks N-10-96 and O-10-96*

To secure participation in the exploration activities in Guatemala, the Company executed a farm-in agreement with: (i) Flamingo Energy Investment (BVI) Ltd.; (ii) CHX Guatemala Limitada; and (iii) Compañía Petrolera del Atlantico S.A. on October 6, 2010, who currently hold 100% of the interest in the contract that is comprised of two blocks. Once the relevant authorizations are obtained, this will allow the Company to obtain a 55% interest and operatorship of the contract. In 2011, the Company continued with the contracting process for geophysical data acquisition in both blocks.

## **PIPELINES**

### *ODL Pipeline*

The Company holds a 35% interest in ODL, a special purpose company established for the building of the ODL Pipeline between the Rubiales field and the Monterrey station in the Casanare department of Colombia, which is an integral part of Colombia's oil transport system and is connected with the

OCENSA pipeline network. The remaining 65% interest in ODL is held by Ecopetrol. The interests of the Company and Ecopetrol in ODL are held through direct equity participation in ODL Finance S.A., a special purpose company established for the financing of the ODL Pipeline.

On March 12, 2009, the Company announced that ODL had closed a debt facility for approximately U.S.\$200 million, equivalent to COP\$520,000,000,000. The loan was provided by Grupo Aval, a Colombian banking group led by Banco de Bogotá. The facility has an interest rate of DTF (the Colombian base rate for fixed rate deposits over 3 months) + 5%, a maturity of 5 years with a 1 year grace period, and blended quarterly payments. The loan is non-recourse to the Company and Ecopetrol, as sponsors.

The ODL Pipeline line fill started in September 2009. The inauguration ceremony for the pipeline took place on September 14, 2009 with the attendance of the then President of Colombia, Mr. Alvaro Uribe. Crude delivery to the OCENSA system started on October 1, 2009 using temporary pumping stations (as part of the early pumping phase of the project). The ODL Pipeline project was fully commissioned in February 2010. The overall cost of the project was U.S.\$558 million, including engineering, procurement and construction.

The second phase of financing for the ODL project was completed on October 1, 2009 through the closing of the issuance by ODL of a structured bond having a 7 year term. The bond was issued in the Colombian capital markets by ODL and raised approximately U.S.\$260 million (in COP equivalent).

In November 2009, the board of directors of ODL approved the expansion of the system to 340,000 bbl/d through the construction of two booster units along the pipeline. The expansion project also includes the construction of a new leg to the Cusiana station, also connected to the OCENSA system. As of December 31, 2011, all construction of the expansion project was completed.

There is a new project that involves an extension of the existing pipeline and is comprised of a new 85 km 36 inch diameter pipeline with capacity to transport up to 460,000 bbl/d between Cusiana and Araguaneý. This will allow the connection of the ODL Pipeline to the OBC Pipeline. Once this project is in operation, oil production from all blocks in the Llanos Basin will have access to the export terminal of Coveñas through the existing Caño Limón pipeline. Engineering and environmental permits for this extension of the ODL Pipeline commenced in late 2011.

The ODL partners have also conducted a feasibility study for a heated oil pipeline with the intention of increasing operating capacity and reducing dependence on truck transportation of diluents. The results of this study show the possibility of using existing proven technologies such as direct fired heaters, thermal oil heating and electric process heaters for this purpose. Conceptual engineering will be carried out in 2012.

During 2011, the ODL Pipeline system pumped a total of 76 MMbbl and 35% of this volume corresponds to the Company's crude oil share.

#### *OBC Pipeline*

During the fourth quarter of 2010, the Company obtained a 32.88% equity interest in OBC, the company that will build, own and operate the OBC Pipeline in Colombia.

OBC is a special purpose vehicle promoted by Ecopetrol, which has a 55.97% interest together with its affiliates, with the participation of other oil producers operating in Colombia, who will control the remaining 11.15% interest. OBC will be responsible for the financing, design, construction and eventual

operation of the OBC Pipeline, which will run from Araguaneý, in the Casanare Department of central Colombia, to the Coveñas Export Terminal in the Caribbean.

The Company has representation on the board of directors of OBC and plays an active role in the financing and construction of the project. It is expected that the Company's equity contributions in the initial phases of the OBC Pipeline will be funded through internally generated cash flow.

The OBC Pipeline is planned to be executed in four phases:

Phase 0: Truck off-loading facility in Banadia with a capacity of 40,000 bbl/d  
Phase 1: Pipeline Araguaneý – Banadia, 120,000 bbl/d  
Phase 2-3: Pipeline Banadia – Coveñas, 330,000 bbl/d

Phase 0 was completed in 2011. Construction of Phase 1 is in progress and it is expected to be operational by the second half of 2012.

It is estimated that Phase 1 of this project will require an aggregate investment of U.S.\$1.2 billion, excluding financing costs. The partners intend to finance the OBC Pipeline through project financing, with a debt/equity ratio of 70/30.

Phase 1 of the OBC Pipeline will include: (i) the construction of a 230 km pipeline (with a 42 inch diameter) between the stations of Araguaneý and Banadia that will have a capacity of 600,000 bbl/d; (ii) the construction of two tanks at the Araguaneý storage station with a capacity of 150,000 bbl each; (iii) a third storage tank at the Banadia station with capacity of 50,000 bbl; and (iv) two storage tanks with a capacity of 600,000 bbl at the Coveñas export terminal.

#### *Other Pipeline Interests*

The Company has a 90.6% interest in the OGD and minority interests in two trunk oil pipelines, ODC and OAM with 110,000 bbl/d capacity. The OGD is a 10" pipeline that runs 63 km from the production facilities at Guaduas field to the OAM pipeline at La Dorada with a capacity of 40,000 bbl/d. The ODC pipeline runs 481 km from Vasconia to the Coveñas terminal and has a 24" diameter with a capacity of up to 210,000 bbl/d.

During the last quarter of 2009, the Company also signed two agreements with OCENSA in order to secure firm transport capacity for its share of the production from the Rubiales field. The agreements provide the Company with (i) firm capacity to unload up to 10,000 bbl/d of diluent at the Cusiana station during a five year period commencing on April 2010 as well as the use of the OCENSA system from the Cusiana station to the export terminal of Coveñas, and (ii) firm capacity to transport up to 160 million barrels of oil from Cusiana station to the export terminal of Coveñas during a ten year period commencing in February 2010, with an upper limit of 50,000 bbl/d during 2010, 60,000 bbl/d between January 2011 and January 2017, and 20,000 bbl/d between February 2017 and January 2020. These two agreements guarantee transportation of the Company's share of production from the Rubiales field up to the end of the current term of the concession and allows for the optimization of the use of diluents with substantial savings in transportation costs for the Company.

On April 26, 2011, the Company partnered with EXMAR N.V., a gas transportation company, to develop a liquefied natural gas project in northern Colombia. This project includes the construction of a 45 km gas pipeline from Sincelejo to Coveñas, a port on the Caribbean coast of Colombia, for the transportation of up to 120 MMcf/d from the La Creciente field.

The Company holds a 22.7% equity interest in Pacific Infrastructure, which is developing a new crude oil and products terminal and port in Cartagena, as well as a new pipeline that will link Coveñas with Cartagena in the Caribbean region. With a relatively small investment, the Company has secured alternative storage and port capacity for both its imports and growing exports.

## **RISK FACTORS**

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 not all of the risks associated with an investment in securities in the capital of the Company. 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 may decline and investors may lose all or part of their investment.

### *Fluctuating Prices*

Oil and gas prices will have a direct impact on the Company's earnings and are subject to volatile price fluctuations. The Company's revenues are expected to be in large part derived from the extraction and sale of oil and natural gas. The price of oil will be affected by numerous factors beyond the Company's control, including international economic and political trends, expectations of inflation, war, currency exchange fluctuations, interest rates, global or regional consumption patterns, speculative activities and increased production due to new extraction developments and improved extraction and production methods. Any substantial decline in the prices of oil or natural gas could have a material adverse effect on the Company and the level of its oil and natural gas reserves.

Prices varied considerably throughout 2009 - 2011 concurrent with shifts in the global economy and local and regional market influences. Current and past price variability and trends do not necessarily provide any indication of future trends. Any decreases in oil and natural gas prices would typically result in a reduction of the Company's net production revenue and may change the economics of producing from some wells which could result in a reduction in the volume of the Company's reserves. Any substantial declines in the prices of crude oil or natural gas could also result in delay or cancellation of existing or future drilling, development or construction programs or the curtailment of production. All of these factors could result in a material decrease in the Company's net production revenue, cash flows and profitability causing a reduction in its oil and gas acquisition and development activities. In addition, bank borrowings available to the Company will in part be determined by the Company's borrowing base. A sustained material decline in prices from historical average prices could further reduce such borrowing base, therefore reducing the bank credit available and could require that a portion of its bank debt, if any at that time, be repaid.

From time to time, the Company has and may in the future enter into agreements to receive fixed prices and/or price collars on its oil and natural gas production to offset the risk of revenue losses if commodity prices decline; however, if commodity prices increase beyond the levels set in such agreements, the Company will not benefit from such agreements.

### *Exploration and Development*

The exploration and development of oil and natural gas deposits involve a number of uncertainties that even thorough evaluation, experience and knowledge of the industry cannot eliminate. It is impossible to

guarantee that the exploration programs on the Company's properties will generate economically recoverable reserves. The commercial viability of a new hydrocarbon pool is dependent upon a number of factors which are inherent to reserves, such as hydrocarbon composition, associated non-hydrocarbon fluids and proximity of infrastructure, as well as oil and natural gas prices which are subject to considerable volatility, regulatory issues such as price regulation, taxes, royalties, land tax, import and export of oil and natural gas, and environmental protection issues. The individual impact generated by these factors cannot be predicted with any certainty but, once combined, may result in non-economical reserves. The Company will remain subject to normal risks inherent to the oil and natural gas industry such as unusual and unexpected geological changes in the parameters and variables of the petroleum system and operations.

### *Global Financial Conditions*

Recent global financial conditions have been subject to high volatility resulting in numerous commercial and financial enterprises having either gone into bankruptcy or creditor protection or having had to be rescued by governmental authorities. In recent years, access to public financing has been negatively impacted by sub-prime mortgage defaults in the United States, the liquidity crisis affecting the asset-backed commercial paper and collateralized debt obligation markets, massive investment losses by banks with resultant recapitalization efforts and a deterioration in the global economy. More recently the European debt crisis has affected equity investor sentiment and if it worsens could also affect worldwide credit markets which might impact the Company. Notwithstanding various actions by governments, concerns continue about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions caused the broader credit markets to further deteriorate and stock markets to decline substantially. Banks had been adversely affected by the worldwide economic crisis and had severely curtailed existing liquidity lines, increased pricing and introduced new and tighter borrowing restrictions to corporate borrowers, with extremely limited access to new facilities or for new borrowers. These factors, if they were to reoccur, could negatively impact the Company's ability to access liquidity needed for the Company's business in the longer term.

These factors may impact the Company's future ability to obtain equity, debt or bank financing on terms commercially reasonable to the Company, or at all. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses.

In addition, certain of our customers could be unable to pay us, in the event that they are unable to access the capital markets to fund their business operations.

### *Operating Hazards and Risks*

Exploration for natural resources involves many risks, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. Operations in which the Company has a direct or indirect interest will be subject to all the hazards and risks normally incidental to exploration, development and production of natural resources, any of which could result in work stoppages, damage to persons or property and possible environmental damage. In addition, the Company's operations may be adversely affected by security incidents which are not within the control of the Company, including, among other things, kidnappings, extortion or criminal activity.

Although the Company may obtain liability insurance in an amount which is expected to be adequate, the nature of these risks is such that liabilities might exceed policy limits, the liabilities and hazards might not be insurable, or the Company might not elect to insure itself against such liabilities due to high premium

costs or other reasons, in which event the Company could incur significant costs that could have a material adverse effect upon its financial condition.

#### *Reserves Estimates*

The process of estimating oil and gas reserves is complex and involves a significant number of assumptions in evaluating available geological, engineering and economic data; therefore, reserves estimates are inherently uncertain. Despite the fact that the Company has reviewed the estimates related to the potential reserves evaluation and probabilities attached thereto and it is of the opinion that the methods used to appraise its estimates are adequate, these figures remain estimates, even though they have been calculated or validated by independent appraisers. The reserves disclosed by the Company should not be interpreted as assurances of property life or of the profitability of current or future operations given that there are numerous uncertainties inherent in the estimation of economically recoverable oil and natural gas reserves.

#### *Transportation Costs*

Disruption in or increased costs of transportation services could make oil and natural gas a less competitive source of energy or could make the Company's oil and natural gas less competitive than other sources. The industry depends on rail, trucking, ocean-going vessel, pipeline facilities, and barge transportation to deliver shipments, and transportation costs are a significant component of the total cost of supplying oil and natural gas; currently, the Company transports via pipeline and trucks (to a certain extent) its production from the Rubiales oil field, its primary source of revenue. Disruptions of these transportation services because of weather-related problems, strikes, lockouts, delays, mechanical problems or other events could temporarily impair the ability to supply oil and natural gas to customers and may result in lost sales. In addition, increases in transportation costs, or changes in transportation costs for oil and natural gas produced by competitors, could adversely affect profitability. To the extent such increases are sustained, the Company could experience losses and may decide to discontinue certain operations forcing the Company to incur closure and/or care and maintenance costs, as the case may be. Additionally, lack of access to transportation may hinder the expansion of production at some of the Company's properties and the Company may be required to use more expensive transportation alternatives.

#### *Cash Flows and Additional Funding Requirements*

Although the Company presently has sufficient financial resources and has been successful in the past in obtaining equity and debt financing to undertake its currently planned exploration and development programs, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms advantageous to the Company. The ability of the Company to arrange such financing in the future will depend in part upon the prevailing capital market conditions as well as the business performance of the Company. The recent global financial crisis resulted in severe economic uncertainty and illiquidity in capital markets which, if it were to reoccur, would increase the risk that additional financing will only be available on terms and conditions unacceptable to the Company or not at all.

#### *Disruptions in Production*

Other factors affecting the production and sale of oil and natural gas that could result in decreases in profitability include: (i) expiration or termination of leases, permits or licences, or sales price re-determinations or suspension of deliveries; (ii) future litigation; (iii) the timing and amount of insurance recoveries; (iv) work stoppages or other labour difficulties; (v) worker vacation schedules and related

maintenance activities; (vi) changes in the market and general economic conditions; and (vii) the results of negotiations with various aboriginal communities in the areas in which the Company operates. Weather conditions, equipment replacement or repair, fires, amounts of rock and other natural materials and other geological conditions can have a significant impact on operating results.

#### *Political Risk*

The Company's projects are located in Colombia, Peru and Guatemala and consequently the Company will be subject to certain risks, including currency fluctuations and possible political or economic instability. Exploration and production activities may be affected in varying degrees by political stability and government regulations relating to the industry. Colombia was home to South America's largest and longest running insurgency, and over the past two decades has experienced significant social upheaval and criminal activity relating to drug trafficking. While the situation has improved dramatically in recent years, there can be no guarantee that the situation will not again deteriorate. Any increase in kidnapping and/or terrorist activity in Colombia generally may disrupt supply chains and discourage qualified individuals from being involved with the Company's operations. Additionally, the perception that matters have not improved in Colombia may hinder the Company's ability to access capital in a timely or cost effective manner. Any changes in regulations or shifts in political attitudes are beyond the control of the Company and may adversely affect its business. Exploration may be affected in varying degrees by government regulations with respect to restrictions on future exploitation and production, price controls, export controls, foreign exchange controls, income taxes, expropriation of property, environmental legislation and site safety.

The Company's operations may also be adversely affected by the laws and policies of Canada affecting foreign trade, taxation and investment. In the event of a dispute arising in connection with the Company's foreign operations, the Company may be subject to the exclusive jurisdiction of foreign courts or may not be successful in subjecting foreign persons to the jurisdictions of the courts of Canada or enforcing Canadian judgments in such other jurisdictions. The Company may also be hindered or prevented from enforcing its rights with respect to governmental instrumentality because of the doctrine of sovereign immunity. Accordingly, the Company's exploration, development and production activities in the foreign jurisdictions in which it operates could be substantially affected by factors beyond the Company's control, any of which could have a material adverse effect on the Company.

#### *Labour Disruptions*

In July, September and October 2011, the Company experienced labour unrest, including work stoppages at our Rubiales and Quifa fields, which resulted in some damage to property and a 24-hour production stoppage in July and a 48-hour stoppage in September. The July and September work stoppages were related to the demands of certain contract workers for better working conditions, higher salaries and more investment in the surrounding communities.

In October 2011, a group of unknown individuals entered the Rubiales and Quifa fields for the purpose of causing a labour disruption. These individuals were not the Company's employees or the employees of the Company's contractors. The Colombian authorities sent additional police and soldiers to the Company's fields to guarantee the protection of our assets, personnel and continuity of production. In 2011, these work stoppages resulted in an aggregate loss of net production of approximately 491,933 bbl. The agreements reached with these contract workers resulted in an increase in operating costs that is currently not material to the Company. However, future agreements could result in an increase to our labour costs.

Other companies operating oil and gas fields in Colombia have also experienced labour unrest recently. This type of labour disruption is sometimes experienced by companies operating in the resource industry. The Company cannot provide assurances that this type of labour disruption will not be experienced in the future.

### *Environmental Factors*

All phases of the Company's operations are subject to environmental regulation in Colombia, Peru and Guatemala.

Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. In addition, certain types of operations require the submission and approval of environmental impact assessments. Environmental assessments of proposed projects carry a heightened degree of responsibility for companies and directors, officers and employees. The cost of compliance with changes in governmental regulations has a potential to reduce the profitability of operations. The exploration, development and production activities of the Company will require certain permits and licenses from various governmental authorities and such operations are and will be governed by laws and regulations governing exploration, development and production, labour standards, occupational health, waste disposal, toxic substances, land use, environmental protection, safety and other matters. Companies engaged in exploration activities generally experience increased costs and delays as a result of the need to comply with applicable laws, regulations and permits. There can be no assurance that all licenses and permits which the Company may require to carry out exploration and development of its projects will be obtainable on reasonable terms or on a timely basis, or that such laws and regulations would not have an adverse effect on any project that the Company may undertake.

### *Title Matters*

The acquisition of title to oil and natural gas properties in the jurisdictions in which the Company operates is a detailed and time-consuming process. The Company's properties may be subject to unforeseen title claims. While the Company will diligently investigate title to all property and will follow usual industry practice in obtaining satisfactory title opinions and, to the best of the Company's knowledge, title to all of the Company's properties is in good standing, this should not be construed as a guarantee of title. Title to the properties may be affected by undisclosed and undetected defects.

### *Dividends*

Any payments of dividends on the Common Shares will be dependent upon the financial requirements of the Company to finance future growth, the financial condition of the Company and other factors which the Company's Board of Directors may consider appropriate in the circumstance. While the Board of Directors has approved a quarterly cash dividend in the aggregate amount of U.S.\$25 million, the continued payment of any dividends is strictly dependent on the financial position of the Company and as such not guaranteed. For further details see the heading entitled "Dividends".

Provisions of various trust indentures and credit arrangements to which the Company is a party restrict the Company's ability to declare and pay dividends to the Company's shareholders under certain circumstances and, if such restrictions apply, they may, in turn, have an impact on the Company's ability to declare and pay dividends. In the opinion of the Company's management, such provisions do not currently restrict or alter the Company's ability to declare or pay dividends.



### *Dependence on Management*

The Chief Executive Officer, President, Co-Chairmen and senior officers of the Company are critical to its success. In the event of the departure of the Chief Executive Officer or a senior officer, the Company believes that it will be successful in attracting and retaining qualified successors but there can be no assurance of such success. If the Company is not successful in attracting and retaining qualified personnel, the efficiency of its operations could be affected, which could have a material adverse impact on the Company's future cash flows, earnings, results of operations and financial condition.

The Company strongly depends on the business and technical expertise of its management team and there is little possibility that this dependence will decrease in the near term.

### *Ability to Attract and Retain Qualified Personnel*

Recruiting and retaining qualified personnel is critical to the Company's success. The number of persons skilled in the acquisition, exploration, development and operation of oil and gas properties in the jurisdictions in which the Company operates is limited and competition for such persons is intense. As the Company's business activity grows, it will require additional key financial, administrative, technical and operations staff. If Pacific Rubiales is not successful in attracting and training qualified personnel, the efficiency of its operations could be affected, which could have a material adverse impact on the Company's future cash flows, earnings, results of operations and financial condition.

### *Changes in Legislation*

The oil and natural gas industry in the jurisdictions in which the Company operates is subject to extensive controls and regulations imposed by various levels of government. All current legislation is a matter of public record and the Company will be unable to predict what additional legislation or amendments may be enacted. Amendments to current laws, regulations and permits governing operations and activities of oil and natural gas companies, including environmental laws and regulations which are evolving in the jurisdictions in which the Company operates, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in expenditures and costs, affect the Company's ability to expand or transfer existing operations or require the Company to abandon or delay the development of new oil and natural gas properties.

### *Litigation*

From time to time, the Company may be the subject of litigation arising out of the Company's operations. Specific disclosure of current legal proceedings, and the risks associated with current proceedings and litigation generally, is disclosed under the heading entitled "Legal Proceedings".

### *Repatriation of Earnings*

All of the Company's revenue generating operations are located in Colombia. Currently there are no restrictions on the repatriation from Colombia of earnings to foreign entities. However, there can be no assurance that restrictions on repatriation of earnings from Colombia will not be imposed in the future.

### *Enforcement of Civil Liabilities*

Substantially all of the assets of the Company are located outside of Canada and certain of the directors and officers of the Company are resident outside of Canada. As a result, it may be difficult or impossible

to enforce judgments granted by a court in Canada against the assets of the Company or the directors and officers of the Company residing outside of Canada.

### *Competition*

The oil and natural gas industry is competitive in all its phases. The Company will compete with many companies and individuals that have substantially greater financial and technical resources than the Company in the search for, and the acquisition of, properties as well as for the recruitment and retention of qualified employees. The Company's ability to increase its interests in the future will depend not only on its ability to explore and develop its present properties, but also on its ability to select, acquire and develop suitable properties or prospects.

## **RESERVES DATA AND OTHER INFORMATION**

The Company's reserves were evaluated by Petrotech and by RPS, each an independent petroleum engineering consulting firm, effective December 31, 2011, in accordance with NI 51-101. Petrotech and RPS are each independent qualified reserves evaluators appointed pursuant to NI 51-101.

### *2011 Reserves Reports*

RPS prepared the following reserves reports: (i) the report dated February, 2012, effective December 31, 2011, entitled "Reserves Certification Report for the Rubiales field, Colombia"; and (ii) the report dated February, 2012, effective December 31, 2011, entitled "Reserves Certification Report for the Quifa Field, South West Region, Colombia". Petrotech prepared the report dated February, 2011, effective December 31, 2010, entitled "Evaluation of the Proved & Probable Reserves of Pacific Rubiales Energy Corp. in La Creciente, Guadas, Abanico, Sabanero, Quifa Norte, CPE-6, Puli, Buganviles and Cerrito Blocks in Colombia".

The Company's Statement of Reserves Data and Other Oil and Gas Information on Form 51-101F1, the Report on Reserves Data by Independent Qualified Reserves Evaluator on Form 51-101F2, one by each of Petrotech and RPS, the Report of Management and Directors on Oil and Gas Disclosure on Form 51-101F3, and the Notice of Filing on Form 51-101F4 have been filed on SEDAR at [www.sedar.com](http://www.sedar.com) and are incorporated by reference in this Annual Information Form.

## **DIVIDENDS**

The Board of Directors has not adopted a formal dividend policy. The Board of Directors reviews the financial performance of the Company on a quarterly basis and makes a determination of the appropriate level of dividends to be declared in the following quarter.

In 2011, the Company paid a quarterly dividend in cash in the amount of U.S.\$0.093 per Common Share. In the aggregate, approximately U.S.\$102 million was paid to holders of the Common Shares in 2011. To date, approximately U.S.\$127 million has been paid to shareholders of the Company in dividends.

Pacific Rubiales confirms that all dividends paid to shareholders in 2011 are "eligible dividends" pursuant to the provisions of the *Income Tax Act* (Canada). Furthermore, it is expected that all dividends paid in 2012 and subsequent years will be eligible dividends for such purposes.

## DESCRIPTION OF CAPITAL STRUCTURE

The authorized capital of the Company consists of an unlimited number of Common Shares without par value and an unlimited number of preferred shares (“**Preferred Shares**”) without par value. As at March 13, 2012 there are 292,316,827 Common Shares issued and outstanding as fully paid and non-assessable.

As at March 13, 2012, no Preferred Shares of the Company are outstanding or have been issued.

As at March 13, 2012 there are 6,851 Warrants issued and outstanding.

### Common Shares

Subject to the rights of the holders of Preferred Shares, the holders of Common Shares are entitled to dividends if, as and when declared by the Board of Directors, to one vote per Common Share at meetings of the Shareholders and upon liquidation, dissolution or winding-up, to share equally in such assets of the Company as are distributable to the holders of Common Shares.

### Preferred Shares

The Preferred Shares may be issued in one or more series and, with respect to the payment of dividends and the distribution of assets in the event that the Company is liquidated, dissolved or wound-up, rank prior to the Common Shares. The Board of Directors have the authority to issue Preferred Shares in series and determine the price, number, designation, rights, privileges, restrictions and conditions, including dividend rights, redemption rights, conversion rights and voting rights, of each series without any further vote or action by Shareholders. The holders of Preferred Shares do not have pre-emptive rights to subscribe for any issue of securities of the Company. At this time, the Company has no plans to issue any Preferred Shares.

### Warrants

The following table describes the outstanding warrants of the Company as at March 13, 2012:

<b>Number of Warrants Outstanding and Exercisable</b>	<b>Exercise Price</b>	<b>Expiry Date</b>
6,851 <sup>(1)</sup>	\$7.80 <sup>(2)</sup>	July 12, 2012

Notes:

- (1) The Warrants were issued in respect of the private placement of 517,650,000 subscription receipts on July 12, 2007, which were automatically exchanged into Units consisting of one Common Share and one-half of one Warrant upon the closing of the RHL Acquisition.
- (2) Effective June 3, 2008, and in conjunction with a common share consolidation, the Company consolidated the Warrants on a 1:6 basis, with the result that each consolidated warrant now entitles its holder to acquire one Common Share at a price of \$7.80.

### Debentures

On August 28, 2008 the Company closed an offering of \$220 million principal amount of Debentures at a price of \$1,000 per Debenture, due August 29, 2013. A syndicate of underwriters also exercised an over-allotment option to purchase an additional \$20 million principal amount of debentures at the same offering price. Each Debenture is convertible into Common Shares at the option of the holder at any time prior to the close of business on August 29, 2013 at a conversion price of \$13 per Common Share, being a

conversion rate of 76.9231 Common Shares per \$1,000 principal amount per debenture, subject to adjustment in certain events.

On October 25, 2011, the Company provided notice to all holders of the Debentures of an incentive opportunity to voluntarily convert their Debentures at the then current conversion rate, plus an incentive amount payable in Common Shares for a temporary period commencing November 9, 2011 and expiring at 5:00 p.m. (Toronto time) on November 29, 2011.

Debenture holders who chose to convert their Debentures during the Early Conversion Period received: (i) all of the Common Shares contractually due under the current conversion rate of 77.9359 Common Shares per \$1,000 face value of Debentures; (ii) an additional number of Common Shares with value equal to \$200 per \$1,000 face value of Debentures comprised of a “make whole” payment representing the coupon to maturity and an incentive for converting early. Holders who converted their Debentures during the Early Conversion Period received accrued and unpaid interest up to and including the date that is one day prior to the conversion date payable in cash pursuant to the terms of the Debenture Indenture.

During the Early Conversion Period, \$236,223,000 or 98.9% of the Debentures were converted early, representing an issuance of 20,450,600 Common Shares, of which 2,040,352 represented the incentive Common Shares.

Currently, there are \$2.7 million principal amount of Debentures outstanding.

For further details regarding the Debentures see the headings entitled “Historical Overview – Kappa Acquisition and Offering of Convertible Debentures” and “Historical Overview – Early Conversion of the Debentures”.

### **2009 Senior Notes**

On November 10, 2009, the Company closed an offering of U.S.\$450 million principal amount of 2009 Senior Notes. The 2009 Senior Notes are due 2016 and were issued at a price of 99.09% of the principal amount, for aggregate net proceeds to the Company of approximately U.S.\$442 million, after taking into account discounts, commissions and expenses of the offering. The 2009 Senior Notes are direct, unsecured senior obligations of the Company and rank equal in right of payment with all of its existing and future senior unsecured debt. The Company will redeem a portion of the principal of the notes on each of November 10, 2014 (33.33%), November 10, 2015 (33.33%), and November 10, 2016 (33.34%). The Company may, at its option at any time, redeem the 2009 Senior Notes, in whole but not in part, at the greater of: (i) 100% of their principal amount plus accrued interest and additional amounts, if any; and (ii) the sum of the present values of the remaining scheduled payments of principal and interest and additional amounts, if any, on the 2009 Senior Notes, discounted to the date of redemption at the applicable treasury rate plus 75 basis points.

On December 5, 2011, the Company commenced an offer to exchange its 2009 Senior Notes and a solicitation of Consents to proposed amendments to the 2009 Indenture. The purpose of the Exchange Offer was to revision the covenant package of the 2009 Senior Notes and to diversify the maturity profile of the Company’s existing debt by extending the maturity of a portion of its outstanding debt from 2016, the maturity of the 2009 Senior Notes, until 2021, the maturity of the 2011 Senior Notes.

As of the Expiration Date, the Exchange Offer resulted in U.S.\$358.5 million aggregate principal amount of the 2009 Senior Notes being validly tendered and accepted for 2011 Senior Notes. This represents approximately 80% of the total outstanding 2011 Senior Notes.

Currently, there are U.S.\$91.5 million aggregate principal amount of 2009 Senior Notes outstanding.

For further details regarding the 2009 Senior Notes see the headings entitled “Historical Overview – 2009 Senior Notes Exchange Offer”.

### **2011 Senior Notes**

On December 12, 2011, the Company closed an offering of U.S.\$300 million in 2011 Senior Notes. The net proceeds from the sale of the 2011 Senior Notes will be used by the Company for general corporate purposes, which may include acquisitions and investments in oil and gas sector assets and related infrastructure.

The 2011 Senior Notes are direct, unsecured, subordinated obligations and will rank *pari passu* without preference among themselves. The 2011 Senior Notes bear interest at an annual rate of 7.25% on the outstanding principal amount, payable semi-annually in arrears on each June 12 and December 12 of each year, commencing on June 12, 2012. The 2011 Senior Notes will mature on December 12, 2021.

The 2011 Senior Notes have been assigned ratings of BB by Fitch Ratings and Standard & Poor’s Corporation, and Ba2 by Moody’s Investors Services.

The 2011 Senior Notes were placed through a syndicate of underwriters, led by Merrill Lynch, Pierce, Fenner & Smith Incorporated, as Joint Lead Manager and Sole Bookrunner, and including J.P. Morgan Securities LLC and RBC Capital Markets, LLC, as Joint Book-running Managers, and GMP, as Co-Manager. The Notes were placed with Qualified Institutional Buyers in the United States pursuant to the registration exemptions provided by Rule 144A of the Securities Act of 1933, and on a private placement basis in certain provinces of Canada, as well as internationally as permitted by applicable securities laws in such jurisdictions.

Currently, there are U.S.\$712.3 million aggregate principal amount of 2011 Senior Notes outstanding.

For further details regarding the 2011 Senior Notes see the headings entitled “Historical Overview – 2011 Senior Notes”.

### **Shareholder Rights Plan**

On March 9, 2009, the Board of Directors approved a shareholder protection rights plan agreement (the “**2009 Rights Plan**”) entered into between the Company and Equity Financial Trust Company (formerly Equity Transfer & Trust Company) as rights agent. The purpose of the 2009 Rights Plan is to encourage an offeror either to make a Permitted Bid (as defined in the 2009 Rights Plan), without approval of the Board of Directors, having terms and conditions designed to meet the objectives of the 2009 Rights Plan, or to negotiate the terms of an offer with the Board of Directors. Failure to do either creates the potential for substantial dilution of the offeror’s position.

The TSX accepted notice for filing of the 2009 Rights Plan, subject to standard conditions including ratification of the 2009 Rights Plan by shareholders of the Company. The 2009 Rights Plan was subsequently confirmed by shareholders at the Company’s 2009 annual and special meeting. The 2009 Rights Plan will continue to be in force until the annual meeting of shareholders in 2012 or until otherwise terminated pursuant to the provisions of the agreement. A copy of the 2009 Rights Plan has been filed and is available on SEDAR at [www.sedar.com](http://www.sedar.com).

## Normal Course Issuer Bid

On April 6, 2011, the Company announced that it had filed a Notice of Intention to commence a normal course issuer bid with the TSX. Under the bid, the Company has the right to purchase for cancellation up to a maximum of 11,598,513 Common Shares through the facilities of the TSX and the BVC.

Management of the Company determines the actual number of Common Shares that may be purchased and the timing of any such purchases, subject to compliance with applicable TSX rules. Daily purchases are limited to 442,322 Common Shares, other than block purchase exceptions. Purchases made pursuant to the bid are made in the open market through the facilities of the TSX and BVC and the price that the Company will pay for any such Common Shares will be the market price at the time of the acquisition. To date, no Common Shares have been purchased for cancellation. The bid will remain open until the earlier of April 7, 2012 or the date on which the Company has purchased the maximum number of Common Shares permitted under the bid. To date, no purchases have been made pursuant to the bid.

## MARKET FOR SECURITIES

### Trading Price and Volume

#### *Common Shares*

The Common Shares are listed on the TSX under the trading symbol “PRE” and on the BVC under the Trading symbol “PREC”. The closing price of the Common Shares on the TSX on March 13, 2012 was \$30.71.

The following table sets out the high and low trading of the Common Shares for the periods indicated, as reported by the TSX.

<b>Period (2011)</b>	<b>High</b>	<b>Low</b>	<b>Trading Volume</b>
December	\$21.97	\$18.03	15,673,757
November	\$23.24	\$19.41	23,580,932
October	\$25.53	\$19.55	21,115,650
September	\$25.50	\$20.71	20,010,334
August	\$27.89	\$22.51	26,957,460
July	\$28.06	\$23.23	22,748,484
June	\$27.36	\$25.03	15,637,578
May	\$29.17	\$25.10	17,048,660
April	\$29.50	\$25.77	26,034,153
March	\$34.85	\$24.38	65,758,076
February	\$34.82	\$29.36	33,665,902
January	\$35.00	\$30.30	23,298,143

The following table sets out the high and low trading of the Common Shares for the periods indicated, as reported by the BVC, in Colombian Pesos.

<b>Period (2011)</b>	<b>High</b>	<b>Low</b>	<b>Trading Volume</b>
December	35,920.00	36,342.00	29,458,438,384
November	40,037.00	38,413.00	48,960,831,770
October	44,134.00	42,657.00	54,649,819,325
September	44,762.73	43,368.18	48,518,579,135
August	46,499.09	45,137.27	57,158,455,254
July	47,716.84	46,433.68	45,173,068,098
June	48,436.00	47,514.00	22,309,561,661
May	50,412.73	49,263.64	34,384,349,127
April	53,707.37	52,586.32	31,209,681,056
March	58,359.09	56,147.55	118,523,758,621
February	61,034.00	59,468.00	59,498,375,483
January	63,359.00	61,997.00	35,865,524,221

### *Warrants*

The Warrants were listed on the TSX under the trading symbol “PRE.WT” until January 20, 2010. They had been trading since November 13, 2007. On December 14, 2009, the Company commenced an early warrant exercise transaction and on January 20, 2010, 97.8% of the Warrants were exercised. The remaining Warrants, excluding those held by U.S. warrant holders, were automatically exchanged into Common Shares. The Warrants were formally delisted from the TSX on January 21, 2010. As at March 13, 2012, there are 6,851 Warrants outstanding, which expire July 12, 2012, and which have an exercise price of \$7.80. Each Warrant is exchangeable into one Common Share upon payment of the exercise price to the Company.

### *Debentures*

The Debentures are listed on the TSX under the trading symbol “PRE.DB”, and commenced trading on August 28, 2008. The following table sets out the high and low trading of the Debentures for the periods indicated as reported by the TSX.

<b>Period (2011)</b>	<b>High</b>	<b>Low</b>	<b>Trading Volume</b>
December	\$190.00	\$176.99	480
November	\$209.98	\$163.73	14,520
October	\$216.52	\$166.95	202,340
September	\$210.91	\$180.51	164,010
August	\$228.59	\$201.00	10,470
July	\$229.24	\$197.00	12,433
June	\$226.95	\$211.50	69,383
May	\$240.00	\$212.00	9,910
April	\$243.50	\$220.00	4,050
March	\$285.00	\$215.35	102,910
February	\$285.25	\$245.75	13,190
January	\$285.00	\$255.38	66,090

### *2009 Senior Notes*

The 2009 Senior Notes are listed on the Luxemburg Stock Exchange as “PacificRubEnergy 8.75% 09-16 10/11s ne” and commenced trading on November 10, 2009. The trading activity for the 2009 Senior Notes during 2010, as reported by the Luxemburg Stock Exchange, is insufficient to provide meaningful trading data for the purposes of this Annual Information Form.

### **Prior Sales**

There are no securities in the capital of the Company that were issued but not listed on a marketplace during the most recently completed financial year of the Company, other than the following:

<b>Date of Sale</b>	<b>Type of Security</b>	<b>Number of Securities</b>	<b>Exercise/Conversion Price</b>	<b>Expiry Date</b>
February 2, 2011	Stock Options	250,000	\$34.43	February 2, 2016
March 16, 2011	Stock Options	4,081,500	\$25.76	March 16, 2016
May 3, 2011	Stock Options	53,000	\$28.01	May 3, 2016
May 26, 2011	Stock Options	12,000	\$25.59	May 26, 2016
September 27, 2011	Stock Options	200,000	\$22.05	September 27, 2016
October 24, 2011	Stock Options	27,000	\$24.68	October 24, 2016

### **DIRECTORS AND OFFICERS**

#### **Directors and Officers of the Company**

As of March 13, 2012, the directors and executive officers of the Company (as a group) owned, or exerted direction or control over, a total of 8,666,200 Common Shares, representing 2.97% of the Company’s total issued and outstanding Common Shares on a non-fully diluted basis.

Information is given below with respect to each of the current directors and executive officers of the Company. The term of office of each director expires at the end of the May 31, 2012 annual meeting of shareholders.

The following table sets forth the name, municipality of residence of each director and executive officer of the Company, as well as such individual’s position within the Company, principal occupation within the five (5) preceding years and number of Common Shares beneficially owned by each such director or executive officer. Information as to residence, principal occupation and Common shares owned is based upon information furnished by the person concerned and is as at the date of this Annual Information Form.



Name, Municipality of Residence and Current Position with the Company	Director Since	Present Principal Occupation or Employment (including all officer position currently held with the Company), Principal Occupation or Employment for the Past Five Years or more, and Other Current Public Directorships	Common Shares Owned <sup>(1)</sup>
<b>Serafino Iacono</b> <sup>(2)</sup> Caracas, Venezuela  Co-Chairman, Director	January 23, 2008	Co-Chairman of the Board of the Company since January 23, 2008; Co-Chairman of the Board of Pacific Stratus from August 21, 2006 to January 23, 2008. Chief Executive Officer of Bolivar Gold Ltd., a gold producer, from February 2003 to February 2006. Mr. Iacono is also a director of Gran Colombia Gold Corp., PetroMagdalena Energy Corp. and Pacific Coal Resources Ltd.	102,915
<b>Miguel de la Campa</b> <sup>(2)(5)</sup> Caracas, Venezuela  Co-Chairman, Director	January 23, 2008	Co-Chairman of the Board of the Company since January 23, 2008; Co-Chairman of the Board of Pacific Stratus from August 21, 2006 to January 23, 2008. President and Chief Operating Officer of Bolivar Gold Ltd., a gold producer, from February 2003 to February 2006. Mr. de la Campa is also a director of Gran Colombia Gold Corp., PetroMagdalena Energy Corp. and Pacific Coal Resources Ltd.	401,765
<b>Ronald Pantin</b> <sup>(2)</sup> Bogotá, Colombia  Chief Executive Officer, Director	May 22, 2007	Chief Executive Officer of the Company since May 2007. President of Enron Venezuela from May 2000 to March 2002. Mr. Pantin is also a director of Gran Colombia Gold Corp. and Pacific Coal Resources Ltd.	15,250
<b>José Francisco Arata</b> <sup>(2)(6)(7)</sup> Caracas, Venezuela  President, Director	January 23, 2008	President of the Company since January 23, 2008; Chief Executive Officer and director of Pacific Stratus from August 21, 2006 to January 23, 2008; and Executive Vice President, Exploration of Bolivar Gold Ltd. from July 1997 to February 2006. Mr. Arata is also a director of Gran Colombia Gold Corp. and Pacific Coal Resources Ltd.	1,455,823
<b>German Efromovich</b> <sup>(3)</sup> São Paulo, Brazil  Director	June 16, 2007	Entrepreneur and director of Synergy Group of Companies, which is involved in ship and drilling rig leasing and manufacturing, oil production and aviation services. Mr. Efromovich is also a director of Avianca.	6,447,084 <sup>(8)</sup>
<b>Augusto Lopez</b> Bogotá, Colombia  Director	April 30, 2008	Mr. Lopez is an electrical engineer, a designation obtained through the Sociedad Antioqueña de Ingenieros in Colombia, and holds an Electrical Engineering Degree from Universidad Pontificia Bolivariana. Mr. Lopez is a director of Pacific Rubiales and has held the position since April 2008. Mr. Lopez has worked for over 40 years in various capacities and in various industries in South America and Europe, during 15 years as President of Bavaria, S.A., Colombia's largest beverage company. Mr. Lopez also held senior positions at Inversiones Bavaria S.A., an investment company. Mr. Lopez is the managing partner of Prospectiva Financiera, a consulting firm specializing in investment banking. Mr. Lopez is a director of Petroamerica Oil Corp., of Gran Colombia Gold Corp., and of Sportsat a firm operator of a national T.V channel and producers of	38,000

Name, Municipality of Residence and Current Position with the Company	Director Since	Present Principal Occupation or Employment (including all officer position currently held with the Company), Principal Occupation or Employment for the Past Five Years or more, and Other Current Public Directorships	Common Shares Owned <sup>(1)</sup>
<b>Victor Rivera</b> <sup>(6)(7)</sup> Bogotá, Colombia  Director	February 16, 2010	<p>contents for television. Mr. Lopez also participates on the boards of other public and private companies in South America and Europe.</p> <p>Petroleum Engineer; has over 33 years of experience in the Colombian hydrocarbon exploration and production sector, having served as President and CEO of Hocol S.A. for a number of years as well as “High Commissioner for the Protection of Energy Infrastructure” for the Colombian government.</p>	12,600
<b>Miguel Rodriguez</b> <sup>(3)(4)(5)(9)</sup> Caracas, Venezuela  Director	April 30, 2008	<p>Business Consultant. Professor of Economics, Instituto de Estudios Superiores de Administración (IESA), Caracas, from 1984-2006. Dean, Faculty of Economics and Social Sciences, Universidad Santa María, from 2002-2004. Chairman Astra Fund (Davos Group) from 2005-2006, Chairman Incofin, Inc. (Davos Group) from 1997-2006, and President of MRConsultores and Incofin, Inc., 1995-2006. Mr. Rodriguez is also a director of Pacific Coal Resources Ltd.</p>	11,547
<b>Neil Woodyer</b> <sup>(4)</sup> Monaco  Director	February 22, 2008	<p>Mr. Woodyer was the founding partner of Endeavour Group in 1988. He is CEO to Endeavour Mining and is responsible for implementing the corporation's strategic growth plan and co-ordinating and directing the entire management and professional team. Mr. Woodyer has over thirty years experience in the mining sector developing, implementing and financing strategic growth plans.</p>	Nil
<b>Hernan Martinez</b> <sup>(3)(6)(7)</sup> Barranquilla, Colombia  Director	May 31, 2011	<p>Mr. Martinez has served as the Colombian Minister of Mines and Energy from July 2006 to August 2010 and he has also served as President of International Colombia Resources Corporation, President of Atunec S.A., President and Chief Executive Officer of Exxon Mobil Colombia S.A., and Manager of Corporate Planning for Esso Colombiana S.A.</p> <p>Mr. Martinez currently sits on the board of directors of CB Gold Inc., and previously, was a director of various private and public companies, including Interconexion Electrica S.A. ESP, Transmision Electrica S.A., and Inversura S.A., ISAGEN Energia Productiva, and was Chairman of Cart Escopetorl. Mr. Martinez has also served as Council President and Representative of the President of Colombia at the National Hydrocarbons Agency. Mr. Martinez is also a director of Gran Colombia Gold Corp.</p>	9,000
<b>Dennis Mills</b> <sup>(3)(5)</sup> Toronto, Canada  Director	February 13, 2012	<p>Mr. Mills was Vice Chairman and Chief Executive Officer of MI Developments Inc. from 2004 to 2011, and a Vice-President at Magna International from 1984 to 1987. Mr. Mills served as a Member of Parliament in Canada's federal parliament from 1988 to 2004. While a Member of Parliament, Mr. Mills was Parliamentary Secretary to the Minister of</p>	Nil

Name, Municipality of Residence and Current Position with the Company	Director Since	Present Principal Occupation or Employment (including all officer position currently held with the Company), Principal Occupation or Employment for the Past Five Years or more, and Other Current Public Directorships	Common Shares Owned <sup>(1)</sup>
<b>Francisco Solé<sup>(4)</sup></b> Bogotá, Colombia  Director	February 13, 2012	Industry from 1993 to 1996, the Parliamentary Secretary to the Minister of Consumer and Corporate Affairs from 1993 to 1995 and the Chair of the Committee studying the Industry of Sport in Canada. Mr. Mills was the Senior Policy Advisor to the Cabinet Committee on Communications (1980-1984), Advisor to the Minister of Energy (1980-1981), Senior Advisor to the Minister of Multiculturalism (1980), and Senior Communications Advisor to the Prime Minister of Canada, The Right Honourable Pierre Elliott Trudeau (1980-1984).  Mr. Solé has served Grupo Planeta, a Colombian publishing and media company in various capacities since 1989, most recently as Grupo Planeta Corporate President of the Andean Area, Vice-President of El Tiempo Publishing House and President of Channel 3 Television of Colombia. Mr. Solé has also been a member of the Board of Directors for CEET TV, El Tiempo Publishing House and Editorial Planeta Colombia during this time. From 1985-1989 he was General Director and Director of Administration at the oil refining company East of Spain Lubricants (LUDESA), in Spain. He has also been Department Head, Accountant and Section Chief in the department of cost accounting at Novartis, a chemical and pharmaceutical company.	Nil
<b>Carlos Perez</b> Caracas, Venezuela  Chief Financial Officer	N/A	Chief Financial Officer of the Company since June 18, 2007. Vice President of Petrolago, S.A. from August 2002 to June 2007.	Nil
<b>Peter Volk</b> Toronto, Ontario Canada  General Counsel and Secretary	N/A	General Counsel and Secretary of the Company since January 23, 2008. Previously General Counsel and Secretary of Pacific Stratus from October 26, 2004 to January 23, 2008. General Counsel and Secretary of Bolivar Gold Corp., a gold producer, from July 1997 to February 2006.	32,407
<b>Eduardo Lima</b> Panama City, Panama  Senior Vice President, Projects Development	N/A	Senior Vice President, Projects Development of the Company since January 23, 2008. Senior Vice President Business Development of the Company from June 2007 to January 2008. President of Servicom-e S.A. from October 2005 to May 2007. Technical Vice President of Vengas (Enron Venezuela) from December 2000 to June 2003.	57,402

<b>Name, Municipality of Residence and Current Position with the Company</b>	<b>Director Since</b>	<b>Present Principal Occupation or Employment (including all officer position currently held with the Company), Principal Occupation or Employment for the Past Five Years or more, and Other Current Public Directorships</b>	<b>Common Shares Owned<sup>(1)</sup></b>
<b>Luis Andres Rojas</b> Caracas, Venezuela  Senior Vice President, Production	N/A	Senior Vice President, Production of the Company since January 23 2008. Chief Operating Officer of the Company from May 2007 to January 2008. Senior Consultant of Consultores Energicos Venezolanos from June 2004 to May 2007. President of PDVSA Intevep from September 2002 to January 2003.	40,250
<b>Nelson Lee</b> Markham, Ontario, Canada  Senior Vice President, Finance	N/A	Senior Vice President, Financial since January 23, 2008. Chief Financial Officer of Medoro Resources Ltd. since October 16, 2006. Director of Finance of SMTL Manufacturing from January 2006 to June 2006. Corporate Controller of Cygnal Tech from August 2002 to November 2005.	8,567
<b>Marino Ostos</b> Caracas, Venezuela  Senior Vice President, New Areas	N/A	Senior Vice President, New Business of the Company since January 23, 2008. Chief Operating Officer of Pacific Stratus from August 2006 to October 2007. President Colombian Operations of Pacific Stratus from May 2006 to May 2007. President and Chief Executive Officer of Pacific Stratus from October 2004 to August 2006. Principal of Estudios de Ingenieria Geologica LITOS C.A. from December 1999 to October 2004.	Nil
<b>Jairo Lugo</b> Caracas, Venezuela  Senior Vice President, Exploration	N/A	Senior Vice President, Exploration of the Company since January 23, 2008. Executive Vice President, Exploration of Pacific Stratus from October, 2004 to January, 2008. Director of Exploration of Arauca Energy Group from April, 2003 to October, 2004. Exploration coordinator for PDVSA 2000-2002, G&G Manager for PDVSA-CVP 1998-2000, and various exploration geologist positions from 1990-1998 for PDVSA.	25,000
<b>Daniel Loureiro</b> Caracas, Venezuela  Senior Vice President, Geosciences	N/A	Senior Vice President, Geosciences of the Company since January 23, 2008. Corporate Vice President, New Business of Pacific Stratus from September 2005 to January, 2008. New Business Manager of Estudios de Ingenieria Geologica LITOS C.A. from April, 2003 to September, 2005.	Nil
<b>Luis Pacheco</b> Caracas, Venezuela  Senior Vice President, Planning & IT	N/A	Senior Vice President, Planning of the Company since 2008. Dr. Pacheco has over 27 years of experience in the energy industry, including 17 years in the Venezuelan oil industry. While in PDVSA, he held a number of senior positions including Managing Director of BITOR and Executive Director for Corporate Planning. He holds a Ph.D. degree in Mechanical Engineering from the Imperial College, University of London (1981). Prior to joining the company he was special advisor on strategy and energy to the Presidency of CANTV (2005-2007). For a number of years Dr. Pacheco lectured at Universidad Simon Bolivar and he is presently Visiting Lecturer at the Instituto de Estudios	8,000

Name, Municipality of Residence and Current Position with the Company	Director Since	Present Principal Occupation or Employment (including all officer position currently held with the Company), Principal Occupation or Employment for the Past Five Years or more, and Other Current Public Directorships	Common Shares Owned <sup>(1)</sup>
Chris LeGallais Calgary, Alberta, Canada  Senior Vice President, Investor Relations	N/A	Superiores de Administracion (IESA) and UNIANDES.  Senior Vice President, Investor Relations of the Company since September 2, 2011. Vice President of Investor Relations from 2003 to August, 2011; and Manager of Exploration Business Planning and Risk/Reserve Assessment at Talisman Energy Inc. from 1998 to 2002. Manager Business Development at Pan East Petroleum Corp. from 1994 to 1997. Vice President Exploration at OGY Petroleum Limited from 1991 to 1993.	500

Notes:

- (1) Common Shares beneficially owned, or controlled or directed, directly or indirectly, or over which control or direction is exercised.
- (2) Member of the Executive Committee.
- (3) Member of the Audit Committee.
- (4) Member of the Compensation Committee.
- (5) Member of the Corporate Governance and Nominating Committee.
- (6) Member of the Reserves Committee.
- (7) Member of the Sustainability Committee.
- (8) A total of 6,447,084 Common Shares are held by PF One, a company in which German Efromovich holds a controlling interest.
- (9) Mr. Rodriguez is the lead independent director.

### Corporate Cease Trade Orders

No director or executive officer of the Company, is, or within the ten years prior to the date hereof, has been a director, chief executive officer or chief financial officer of any company that was the subject of a cease trade order or similar order or an order that denied the relevant company access to any exemptions under securities legislation for a period of more than 30 consecutive days, while such director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer of the company being the subject of such order, or that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer in the company being the subject of such order and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer of the subject company.

### Corporate Bankruptcies

No director or executive officer, or a shareholder holding a sufficient number of securities in the capital of the Company to affect materially the control of the Company, is or within ten years prior to the date hereof, has been a director or executive officer of any company, that while that person was acting in that capacity or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

### Penalties or Sanctions

No director or executive officer of the Company, and no shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company, has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory

authority or has entered into a settlement agreement with a securities regulatory authority, or any other penalties or sanctions imposed by a court or regulatory body that would be likely to be considered important to a reasonable investor making an investment decision.

### **Personal Bankruptcies**

No director or executive officer of the Company, and no shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company, nor any personal holding company of any such person, has, during the ten years prior to the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or has been subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold his, her or its assets.

### **Conflicts of Interest**

There are potential conflicts of interest to which the directors or officers of the Company may be subject in connection with the operations of the Company. All of the directors and officers are engaged in and will continue to be engaged in corporations or businesses which may be in competition with the business of the Company. Accordingly, situations may arise where the directors and officers will be in direct competition with the Company. Conflicts, if any, will be subject to the procedures and remedies as provided under the BCBCA.

The Company's directors and officers may serve as directors or officers of other companies or have significant shareholdings in other resource companies and, to the extent that such other companies may participate in ventures in which the Company may participate, the directors of the Company may have a conflict of interest in negotiating and concluding terms respecting the extent of such participation. If such conflict of interest arises at a meeting of the Company's directors, a director who has such a conflict will abstain from voting for or against the approval of such participation or such terms. From time to time several companies may participate in the acquisition, exploration and development of natural resource properties thereby allowing for the participation in larger programs, permitting involvement in a greater number of programs and reducing financial exposure in respect of any one program. It may also occur that a particular company will assign all or a portion of its interest in a particular program to another of these companies due to the financial position of the Company making the assignment. In accordance with the laws of the Province of British Columbia, the directors of the Company are required to act honestly, in good faith and in the best interests of the Company. In determining whether or not the Company will participate in a particular program and the interest therein to be acquired by it, the directors will primarily consider the degree of risk to which the Company may be exposed and its financial position at that time.

### **Related Party Transactions**

The following sets out the related party transactions entered into by the Company during 2012:

- In June 2007, the Company entered into a 5-year lease agreement with Blue Pacific for administrative office space in one of its Bogota, Colombia locations. Monthly rent expense of \$57,000 is payable to Blue Pacific under this agreement. Three directors and officers of the Company control, or provide investment advice to the holders of, 67.2% of the shares of Blue Pacific. During 2011, the lease was amended to include additional space in Bogotá for a 10-year term with a monthly rent of \$0.4 million, and assignment of lessor to an entity controlled by Blue Pacific.

The Company does not have any outstanding accounts receivable from Blue Pacific as at December 31, 2011 (December 31, 2010 - \$773,000; January 1, 2010 - nil) related to certain administrative costs paid by the Company on behalf of Blue Pacific. In addition, the Company paid \$0.4 million to Blue Pacific during the year ended December 31, 2011 (\$0.5 million in 2010) for air transportation services.

- As at December 31, 2011, the Company had trade accounts receivable of \$2.4 million (December 31, 2010 - \$1.7 million; January 1, 2010 - \$10.5 million) from Proelectrica, in which the Company has a 17.7% indirect interest and which is 31.49% owned by Blue Pacific. The Company's and Blue Pacific's indirect interests are held through Pacific Power. Revenue from Proelectrica in the normal course of the Company's business was \$25.6 million for the year ended December 31, 2011 (\$12.5 million in 2010).
- During the year ended December 31, 2011, the Company paid \$47.1 million (\$40.2 million in 2010) to Transmeta in crude oil transportation costs. In addition the Company has accounts receivable of \$3.2 million (December 31, 2010 - \$4.1 million; January 1, 2010 - \$5 million) from Transmeta as at December 31, 2011. Transmeta is controlled by a director of the Company.
- Loans receivable in the aggregate amount of \$490,000 (December 31, 2010 - \$524,000; January 1, 2010 - \$290,000) are due from three management directors and three officers of the Company as at December 31, 2011. The loans are non-interest bearing and payable in equal monthly payments over 48 months. The loans were issued to these individuals in connection with costs incurred by these individuals as a result of their relocation.
- The Company has entered into aircraft transportation agreements with Petroleum Aviation Services S.A.S., a company controlled by a director of the Company. During 2011, the Company paid \$9.5 million (\$7.7 million in 2010) in fees as set out under the transportation agreements.
- During the year ended, December 31, 2011, the Company paid \$80.2 million to ODL (\$44.6 million in 2010) for crude oil transport services under the pipeline take or pay agreement. In addition, the Company received \$1.6 million from ODL during the year ended December 31, 2011 (\$6.6 million in 2010) with respect to certain administrative services and rental equipment and machinery. The Company does not have any outstanding accounts receivable from ODL as at December 31, 2011 (December 31, 2010 - \$3.1 million; January 1, 2010 - nil).
- As at December 31, 2011 the Company has a short-term advance of \$8 million (December 31, 2010; January 1, 2010 - nil) to OBC to fund on-going work commitments, which will be repaid upon the closing of OBC's financing.
- As at December 31, 2011 the Company has account receivable of \$20,000 (December 31, 2010 and January 1, 2010 - nil) from Pacific Infrastructure for the sale of certain administrative assets.
- As at December 31, 2011, the Company has accounts payable of \$0.4 million (December 31, 2010 and January 1, 2010 - nil) due to Helicol with respect to air transportation services and paid during the year \$1.3 million for this service (nil in 2010). Helicol is controlled by a director of the Company.

## **LEGAL PROCEEDINGS**

From time to time, the Company is the subject of litigation arising out of the Company's operations. Damages claimed under such litigation may be material or may be indeterminate and the outcome of such litigation may materially impact the Company's financial condition or results of operations. While the Company assesses the merits of each lawsuit and defends itself accordingly, the Company may be required to incur significant expenses or devote significant resources to defend itself against such litigation. These claims (if any) are not currently expected to have a material impact on the Company's financial position.

## **INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

Except as disclosed herein, no director or executive officer of the Company or any shareholder controlling, directly or indirectly, more than 10% of the issued and outstanding Common Shares, or another of their respective associates or affiliates, has any material interest in any transactions or any proposed transactions which has materially affected or will materially affect the Company or any of its subsidiaries.

## **TRANSFER AGENT AND REGISTRAR**

Equity Financial Trust Company, 200 University Ave., Suite 400, Toronto, Ontario, M5H 4H1, is the transfer agent and registrar for the Common Shares and Warrants of the Company.

## **MATERIAL CONTRACTS**

The following are the only material contracts, other than contracts entered into in the ordinary course of business not otherwise required to be disclosed, that have been entered into by the Company within the most recently completed fiscal year or before the most recently completed fiscal year but still in effect:

- (a) the Debenture Indenture dated August 7, 2008, as amended, in connection with the issuance of the Debentures (for further information see the heading entitled "Historical Overview – Kappa Acquisition and Offering of Debentures");
- (b) the 2009 Rights Plan dated March 9, 2009 (for further information see the heading entitled "Shareholder Rights Plan");
- (c) the 2009 Indenture dated November 10, 2009 in connection with the issuance of the 2009 Senior Notes (for further information see the heading entitled "Historical Overview – 2009 Senior Notes Financing");
- (d) the Revolving Credit Facility and the Amendment (for further information see the heading entitled "Historical Overview – Revolving Credit Facility"); and
- (e) the 2011 Indenture dated December 12, 2011 in connection with the issuance of the 2011 Senior Notes (for further information see the heading entitled "Historical Overview – 2011 Senior Notes Financing).

## **INTERESTS OF EXPERTS**

The auditors of the Company are Ernst & Young LLP, Chartered Accountants, Toronto, Ontario. Ernst & Young LLP are independent within the meaning of the Rules of Professional Conduct of the Institute of



Chartered Accountants of Ontario. Ernst & Young LLP were first appointed auditors of the Company on August 8, 2007.

As of the date hereof, neither the independent petroleum experts, Petrotech and RPS, nor the designated professionals of each of Petrotech and RPS, directly or indirectly owned any of the outstanding Common Shares or other securities of the Company. No director, officer or employee of Petrotech or RPS is to be or has been elected, appointed or employed by the Company.

## **AUDIT COMMITTEE INFORMATION**

### **The Audit Committee's Charter**

The full text of the Company's Audit Committee Charter is appended hereto as Appendix "A".

### **Composition of the Audit Committee and Relevant Education and Experience**

The Audit Committee is comprised of three directors of the Company, Dennis Mills, Miguel Rodriguez and Hernan Martinez. All of the members of the audit committee are independent and financially literate for purposes of National Instrument 52-110 – *Audit Committees*. Each has a minimum of 30 years' business experience and each has held or currently holds executive positions that required oversight and understanding of the accounting principles underlying the preparation of the Company's financial statements and is aware of the controls and other procedures necessary for financial control and reporting.

Mr. Mills was Vice Chairman and Chief Executive Officer of MI Developments Inc. from 2004 to 2011, and a Vice-President at Magna International from 1984 to 1987. Mr. Mills also served as a Member of Parliament in Canada's federal parliament from 1988 to 2004. Mr. Mills has extensive experience in reading and evaluating financial statements, and as such, is aware of the controls and other procedures necessary for financial control and reporting.

Mr. Rodriguez holds a doctorate degree in economics from Yale University, and has taught economics at various post-secondary institutions. Mr. Rodriguez has served as the President of the Central Bank of Venezuela, as Minister of Economics and Planning of Venezuela, and headed the negotiations to restructure U.S.\$20 billion of Venezuelan external debt under the Brady Plan. Internationally, he has acted as the Governor to the Interamerican Development Bank and the World Bank, and Governor to the International Monetary Fund.

Mr. Martinez has served as the Colombian Minister of Mines and Energy from July 2006 to August 2010 and he has also served as President of International Colombia Resources Corporation, President of Atunec S.A., President and Chief Executive Officer of Exxon Mobil Colombia S.A., and Manager of Corporate Planning for Esso Colombiana S.A. Mr. Martinez also has extensive experience with public company boards as he is also a director of CB Gold Inc. and Gran Colombia Gold Corp.

### **Audit Committee Oversight**

The Audit Committee is mandated to monitor audit functions, the preparation of financial statements, review press releases on financial results, review other regulatory documents as required, and meet with outside auditors independently of management.

## Pre-Approval Policies and Procedures

Pacific Rubiales has adopted policies and procedures with respect to the pre-approval of audit and permitted non-audit services by Ernst & Young LLP. The Audit Committee has established a budget for the provision of a specified list of audit and permitted non-audit services that the Audit Committee believes to be typical, recurring or otherwise likely to be provided by Ernst & Young LLP. The budget generally covers the period between the adoption of the budget and the next meeting of the Audit Committee, but at the option of the Audit Committee it may cover a longer or shorter period. The list of services is sufficiently detailed as to the particular services to be provided to ensure that: (i) the Audit Committee knows precisely what services it is being asked to pre-approve; and (ii) it is not necessary for any member of management to make a judgment as to whether a proposed service fits within the pre-approved services.

Subject to the next paragraph, the Audit Committee has delegated authority to the Chair of the Audit Committee (or if the Chair is unavailable, any other member of the Audit Committee) to pre-approve the provision of permitted services by Ernst & Young LLP which have not otherwise been pre-approved by the Audit Committee, including the fees and terms of the proposed services (“**Delegated Authority**”). All pre-approvals granted pursuant to Delegated Authority must be presented by the member(s) who granted the pre-approvals to the full Audit Committee at its next meeting.

All proposed services, or the fees payable in connection with such services, that have not already been pre-approved must be pre-approved by either the Audit Committee or pursuant to Delegated Authority. Prohibited services may not be pre-approved by the Audit Committee or pursuant to Delegated Authority.

## External Auditor Service Fees (By Category)

The following are the aggregate fees incurred by the Company for services provided by its external auditors during fiscal 2010 and 2011:

	2010	2011
1. Audit Fees	1,963,000	2,907,000
2. Audit Related Fees <sup>(1)</sup>	348,000	325,000
3. Tax Fees <sup>(2)</sup>	333,000	513,200
4. All Other Fees	-	-
<b>Total</b>	<b>2,644,000</b>	<b>3,745,200</b>

Notes:

<sup>(1)</sup> Includes fees related to the fiscal year audit and interim reviews, notwithstanding when the fees were billed or when the services were rendered.

<sup>(2)</sup> Includes fees for services rendered from January through December of the fiscal year, notwithstanding when the fees were billed. Canadian fees for both 2010 and 2011 have been converted to U.S.\$ using a December 31, 2011 spot exchange rate. Colombian fees are typically agreed to in U.S.\$ and are billed in Colombian Pesos using the current exchange rate.

## ADDITIONAL INFORMATION

Additional information about the Company, including, but not limited to, directors’ and officers’ remuneration and indebtedness, principal holders of the Company’s securities and securities authorized for issuance under the Company’s stock option plan is contained in the management information circular of the Company dated May 7, 2011. Additional financial information is provided in the audited annual

financial statements and management's discussion and analysis for the year ended December 31, 2011 and the unaudited interim financial statements. This information and other pertinent information regarding the Company can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

## APPENDIX “A”

### AUDIT COMMITTEE CHARTER

*(Initially adopted by the Board of Directors on November 16, 2007)*

### PACIFIC RUBIALES ENERGY CORP.

**(the “Corporation”)**

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#### A. PURPOSE

The overall purpose of the Audit Committee (the “**Committee**”) is to ensure that the Corporation’s management has designed and implemented an effective system of internal financial controls, to review and report on the integrity of the consolidated financial statements of the Corporation and related financial information, and to review the Corporation’s compliance with regulatory and statutory requirements as they relate to financial statements, taxation matters and disclosure of financial information. In performing its duties, the committee will maintain effective working relationships with the Board of Directors (the “**Board**”), management, and the external auditors and monitor the independence of those auditors. To perform his or her role effectively, each Committee member will obtain an understanding of the responsibilities of committee membership as well as the Corporation’s business, operations and risks.

#### B. COMPOSITION, PROCEDURES AND ORGANIZATION

1. The Committee shall consist of at least three members of the Board, each of which shall be an independent director<sup>1</sup>.
2. All of the members of the Committee shall be “financially literate”<sup>2</sup>.
3. At least one member of the Committee shall have accounting or related financial management experience.
4. The Board, at its organizational meeting held in conjunction with each annual general meeting of the shareholders, shall appoint the members of the Committee for the ensuing year. Any member of the Committee may be removed or replaced at any time by the Board and shall cease to be a member of the Committee on ceasing to be a director. The Board may fill vacancies on the Committee by election from among its number. If and whenever a vacancy shall exist on the Committee, the remaining members may exercise all its powers so long as a quorum remains in office. Subject to the above, each member of the Committee shall hold office as such until the next annual general meeting of the shareholders after his/her election.

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1. “Independent” member of an audit committee means a member who has no direct or indirect material relationship with the Corporation. A “material relationship” means a relationship which could, in the view of the Board, be reasonably expected to interfere with the exercise of a member’s independent judgement.

2. “Financially literate” individual is an individual who has the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Corporation’s financial statements.

5. Unless the Board shall have appointed a chair of the Committee, the members of the Committee shall elect a chair and a secretary from among their number.
6. The quorum for meetings shall be a majority of the members of the Committee, present in person or by telephone or other telecommunication device that permits all persons participating in the meeting to speak to and to hear each other. No business may be transacted by the Committee except at a meeting of its members at which a quorum of the Committee is present.
7. The Committee shall have full and unrestricted access to such officers, employees and personnel of the Corporation and to the Corporation's external and internal auditors, and to such information, books, records and facilities of the Corporation, as it considers to be necessary or advisable in order to perform its duties and responsibilities.
8. The Committee shall have the authority to:
  - a) engage independent counsel and other advisors as it determines necessary to carry out its duties and to request any officer or employee of the Corporation or the Corporation's external counsel or auditors to attend a meeting of the Committee;
  - b) set and pay the compensation for any advisors employed by the Committee; and
  - c) designate members of the Committee the authority to grant appropriate pre-approvals required in respect of non-audit services performed by the auditors and the decisions of any member to whom authority is delegated to pre-approve an activity shall be presented to the Committee at its first scheduled meeting following such pre-approval.
9. Meetings of the Committee shall be conducted as follows:
  - a) the Committee shall meet at least four times annually at such times and at such locations as may be requested by the chair of the Committee. The external auditors or any member of the Committee may request a meeting of the Committee;
  - b) the external auditors shall receive notice of and have the right to attend all meetings of the Committee;
  - c) the Committee has the right to determine who shall and shall not be present at any time during a meeting. Management representatives may be invited to attend meetings, provided that the Committee shall hold separate, regularly scheduled meetings at which members of management are not present; and
  - d) the proceedings of all meetings shall be minuted.
10. Each member of the Committee shall be entitled, to the fullest extent permitted by law, to rely on the integrity of those persons and organizations within and outside the Corporation from whom he or she receives information, and the accuracy of the information provided to the Corporation by such other persons or organizations.
11. The internal auditors and the external auditors shall have a direct line of communication to the Committee through its chair and may bypass management if deemed necessary. The Committee, through its chair, may contact directly any employee in the Corporation as it deems necessary,

and any employee may bring before the Committee any matter involving questionable, illegal or improper financial practices or transactions.

12. The members of the Committee shall be entitled to receive such remuneration for acting as members of the Committee as the Board may from time to time determine.

### **C. ROLES AND RESPONSIBILITIES**

1. The overall duties and responsibilities of the Committee shall be as follows:
  - a) assist the Board in discharging its responsibilities relating to the Corporation's accounting principles, reporting practices and internal controls and its approval of the Corporation's annual and quarterly consolidated financial statements and related financial disclosure;
  - b) establish and maintain a direct line of communication with the Corporation's internal and external auditors and assess their performance;
  - c) ensure that the management of the Corporation has designed, implemented and is maintaining an effective system of internal financial controls; and
  - d) report its deliberations and discussions regularly to the Board, including reporting on the fulfillment of its duties and responsibilities.
2. The duties and responsibilities of the Committee as they relate to the external auditors shall be as follows:
  - a) review the independence and performance of the external auditors and annually recommend to the Board a firm of external auditors to be nominated for the purpose of preparing or issuing an auditors' report or performing other audit, review or attest services for the Corporation;
  - b) review and approve the fee, scope and timing of the audit and other related services rendered by the external auditors;
  - c) review the audit plan of the external auditors prior to the commencement of the audit;
  - d) approve in advance provision by the external auditors of services other than auditing to the Corporation or any of its subsidiaries;
  - e) annually review and discuss all significant relationships the external auditors have with the Corporation that could impair the external auditors' independence;
  - f) review with the external auditors, upon completion of their audit:
    - i. contents of their report;
    - ii. scope and quality of the audit work performed;
    - iii. adequacy of the Corporation's financial and auditing personnel;
    - iv. co-operation received from the Corporation's personnel during the audit;

- v. internal resources used;
  - vi. significant transactions outside of the normal business of the Corporation;
  - vii. significant proposed adjustments and recommendations for improving internal accounting controls, accounting principles or management systems; and
  - viii. the non-audit services provided by the external auditors;
- g) discuss with the external auditors the quality and the acceptability of the Corporation's accounting principles;
  - h) implement structures and procedures to ensure that the Committee meets the external auditors on a regular basis in the absence of management; and
  - i) oversee the work of the external auditors, including the resolution of disagreements between management and the external auditor regarding financial reporting.
3. The duties and responsibilities of the Committee as they relate to the Corporation's internal auditors are to:
- a) periodically review the internal audit function with respect to the organization, staffing and effectiveness of the internal audit department;
  - b) review and discuss with the Chief Corporate Auditor (the "CCA") the CCA's annual risk assessment of the adequacy and effectiveness of the Corporation's internal control process, the CCA's report to the Committee on the results of the annual audit plan and the status of the audit issues, and the CCA's recommendations regarding improvements to the Corporation's controls and processes;
  - c) review and approve the internal audit plan;
  - d) review significant internal audit findings and recommendations, and management's response thereto; and
  - e) annually review with the Corporation's legal counsel any legal matters that could have a significant impact on the Corporation's financial statements, the Corporation's compliance with applicable laws and regulations, and inquiries received from regulators or governmental agencies.
4. The duties and responsibilities of the Committee as they relate to the internal control procedures of the Corporation are to:
- a) review the appropriateness and effectiveness of the Corporation's policies and business practices which impact on the financial integrity of the Corporation, including those relating to internal auditing, insurance, accounting, information services and systems and financial controls, management reporting and risk management;
  - b) review any unresolved issues between management and the external auditors that could affect the financial reporting or internal controls of the Corporation; and

- c) periodically review the Corporation's financial and auditing procedures and the extent to which recommendations made by the internal audit staff or by the external auditors have been implemented.
5. The Committee is also charged with the responsibility to:
- a) review the Corporation's quarterly financial statements and related financial information, including the impact of unusual items and changes in accounting principles and estimates and report to the Board with respect thereto before such information is publicly disclosed;
  - b) review and approve the financial sections of:
    - i. the annual report to shareholders;
    - ii. the annual information form, if required;
    - iii. annual and interim management's discussion and analysis;
    - iv. prospectuses;
    - v. news releases discussing financial results of the Corporation; and
    - vi. other public reports of a financial nature requiring approval by the Board,
    - vii. and report to the Board with respect thereto before such information is publicly disclosed;
  - c) ensure that adequate procedures are in place for the review of the Corporation's public disclosure of financial information extracted or derived from the Corporation's financial statements, other than the public disclosure referred to in item 5(b) above, and periodically assess the adequacy of such procedures;
  - d) review regulatory filings and decisions as they relate to the Corporation's consolidated financial statements;
  - e) review the appropriateness of the policies and procedures used in the preparation of the Corporation's consolidated financial statements and other required disclosure documents, and consider recommendations for any material change to such policies;
  - f) review and report on the integrity of the Corporation's consolidated financial statements;
  - g) establish procedures for:
    - i. the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls, or auditing matters; and
    - ii. the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters;
  - h) review and approve the Corporation's hiring policies regarding partners, employees and former partners and employees of the present and former external auditors of the Corporation;



- i) review with management, the external auditors and, if necessary, with legal counsel, any litigation, claim or other contingency, including tax assessments that could have a material effect upon the financial position or operating results of the Corporation and the manner in which such matters have been disclosed in the consolidated financial statements;
  - j) review the Corporation's compliance with regulatory and statutory requirements as they relate to financial statements, tax matters and disclosure of financial information;
  - k) review annually and recommend updates to this Charter of the Committee and receive approval of changes from the Board;
  - l) review the minutes of any audit committee of subsidiary companies of the Corporation; and
  - m) perform other functions consistent with this Charter, the Corporation's articles and governing law, as the Committee or the Board deems necessary or appropriate.
6. While the Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Committee to plan or conduct audits or to determine that the Corporation's financial statements and disclosures are complete and accurate and in accordance with generally accepted accounting principles and applicable rules and regulations, each of which is the responsibility of management and the Corporation's external auditors.

#### **D. CURRENCY OF CHARTER**

This charter was last revised and approved by the Board on September 15, 2009.