

## Pacific Rubiales announces strategic acquisition of Petrominerales

Written by Australian Business

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TORONTO, Sept. 29, 2013 /PRNewswire/ - Pacific Rubiales Energy Corp. (TSX: PRE; BVC: PREC; BOVESPA: PREB) is pleased to announce that it has entered into an agreement with Petrominerales Ltd. (TSX: PMG; BVC: PMGC) to acquire all of the outstanding common shares of Petrominerales (the "**Arrangement Agreement**").

Under the Arrangement Agreement, Petrominerales shareholders will receive Cdn.\$11.00 cash for each Petrominerales common share held, for a total value of approximately Cdn. \$935 million in cash, plus one common share of a newly formed exploration and production company ("**ExploreCo**"), and the assumption of net debt estimated at Cdn. \$640 million, including convertible bonds.

ExploreCo's assets will consist of Petrominerales' Brazilian exploration assets and Cdn.\$100 million in cash.

The total purchase price on a fully diluted basis, including assumed net debt, and excluding funding of ExploreCo, will be approximately Cdn.\$1.6 billion. Financing of the acquisition will be accomplished by cash on hand and bank credit facilities including a committed U.S. \$1.3 billion short term bank facility, which the Company expects to refinance after the acquisition is completed. The cash consideration per Petrominerales share represents a premium of approximately 56% to the 20-day volume-weighted trading price on the Toronto Stock Exchange of Petrominerales as at September 27, 2013.

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It is anticipated that the transaction will be effected by way of a court approved plan of arrangement (the "**Arrangement**").

"This acquisition is an excellent fit with our strategy, provides immediate capture of additional value through asset synergies, and grows production and cash flow at attractive metrics," commented Ronald Pantin, Chief Executive Officer of Pacific Rubiales. "The light oil production and reserves can be integrated with our growing heavy oil production, providing a lower cost source of diluent into the future. Also, this acquisition provides the Company with additional lower cost and reliable transportation infrastructure by way of Petrominerales' interests in the OCENSA and OBC oil pipelines in Colombia, which are highly strategic to the Company's plans to increase its heavy oil production in the country.

"This is an all cash deal, which will not result in any dilution to existing Pacific Rubiales shareholders and will be highly accretive. Funding of the acquisition will be accomplished via cash on hand and bank credit facilities, including a committed U.S.\$1.3 billion short term bank facility which will be refinanced after the acquisition is completed. We expect to pay down a significant portion of the newly acquired debt, largely through the sale and/or spin-out of all or part of the acquired equity pipeline interests, as well as other midstream assets currently owned by the Company, but will retain capacity and access through long-term contractual arrangements. Following the sale of such assets, we are targeting a pro-forma Debt/EBITDA ratio of less than 1x to maintain the strength and integrity of our balance sheet. Our pro-forma 2014 operations are expected to generate up to U.S. \$4 billion EBITDA in the current commodity price environment.

"Overall, the acquisition adds production and reserves at attractive and accretive metrics, assets whose value can be increased through accelerated activity, transportation and marketing synergies, and exploration upside. This not only strengthens our focus in Colombia and Peru, but also builds on our proven track record of extracting value by growing production and generating cash flow."

### The Assets

The Arrangement will result in the acquisition of approximately 9.8 million gross (6.8 million

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net) acres of exploration and development properties in Colombia and Peru, as well as oil pipeline interests in Colombia

In the first six months of 2013, these assets produced approximately 22 Mbb/d gross (19 Mbb/d net). Reported 2P reserves at year-end 2012 were 41.3 MMbbl gross (36.5 MMbbl net), with approximately 65% of these being total proved reserves.

In aggregate, Pacific Rubiales will acquire the following assets from Petrominerales:

- 18 blocks covering 1.6 million gross/net acres in Colombia;
  - 4 blocks covering 8.2 million gross (5.2 million net) acres in Peru;
  - 5% equity interest in the Oleoducto Central S.A. ("**OCENSA**") oil pipeline in Colombia;
- and
- 9.65% equity interest in the Oleoducto Bicentenario de Colombia ("**OBC**") oil pipeline also in Colombia

Petrominerales' Brazil assets will be spun out into the newly formed ExploreCo prior to the closing of the Arrangement.

### Estimated Transaction Value Components

	Estimated Value(Cdn.\$billions)
Acquisition Cost (share purchase + assumption of debt)	
Less value of oil pipeline interests	Less operational synergy savings
<b>Value attributed to production and reserves</b>	<b>(\$0.4)</b>

<sup>1</sup>Estimated value of 5% OCENSA pipeline and 9.65% OBC pipeline interests<sup>2</sup>Estimated discounted value, principally from transportation and marketing synergies

The acquisition includes both producing as well as significant infrastructure assets in the form of strategic oil pipeline interests. The Company estimates the value of the pipeline interests at

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up to Cdn.\$0.4 billion, and the value of cost saving attributed to various operational optimizations at Cdn. \$0.3 billion, which will be achieved principally through: 1) a significant reduction in natural gasoline purchases used for diluent, 2) use of pipeline capacity for oil transportation, replacing trucking, and 3) optimizations on blending of crude oil.

After deducting the value of the non-reserve assets from the total purchase price, the acquisition of Petrominerales implies net metrics of approximately U.S.\$47,000/bbl/d on a net flowing production basis, and U.S.

\$25

/bbl on 2012 year-end 2P net reserves (additional discoveries on the Petrominerales blocks in 2013 are expected to result in reserve additions at year-end 2013). These acquisition metrics are comparable to those associated with the Company's C&C Energia Ltd. acquisition completed in late 2012 and are attractive given the predominantly light oil and high netback nature of the assets.

### Strategic Rationale

Pacific Rubiales believes that this is a highly strategic acquisition which provides further visibility into its ability and business leverage to increase production and reserves, both organically and acquisitively at attractive and competitive metrics.

The key attributes of the acquired Petrominerales assets are:

- the acquired assets are all located in Colombia and Peru in prolific basins with which we are familiar and are aligned with our core capabilities and expertise;
- the majority of the production is derived from operated and high working interest properties in the Llanos basin, Colombia, in close proximity to Pacific Rubiales' existing infrastructure, creating additional synergy value;
- current production, reported in the first half of 2013, of approximately 22 Mbbbl/d gross (19 Mbbbl/d net), is primarily high quality and high netback light oil;
- the light oil production provides a reliable and lower cost supply of diluent available to mix with the Company's growing heavy oil production;
- provides additional production and reserves and free cash flow to Pacific Rubiales' portfolio;
- provides the opportunity to access additional reliable transportation infrastructure from interests in the OCENSA (5%) and OBC (9.65%) oil pipelines, strategic to the Company's plans

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to significantly increase its heavy oil production from the Llanos basin;

- upside potential to unlock additional value from a substantial exploration land and resources base; and

- the acquisition is largely accomplished by short-term debt with the Company having a viable plan to pay down some of the additional debt, targeting a pro-forma Debt/EBITDA ratio of less than 1x by year-end 2014, maintaining the strength and integrity of its balance sheet.

### Terms of the Arrangement

The Arrangement is subject to approval by the shareholders of Petrominerales, court approval, regulatory, stock exchange and other approvals, and satisfaction of all other customary closing conditions. To proceed, the Arrangement must be approved by at least 66 2/3% of the votes cast by Petrominerales' shareholders voting on the resolution to approve the Arrangement. The Arrangement is expected to close in the fourth quarter of 2013.

The Arrangement Agreement also provides that, in certain specified circumstances, Petrominerales will pay Pacific Rubiales a non-completion fee of U.S.\$60 million, and a reciprocal non-completion fee is payable by Pacific Rubiales to Petrominerales in certain specified circumstances. In addition, the Arrangement Agreement provides for an irrevocable offer by Pacific Rubiales to purchase Petrominerales' equity interest in the OCENSA pipeline if the Arrangement is not completed by

December 10, 2013

for any reason, provided that: (i) Petrominerales has not entered into an agreement to sell its OCENSA equity interest to a third party, and (ii) the Arrangement Agreement has not terminated due to the fault of Petrominerales. The Arrangement Agreement includes customary provisions, including those related to no solicitation of alternative transactions, right to match superior proposals and fiduciary-out provisions. A copy of the Arrangement Agreement will be filed by Petrominerales on SEDAR and will be reviewable under Petrominerales' profile at

[www.sedar.com](http://www.sedar.com)

### Board of Director Recommendation and Financial Advisors

The board of directors of Petrominerales, having received a fairness opinion in connection with the Arrangement, has unanimously approved the Arrangement Agreement and recommend that the shareholders of Petrominerales vote in favour of the Arrangement.

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Bank of America Merrill Lynch acted as exclusive financial advisor to Pacific Rubiales in connection with the transaction. Norton Rose Fulbright Canada LLP acted as Pacific Rubiales' exclusive transaction counsel.

### **Support Agreements**

The Arrangement has the support of executive officers and directors of Petrominerales who collectively hold approximately 4% of the fully diluted common shares of Petrominerales. Each of the aforementioned executive officers and directors has entered into support agreements to vote in favour of the Arrangement.

### **Conference Call**

Pacific Rubiales has scheduled a telephone conference call for investors and analysts on Monday September 30, 2013

at  
8:00am  
(Bogotá time),  
9:00am  
(  
Toronto  
time) and  
10:00am  
(  
Rio de Janeiro  
time) to discuss the Arrangement. Participants will include  
Ronald Pantin  
, Chief Executive Officer, and selected members of senior management. Additional details will  
be published via news release prior to the conference call.

### **About Pacific Rubiales**

Pacific Rubiales, a Canadian company and producer of natural gas and crude oil, owns 100% of Meta Petroleum Corp., which operates the Rubiales, Piriri and Quifa heavy oil fields in the

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Llanos Basin, and 100% of Pacific Stratus Energy Colombia Corp., which operates the La Creciente natural gas field in the northwestern area of Colombia. Pacific Rubiales has also acquired 100% of PetroMagdalena Energy Corp., which owns light oil assets in Colombia, and 100% of C&C Energia Ltd., which owns light oil assets in the Llanos Basin. In addition, the Company has a diversified portfolio of assets beyond Colombia, which includes producing and exploration assets in Peru, Guatemala, Brazil, Guyana and Papua New Guinea.

### About Petrominerales

Petrominerales Ltd. is a Latin American focused exploration and production company with a high-quality land base of exploration and development opportunities in Colombia, Peru and Brazil.

### Advisories

#### ***Cautionary Note Concerning Forward-Looking Statements***

*This news release contains forward-looking statements. All statements, other than statements of historical fact, that address activities, events or developments that the Company believes, expects or anticipates will or may occur in the future (including, without limitation, statements regarding estimates and/or assumptions in respect of production, revenue, cash flow and costs, reserve and resource estimates, anticipated integration of acquisitions, potential resources and reserves and the Company's exploration and development plans and objectives) are*

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*forward-looking statements. These forward-looking statements reflect the current expectations or beliefs of the Company based on information currently available to the Company. Forward-looking statements are subject to a number of risks and uncertainties that may cause the actual results of the Company to differ materially from those discussed in the forward-looking statements, and even if such actual results are realized or substantially realized, there can be no assurance that they will have the expected consequences to, or effects on, the Company.*

*This press release also contains forward-looking statements and information concerning the anticipated completion of the Arrangement and the anticipated timing for completion thereof. Pacific Rubiales has provided these anticipated times in reliance on certain assumptions that they believe are reasonable at this time, including assumptions as to the timing of receipt of the necessary regulatory and court approvals and the time necessary to satisfy the conditions to the closing of the Arrangement. These dates may change for a number of reasons, including unforeseen delays in preparing meeting materials, inability to secure necessary regulatory or court approvals in the time assumed or the need for additional time to satisfy the conditions to the completion of the Arrangement. There is no guarantee that the Arrangement will close at the anticipated time or at all. Accordingly, readers should not place undue reliance on the forward-looking statements and information contained in this press release concerning these times and the Arrangement.*

*Factors that could cause actual results or events to differ materially from current expectations include, among other things: uncertainty of estimates of capital and operating costs, production estimates and estimated economic return; the possibility that actual circumstances will differ from the estimates and assumptions; failure to establish estimated resources or reserves; fluctuations in petroleum prices and currency exchange rates; inflation; changes in equity markets; political developments in Colombia, Guatemala, Peru, Brazil, Papua New Guinea and*

*Guyana*

*; changes to regulations affecting the Company's activities; uncertainties relating to the availability and costs of financing needed in the future; the uncertainties involved in interpreting drilling results and other geological data; and the other risks disclosed under the heading "Risk Factors" and elsewhere in the Company's annual information form dated*

*March 13, 2013*

*filed on SEDAR at*

*[www.sedar.com](http://www.sedar.com)*

*. Any forward-looking statement speaks only as of the date on which it is made and, except as may be required by applicable securities laws, the Company disclaims any intent or obligation to update any forward-looking statement, whether as a result of new information, future events or results or otherwise. Although the Company believes that the assumptions inherent in the forward-looking statements are reasonable, forward-looking statements are not guarantees of future performance and accordingly undue reliance should not be put on such statements due*

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to the inherent uncertainty therein.

*In addition, reported production levels may not be reflective of sustainable production rates and future production rates may differ materially from the production rates reflected in this news release due to, among other factors, difficulties or interruptions encountered during the production of hydrocarbons.*

## Translation

*This news release was prepared in the English language and subsequently translated into Spanish and Portuguese. In the case of any differences between the English version and its translated counterparts, the English document should be treated as the governing version.*

## Definitions

Bcf	Billion cubic feet.
Bcf	Billion cubic feet of natural gas equivalent.
bbl	Barrel of oil.
bbl/d	Barrel of oil per day.
bbl/d	Barrel of oil equivalent per day.
Mbbl	Thousand barrels.
MMbbl	Million barrels of oil equivalent.
MMbbl	Million barrels.
Mcf	Thousand cubic feet.
West Texas Intermediate Crude Oil	WTI

SOURCE Pacific Rubiales Energy Corp.