Pacific Rubiales Energy

Consolidated Financial Statements

For the years ending December 31, 2014 and 2013

Management's Responsibility for Financial Statements

Management is responsible for preparation of the consolidated financial statements and the notes hereto. The financial statements have been prepared in conformity with International Financial Reporting Standards (IFRS) using the best estimates and judgments of management, where appropriate.

Management is also responsible for maintaining a system of internal controls designed to provide reasonable assurance that assets aresafeguarded and that accounting systems provide timely, accurate and reliable information.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board is assisted in exercising its responsibilities by the Audit Committee of the Board. The Committee meets quarterly with management and the internal and external auditors, and separately with the internal and external auditors, to satisfy itself that management's responsibilities are properly to discuss accounting and auditing matters. The Committee reviews the consolidated financial statements and recommends approval of the consolidated financial statements to the Board.

The internal and external auditors have full and unrestricted access to the Audit Committee to discuss their audits and their related findings as to the integrity of the financial reporting process.

"Ronald Pantin"
Chief Executive Officer

"Carlos Pérez Olmedo"
Chief Financial Officer

Toronto, Canada
March 17, 2015.

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Pacific Rubiales Energy Corp.

We have audited the accompanying consolidated financial statements of Pacific Rubiales Energy Corp., which comprise the consolidated statements of financial position as at December 31, 2014 and 2013 and the consolidated statements of income, comprehensive income, equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Pacific Rubiales Energy Corp. as at December 31, 2014 and 2013 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada,
March 17, 2015.

Consolidated Statements of Income

		Year ended December 31	
(In thousands of U.S. Dollars, except per share information)	Notes	2014	2013*
Sales			
Oil and gas sales		4,546,359	4,485,046
Trading sales		403,663	141,813
Total sales	6	4,950,022	4,626,859
Cost of operations			
Oil & gas operating cost	7	1,688,556	1,652,021
Purchase of oil for trading		400,674	139,657
Underlift		(62,716)	(68,348)
Fees paid on suspended pipeline capacity	8	78,742	-
Gross earnings		2,844,766	2,903,529
Depletion, depreciation and amortization		1,641,577	1,355,652
General and administrative		360,681	336,572
Impairment and exploration expenses	19	1,625,358	23,741
Share-based compensation	25 b,c	10,243	39,416
(Loss) earnings from operations		(793,093)	1,148,148
Finance costs	21	(261,300)	(162,402)
Share of loss of equity-accounted investees	17	(33,325)	(29,147)
Foreign exchange (loss) gain		(63,211)	2,002
Loss on risk management		(7,985)	(2,530)
Other income (expenses)		12,815	(34,461)
Net (loss) earnings before income tax		(1,146,099)	921,610
Current income tax	9	(159,387)	(461,072)
Deferred income tax	9	(29,349)	(43,904)
Total income tax		(188,736)	(504,976)
Net (loss) earnings for the year		$ (1,334,835)	$ 416,634
Attributable to:			
Equity holders of the parent		(1,309,625)	426,082
Non-controlling interests		(25,210)	(9,448)
		$ (1,334,835)	$ 416,634
Basic (loss) earnings per share attributable to equity holders of the parent	10	$ (4.15)	$ 1.32
Diluted (loss) earnings per share attributable to equity holders of the parent	10	$ (4.15)	$ 1.31

See accompanying notes to the consolidated financial statements.

** Certain amounts have been restated upon the first-time adoption of IFRS 9 (Note 30)*

On behalf of the Board of Directors:

Miguel de la Campa (signed)

José Francisco Arata (signed)

PACIFIC RUBIALES ENERGY CORP.

Consolidated Statements of Comprehensive Income

(In thousands of U.S. Dollars)	Notes	Year ended December 31 2014	2013*
Net (loss) earnings for the year		$ (1,334,835)	$ 416,634
Other comprehensive income (loss) not to be reclassified to net earnings in subsequent periods (nil tax effect)			
Fair value adjustments on available-for-sale financial assets		301	(3,258)
Other comprehensive income (loss) to be reclassified to net earnings in subsequent periods (nil tax effect)			
Foreign currency translation		(124,237)	(30,517)
Unrealized gain (loss) on cash flow hedges	27d	24,444	(23,044)
Unrealized gain (loss) on the time value of cash flow hedges	27d	(4,714)	4,323
Realized gain on cash flow hedges transferred to earnings	27d	(20,437)	(3,368)
		(124,643)	(55,864)
Total comprehensive (loss) income for the year		$ (1,459,478)	$ 360,770
Attributable to:			
Equity holders of the parent		$ (1,434,268)	$ 370,218
Non-controlling interests		(25,210)	(9,448)
		$ (1,459,478)	$ 360,770

See accompanying notes to the consolidated financial statements.

** Certain amounts have been restated upon the first-time adoption of IFRS 9 (Note 30).*

PACIFIC RUBIALES ENERGY CORP.

Consolidated Statements of Financial Position

(In thousands of U.S. Dollars)	Notes	As at December 31 2014	As at December 31 2013*
ASSETS			
Current			
Cash and cash equivalents		$ 333,754	$ 632,503
Restricted cash		331	1,630
Accounts receivables	27b	904,245	1,031,072
Inventories	12	45,340	59,526
Income tax receivable		198,794	132,226
Prepaid expenses		5,206	2,760
Assets held for sale	20	-	384,634
Risk management assets	27d	59,606	2,148
		1,547,276	2,246,499
Non-current			
Oil and gas properties	13	5,133,478	5,502,524
Exploration and evaluation assets	14	2,243,481	1,852,588
Plant and equipment	15	153,527	125,600
Intangible assets	16	62,132	92,894
Investments in associates	17	567,040	663,111
Other assets	18	202,652	55,990
Goodwill	19	237,009	633,780
Restricted cash		15,313	15,350
		$ 10,161,908	$ 11,188,336
LIABILITIES			
Current			
Accounts payable and accrued liabilities	27c	$ 1,918,969	$ 1,718,679
Risk management liability	27d	68,065	6,910
Income tax payable		34,143	106,250
Current portion of long-term debt	21	321,655	553,571
Current portion of obligations under finance lease	22	17,202	17,807
		2,360,034	2,403,217
Non-current			
Long-term debt	21	4,332,194	3,818,240
Obligations under finance lease	22	33,601	47,980
Deferred tax liability	9	523,634	490,390
Asset retirement obligation	23	257,797	201,576
		7,507,260	6,961,403
EQUITY			
Common shares	25a	2,610,485	2,667,820
Contributed surplus		129,029	157,810
Other reserves		(146,983)	(22,340)
Retained earnings (deficit)		(124,894)	1,392,284
Equity attributable to equity holders of the parent		2,467,637	4,195,574
Non-controlling interests		187,011	31,359
Total equity		2,654,648	4,226,933
		$ 10,161,908	$ 11,188,336

See accompanying notes to the consolidated financial statements.

** Certain amounts have been restated upon the first-time adoption of IFRS 9 (Note 30) and finalization of the purchase price allocation of the PMG acquisition (Note 4).*

PACIFIC RUBIALES ENERGY CORP.

Consolidated Statements of Equity

For the year ended December 31, 2014 and 2013

(In thousands of U.S. Dollars)	Note	Attributable to equity holders of parent: Common Shares	Contributed Surplus	Retained Earnings (deficit)	Cash flow hedge	Time Value Reserves	Foreign currency translation	Fair value Investment	Total	Non-controlling interests	Total Equity
As at December 31, 2012		$ 2,623,993	$ 157,159	$ 1,161,962	$ 27,505	$ (7,415)	$ 13,434	$ -	$ 3,976,638	(3,040)	$ 3,973,598
Net earnings for the year		-	-	426,082	-	-	-	-	426,082	(9,448)	416,634
Other comprehensive income		-	-	-	(26,412)	4,323	(30,517)	(3,258)	(55,864)	-	(55,864)
Total comprehensive income		-	-	426,082	(26,412)	4,323	(30,517)	(3,258)	370,218	(9,448)	360,770
Acquisition of subsidiaries	4	-	-	-	-	-	-	-	-	167,992	167,992
Issued on exercise of options	25a	56,900	(16,217)	-	-	-	-	-	40,683	-	40,683
Issued on conversion of convertible debentures	25a	3,695	-	-	-	-	-	-	3,695	-	3,695
Share-based compensation		-	35,383	-	-	-	-	-	35,383	3,830	39,213
Dividends paid	11	-	-	(195,760)	-	-	-	-	(195,760)	-	(195,760)
Transaction with non-controlling interest		-	-	-	-	-	-	-	-	(2,640)	(2,640)
Repurchase of shares	25a	(16,768)	(18,515)	-	-	-	-	-	(35,283)	-	(35,283)
Loss of control PII	4	-	-	-	-	-	-	-	-	(125,335)	(125,335)
As at December 31, 2013		$ 2,667,820	$ 157,810	$ 1,392,284	$ 1,093	$ (3,092)	$ (17,083)	$ (3,258)	$ 4,195,574	$ 31,359	$ 4,226,933
Net loss for the year		-	-	(1,309,625)	-	-	-	-	(1,309,625)	(25,210)	(1,334,835)
Other comprehensive income		-	-	-	4,007	(4,714)	(124,237)	301	(124,643)	-	(124,643)
Total comprehensive income		-	-	(1,309,625)	4,007	(4,714)	(124,237)	301	(1,434,268)	(25,210)	(1,459,478)
Share-based compensation		-	-	-	-	-	-	-	-	10	10
Dividends paid	11	-	-	(207,553)	-	-	-	-	(207,553)	-	(207,553)
Repurchase of shares	25a	(107,083)	(58,895)	-	-	-	-	-	(165,978)	-	(165,978)
Exercise of options	25a	49,748	(17,370)	-	-	-	-	-	32,378	495	32,873
Share-based issuance by subsidiary		-	-	-	-	-	-	-	-	7,001	7,001
Disposition of non-controlling interest	5	-	47,484	-	-	-	-	-	47,484	173,356	220,840
As at December 31, 2014		$ 2,610,485	$ 129,029	$ (124,894)	$ 5,100	$ (7,806)	$ (141,320)	$ (2,957)	$ 2,467,637	$ 187,011	$ 2,654,648

See accompanying notes to the consolidated financial statements.

** Certain amounts have been restated upon the first-time adoption of IFRS 9 (Note 30).*

PACIFIC RUBIALES ENERGY CORP.

Consolidated Statements of Cash Flows

(In thousands of U.S. Dollars)	Notes	Year ended December 31 2014	2013*
OPERATING ACTIVITIES			
Net (loss) earnings for the year		$ (1,334,835)	$ 416,634
Items not affecting cash:			
Depletion, depreciation and amortization		1,641,577	1,355,652
Impairment and exploration expenses		1,625,358	23,741
Accretion expense		30,340	10,902
Unrealized (gain) loss on risk management contracts		(20,386)	2,452
Share-based compensation		10,243	39,213
(Gain) loss on cash flow hedges included in operating expense		8,199	(3,368)
Deferred income tax expense	9	29,349	43,904
Unrealized foreign exchange loss (gain)		33,057	61,199
Share of loss of equity-accounted investees	17	33,325	29,147
Gain on change of control	4	(61,891)	(67,791)
Dividend from associate	17	38,076	-
Other		(11,171)	1,427
Changes in non-cash working capital	28	83,058	(276,011)
Net cash provided by operating activities		$ 2,104,299	$ 1,637,101
INVESTING ACTIVITIES			
Additions to oil and gas properties and plant and equipment		(1,692,441)	(1,732,031)
Additions to exploration and evaluation assets		(780,181)	(419,235)
Additions to intangible assets		-	(3,911)
Investment in associates and other assets		(102,462)	(318,103)
Proceeds from sale of assets held for sale		274,634	-
(Increase) decrease in restricted cash		(200)	2,431
Loss of control of PII		-	(1,907)
Net cash outflow on business acquisitions	4	(250,000)	(932,454)
Net cash used in investing activities		$ (2,550,650)	$ (3,405,210)
FINANCING ACTIVITIES			
Advances from debt and Senior Notes		2,461,865	3,997,434
Proceeds from partial sale of Pacific Midstream	5	235,978	-
Repayment of debt		(2,185,994)	(1,591,716)
Transaction costs		(12,760)	(44,944)
Proceeds from the exercise of warrants and options		32,378	40,687
Dividends paid	11	(207,553)	(195,760)
Repurchase of common shares		(165,978)	(35,283)
Net cash provided by financing activities		$ 157,936	$ 2,170,418
Effect of exchange rate changes on cash and cash equivalents		$ (10,334)	$ (13,496)
Change in cash and cash equivalents during the year		(298,749)	388,813
Cash and cash equivalents, beginning of the year		632,503	243,690
Cash and cash equivalents, end of the year		$ 333,754	$ 632,503
Cash		$ 188,276	$ 599,731
Short-term money market instruments		145,478	32,772
		$ 333,754	$ 632,503

See accompanying notes to the consolidated financial statements.

** Certain amounts have been restated upon the first-time adoption of IFRS 9 (Note 30) and finalization of the purchase price allocation of the PMG acquisition (Note 4).*

1. Corporate Information

The consolidated financial statements of the Company, which is comprised of Pacific Rubiales Energy Corp. as the parent and all its subsidiaries, for the year that ended December 31, 2014, were authorized for issue by the board of directors on March 17, 2015. Pacific Rubiales Energy Corp. is a company incorporated and domiciled in Canada whose shares are publicly traded on the Toronto Stock Exchange and Bolsa de Valores de Colombia (the Colombian Stock Exchange). The Company's registered office is located at Suite 650 – 1188 West Georgia Street, Vancouver, British Columbia, V6E4A2, Canada and it also has corporate offices in Toronto, Canada and Bogotá, Colombia.

The principal activities of the Company are exploration, development and production of crude oil and natural gas.

2. Basis of Preparation and Significant Accounting Policies

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (**"IFRS"**). The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments and assets available for sale that have been measured at fair value. The consolidated financial statements are presented in U.S. dollars and all values are rounded to the nearest thousands, except where otherwise indicated.

Basis of Consolidation

The results of the investees that the Company controls are consolidated in these financial statements. The Company controls an investee if, and only if, the Company has all of the following:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee;
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

Where the Company has less than a majority of the voting or similar rights of an investee, it considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangements with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Company's voting rights and potential voting rights.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the Consolidated Statements of Income and Comprehensive Income from the date the Company gains control until the date the Company ceases to control the subsidiary.

Net earnings and each component of Other Comprehensive Income ("**OCI**") are attributed to the equity holders of the parent and to the Non-Controlling Interests ("**NCI**"), even if this results in the NCI having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Company's accounting policies. All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Company are eliminated in full upon consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Company loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the carrying amount of any NCI;
- Derecognizes the cumulative translation differences recorded in equity;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained;
- Recognizes any surplus or deficit in the statements of income and comprehensive income; and
- Reclassifies the parent's share of components previously recognised in OCI to net earnings, as appropriate, as would be required if the Company had directly disposed of the related assets or liabilities.

2.1. Significant Accounting Judgments, Estimates and Assumptions

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

Critical Judgments in Applying Accounting Policies

The following critical judgments have been made by the Company in applying accounting policies which have the most significant impact on the amounts recognized in the consolidated financial statements.

Cash generating units

The determination of cash generating units (**"CGUs"**) requires the Company to apply judgments, and the CGUs may change over time to reflect changes in the Company's oil and gas assets. CGUs have been identified to be the major areas within which there exist groups of producing blocks that share similar characteristics, infrastructure, and cash inflows that are largely independent of cash inflows of other groups of assets. Impairment assessment is generally carried out separately for each CGU based on cash flow forecasts calculated using oil & gas reserves and resources for each CGU (value in use).

Functional currency

The determination of the Company's functional currency requires analyzing facts that are considered primary factors, and if the result is not conclusive, the secondary factors. The analysis requires the Company to apply significant judgment since primary and secondary factors may be mixed. In determining its functional currency, the Company analyzed both the primary and secondary factors, including the currency of the Company's revenues, operating costs in the countries in which it operates, and sources of debt and equity financing.

Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events. Refer to Note 24.

Financing for ODL and Bicentenario

As part of the investment in *ODL Finance S.A.* ("**ODL**") and Oleoducto Bicentenario de Colombia ("**Bicentenario**") (Note 17), the Company has signed certain "Take-or-Pay" contracts with ODL and Bicentenario to finance the debt obligations of ODL and Bicentenario. The payments related to these agreements are reflected as an increase in the investments in ODL and Bicentenario according to the Company´s participating interest instead of as operating expense. The Company was required to apply judgment in determining that these payments to ODL and Bicentenario were made as an investment on the basis that they were directly related to meeting ODL's and Bicentenario's debt obligations and not for financing the costs of operating the pipeline.

Foreign currency hedging for acquisition

As part of the acquisition of Petrominerales Ltd. (Note 4) the Company entered into forward contracts to manage the risk associated with the fluctuation of the purchase price, which was denominated in the Canadian dollar, against the U.S. dollar. These forward contracts were designated as cash flow hedges and the settlement of the forwards was included in the purchase price. The Company applied judgment in concluding that the closing of the acquisition was a highly probable event as required for the designation of these hedges, based on an assessment of the probability of closing conditions such as regulatory approval, availability of financing, and shareholder approval.

Exploration and evaluation

Exploration and Evaluation ("**E&E**") assets are tested for impairment (Note 19) when indicators of impairment are present and when E&E assets are transferred to oil and gas properties. This test is performed at the CGU level and not at the individual property level. E&E assets are allocated to CGUs on the basis of several factors, including, but not limited to proximity to existing CGUs, ability to share infrastructure and workforce, and management's grouping of these assets for decision making and budget allocations. If the E&E property is not part of a particular existing operational

CGU, it is assessed on the basis of a geographically similar pool of E&E assets. In assessing impairment for E&E assets, the Company is required to apply judgment in considering various factors that determine technical feasibility and commercial viability.

Estimation Uncertainty and Assumptions

Oil and gas properties

Oil and gas properties are depreciated using the unit-of-production method. In applying the unit-of-production method, oil and gas properties in general are depleted over proved and probable reserves. Prior to October 1, 2013, the Company depleted oil and gas properties over proved reserves. Subsequently, the depletion base was changed to include both proved and probable reserves for those oil and gas properties with significant probable reserves to better reflect the increased investment by the Company in those assets. The calculation of the unit-of-production rate of amortization could be impacted to the extent that actual production in the future is different from current forecasted production based on proved reserves. This would generally result from significant changes in any of the following:

- Changes in reserves;
- The effect on reserves of differences between actual commodity prices and commodity price assumptions; and/or
- Unforeseen operational issues.

Cash generation units

The recoverable amounts of CGUs and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. Estimates include but are not limited to estimates of the discounted future after-tax cash flows expected to be derived from the Company's oil and gas properties and the discount rate. Reductions in oil price forecasts, increases in estimated future costs of production, increases in estimated future capital costs, and increases in estimated restoration costs, increases in income taxes and reductions in reserves can result in reduction in the recoverable amount of the CGUs. It is reasonably possible that the oil price assumption may change, which may then impact the estimated life of the field and require a material adjustment to the carrying value of goodwill, tangible assets and exploration and evaluation assets. The Company monitors internal and external indicators of impairment relating to its tangible and intangible assets. Refer to Note 19.

Association contracts

Certain association contracts in Colombia provide for an adjustment to the partner's share when certain volume and price thresholds are reached. As a result, from time to time the Company may be required to estimate the impact of such contracts and make the appropriate accrual.

Decommissioning costs

Decommissioning costs will be incurred by the Company at the end of the operating life of certain facilities and properties. The ultimate decommissioning costs are uncertain and cost estimates can vary in response to many factors including changes to relevant legal requirements, the emergence of new restoration techniques or experience at other production sites. The expected timing and amount of expenditure can also change, for example in response to changes in reserves or changes in laws and regulations or their interpretation. As a result, there could be significant adjustments to the asset retirement obligation established, which would affect future financial results. Refer to Note 23.

Fair value measurement

The fair values of financial instruments are estimated based on market and third-party inputs. These estimates are subject to changes in the underlying commodity prices, interest rates, foreign exchange rates, and non-performance risk.

Acquisitions that meet the definition of a business combination require the Company to recognize the assets acquired and liabilities assumed at their fair value on the date of the acquisition. The calculation of fair value of the assets and liabilities may require the use of estimates and assumptions, such as oil and gas reserves and forecasted cash flows. Refer to Note 4.

2.2. Summary of Significant Accounting Policies

Interests in Joint Arrangements

IFRS defines a joint arrangement as an arrangement over which two or more parties have joint control. Joint control is defined as contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities (being those that significantly affect the returns of the arrangements) require unanimous consent of the parties sharing control.

Joint operations

A joint operation is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement.

In relation to its interest in joint operations, the Company recognizes its:

- Assets, including its share of any assets held jointly;
- Liabilities, including its share of any liabilities incurred jointly;
- Revenue from the sale of its share of the output arising from joint operation;
- Share of the revenue from the sale of the output by the joint operation; and
- Expenses, including its share of any expenses incurred jointly.

Joint ventures

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. The Company's investments in its joint ventures are accounted for using the equity method. Under the equity method, the investment in the joint venture is initially realized at cost. The carrying amount of the investment is adjusted to recognize changes in the Company's share of net assets of the joint venture since the acquisition date. Goodwill relating to the joint venture is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

At each reporting date, the Company determines whether there is objective evidence that the investment in the joint venture is impaired. If there is such evidence, the Company calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value, then recognizes the loss in the consolidated statement of income.

Reimbursement of the joint arrangement operator's costs

When the Company is the operator of a joint arrangement and receives reimbursement of direct costs charged to the joint arrangement, such charges represent reimbursements of costs that the operator incurred as an agent for the joint arrangement and therefore have no effect on the consolidated statement of income.

In many cases, the Company also incurs certain general overhead expenses in carrying out activities on behalf of the joint arrangement. As these costs can often not be specifically identified, joint arrangement agreements allow the operator to recover the general overhead expenses incurred by charging an overhead fee that is based on a fixed percentage of the total costs incurred for the year. Although the purpose of this re-charge is very similar to the reimbursement of direct costs, the Company is not acting as an agent in this case. Therefore, the general overhead expenses and the overhead fee are recognized in the consolidated statement of income as expenses.

Business Combinations and Goodwill

On the acquisition of a subsidiary, the acquisition method of accounting is used whereby the purchase consideration transferred and any contingent consideration is allocated to the identifiable assets, liabilities and contingent liabilities (identifiable net assets) on the basis of fair value at the date of acquisition. Those petroleum reserves and resources that are able to be reliably valued are recognized in the assessment of fair value upon acquisition. Other potential reserves, resources and rights, for which fair values cannot be reliably determined, are not recognized.

Goodwill is initially measured at cost being the excess of the cost of the business combination over the Company's share in the net fair value of the acquirer's identifiable assets, liabilities and contingent liabilities.

If the fair value attributable to the Company's share of the identifiable net assets exceeds the fair value of the consideration, the Company reassesses whether it has correctly identified and measured the assets acquired and liabilities assumed and recognizes any additional assets or liabilities that are identified in that review. If an excess remains after reassessment, the Company recognizes the resulting gain in net income on the acquisition date.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's CGUs or groups of CGUs that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Goodwill is tested at the level monitored by management which is the operating segment level.

Non-controlling interest

Where the ownership of a subsidiary is less than 100%, an NCI exists and is accounted for and reported in equity. For each business combination, the Company elects whether to measure the NCI in the acquiree at fair value or at the proportionate share of the acquiree's net assets.

Net earnings and changes in ownership interests in a subsidiary attributable to NCI are identified and disclosed separately to that of the Company.

If the Company loses control over a subsidiary with NCI, it derecognizes the carrying amount of the NCI.

Cash and cash equivalents

Cash and short-term deposits in the consolidated statement of financial position comprise cash at banks and at hand and short-term deposits with an original maturity of three months or less.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Inventories

Oil and gas inventory and operating supplies are valued at the lower of average cost and net realizable value. Cost is determined on a weighted average basis. Cost consists of material, labour and direct overhead. Previous impairment write-downs are reversed when there is a recovery of the previously impaired inventory. Costs of diluents are included in production and operating costs.

Oil and Gas Properties, Exploration and Evaluation Assets, and Plant and Equipment

Oil and gas properties and plant and equipment

Oil and gas properties and plant and equipment are stated at cost, less accumulated depletion and depreciation and accumulated impairment losses. The initial cost of an asset comprises its purchase price or construction cost, any cost directly attributable to bringing the asset into operation, the ongoing estimate of the asset retirement obligation, and for qualifying assets, borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. The capitalized value of a finance lease is also included within plant and equipment.

Depletion, depreciation and amortization

Oil and gas properties are depleted using the unit-of-production method. In applying the unit-of-production method, oil and gas properties are depleted over an appropriate reserve base which is reviewed and assessed periodically. Prior to October 1, 2013, the Company depleted oil and gas properties over proved reserves. Subsequently, the depletion base was changed to include both proved and probable reserves for those oil and gas properties with significant probable reserves to better reflect the increased investment by the Company in those assets. The unit-of-production rate for the depletion of field development costs takes into account expenditures incurred to date, together with approved future development expenditures required to develop reserves.

Plant and equipment are generally depreciated on a straight-line basis over their estimated useful lives, which range from one to ten years. Major inspection costs are amortized over three to five years, which represents the estimated period before the next planned major inspection. Plant and equipment held under finance leases are depreciated over the shorter of lease term and estimated useful life.

Development costs

Expenditure on the construction, installation or completion of infrastructure facilities such as pipelines and the drilling of development wells, including unsuccessful development or delineation wells, is capitalized in oil and gas properties.

Exploration and evaluation costs

All licence acquisition, exploration and appraisal costs of technical services and studies, seismic acquisition, exploratory drilling and testing are initially capitalized by well, field, unit of account or specific exploration unit as appropriate. Expenditures incurred during the various exploration and appraisal phases are carried forward until the existence of commercial reserves and the technical feasibility and commercial viability are demonstrable and approved by the appropriate regulator. If commercial reserves have been discovered and technical feasibility and commercial viability are demonstrable, the carrying value of the exploration and evaluation assets, after any impairment loss, is reclassified as an oil and gas property. If technical feasibility and commercial viability cannot be demonstrated upon completion of the exploration phase, the carrying value of the exploration and evaluation costs incurred are expensed in the period this determination is made.

Exploration and evaluation assets are tested for impairment when indicators of impairment are present and when exploration and evaluation assets are transferred to oil and gas properties.

Pre-licence costs

Costs incurred prior to having obtained the legal rights to explore an area are expensed to the consolidated statement of income as they are incurred.

Major maintenance and repairs

Expenditures on major maintenance refits or repairs comprise the cost of replacement assets or parts of assets, inspection costs and overhaul costs. Where an asset or part of an asset that was separately depreciated and is now written off is replaced and it is probable that future economic benefits associated with the item will flow to the Company, the expenditure is capitalized. Where part of the asset was not separately considered as a component, the replacement value is used to estimate the carrying amount of the replaced assets which is immediately written off. Inspection costs associated with major maintenance programs are capitalized and amortized over the period to the next inspection. All other maintenance costs are expensed as incurred.

Carried interest and farm-in arrangements

The Company recognizes its expenditures under a farm-in or carried interest arrangement in respect of its interest and the interest retained by the other party, as and when the costs are incurred. Such expenditures are recognized in the same way as the Company's directly incurred expenditures.

Intangible Assets

Intangible assets are stated as the amount initially paid, less accumulated amortization and accumulated impairment losses. Following initial recognition, the intangible asset is amortized based on usage or the straight-line method over the term of the agreement. The Company does not have any intangible assets with an indefinite life that would be not subject to amortization. Internally generated intangible assets are not capitalized and the expenditure is reflected in the consolidated statement of income in the year in which the expenditure is incurred.

Investments in Associates

When the Company determines that it has significant influence over an investment, the investment is accounted for using the equity method. Under the equity method, the investment is initially recorded at cost and the carrying value is adjusted thereafter to include the Company's pro rata share of post-acquisition earnings of the investee, computed using the consolidation method. The amount of the adjustment is included in the determination of net earnings and the investment account is also increased or decreased to reflect the Company's share of capital transactions. Profit distributions received or receivable from an investee reduce the carrying value of the investment.

The Company periodically assesses its investments to determine whether there is any indication of impairment. When there is an indication of impairment, the Company tests the carrying amount of the investment to ensure it does not exceed the higher of the present value of cash flows expected to be generated (value in use) and the amount that could be realized by selling the investment (fair value less cost to sell). When a reduction to the carrying amount of an investment is required after applying the impairment test, an impairment loss is recognized equal to the amount of the reduction.

Impairment of Assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value-in-use. Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash inflows that are largely independent of the cash flows of other groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

The Company bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Company's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover the entire period of life of the asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of income.

Goodwill is tested for impairment annually (as at December 31) and when circumstances indicate that the carrying value may be impaired. Impairment is determined by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. Where the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

Financial Instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial instruments classified as amortized costs are included with the carrying value of such instruments. Transaction costs directly attributable to the acquisition of financial instruments classified as fair value through profit or loss are recognized immediately in earnings.

Financial Assets

All recognized financial assets are subsequently measured in their entirety at either amortized cost or fair value depending on this classification.

Financial assets that meet the following conditions are subsequently measured at amortized cost less impairment loss:

- The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- The asset was not acquired principally for the purpose of selling in the near term or management for short-term profit taking (held for trading).

All other financial assets except equity investments as described below are subsequently measured at fair value (classified as fair value through profit and loss ("**FVTPL**"). The gains or losses arising on remeasurement are recognized in earnings and included in the other expenses line in the consolidated statements of income.

On the day of acquisition of an equity instrument, the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at fair value through other comprehensive income ("**FVTOCI**"). Designation at FVTOCI is not permitted if the equity investment is held for trading. Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently they are measured at fair value, with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in the fair value instrument. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the investments. The Company has designated all investments in equity instruments as FVTOCI on initial application of IFRS 9 (2013) (see Note 30).

Financial Liabilities

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or is designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value. Any gains or losses arising on remeasurement of held-for-trading financial liabilities are recognized in earnings. Such gains or losses recognized in profit or loss incorporate any interest paid on the financial liabilities.

Financial liabilities that are not held for trading and are not designated as at FVTPL are measured at amortized cost at the end of subsequent accounting periods. The carrying amounts of financial liabilities that are subsequently measured at amortized cost are determined based on the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the expected life of the financial liability.

Fair value hierarchy

The Company uses a three-level hierarchy to categorize the significance of the inputs used in measuring or disclosing the fair value of financial instruments. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities. Active markets are those in which transactions occur in a frequency and volume sufficient to provide pricing information on an ongoing basis.

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value, volatility factors and broker quotations, which can be substantially observed or corroborated in the marketplace.

Level 3 – Valuations in this level are those with inputs that are less observable, unavailable or where the observable data does not support the majority of the instrument's fair value. Level 3 instruments may include items based on pricing services or broker quotes where the Company is unable to verify the observability of inputs into their prices. Level 3 instruments include longer-term transactions, transactions in less active markets or transactions at locations for which pricing information is not available. In these instances, internally developed methodologies are used to determine fair value, which primarily includes extrapolation of observable future prices to similar locations, similar instruments or later time periods.

If different levels of input are used to measure a financial instrument's fair value, the classification within the hierarchy is based on the lowest-level input that is significant to the fair value measurement.

Derivative Financial Instruments

The Company enters into a variety of derivative financial instruments to manage its exposure to foreign exchange rate risks and commodity price risks, including collars and forwards.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is immediately recognized in earnings unless the derivative is designated and effective as a hedging instrument (further explained below under Hedge Accounting), in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Embedded Derivatives

Derivatives embedded in non-derivative host contracts that are not financial assets within the scope of IFRS 9 (2013) (e.g. financial liabilities) are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL. Fair value is determined in the manner described in Note 27.

Hedge Accounting

The Company designates certain hedging instruments, with respect to foreign currency risk and commodity price risk, as cash flow hedges.

At the inception of the hedge relationship, the Company documents the relationship between the hedging instrument and the hedged item along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

Cash Flow Hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income and accumulated under the heading of cash flow hedge reserve. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss, and is included in the foreign exchange gain or loss line item of the statements of income for foreign currency hedging instruments and the risk management gain or loss line item for commodity hedging instruments.

Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to earnings in the periods when the hedged item is recognized in earnings. These earnings are included within the same line of the Consolidated Statements of Income as the recognized hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognized in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

If, upon the designation of option instruments as hedging instruments, the intrinsic and time value components are separated, with only the intrinsic component designated as the hedging instrument, the aligned time value component will be deferred in OCI as a cost of hedging.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer meets the criteria for hedge accounting. Any gain or loss recognized in other comprehensive income and accumulated in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date: whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. All take-or-pay contracts are reviewed for indicators of a lease on inception.

Finance-leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in the consolidated statement of income.

Finance-leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognized as an expense in the consolidated statement of income on a straight-line basis.

Asset Retirement Obligation

An asset retirement obligation is recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made. A corresponding amount equivalent to the asset retirement obligation is also recognized as part of the cost of the related oil and gas properties or exploration and evaluation assets. The amount recognized is the estimated cost of decommissioning, discounted to its present value. Changes in the estimated timing or costs of decommissioning, or in the discount rate, are recognized prospectively by recording an adjustment to the asset retirement obligation, and a corresponding adjustment to the properties. The unwinding of the discount on the decommissioning cost is included as a finance cost.

This accounting policy also applies to the costs that the Company deems to be "environmental liabilities" that include, but are not limited to: the 1% provision of the investment for the use of water sources, costs of reforestation in accordance with the environmental licenses and the costs of any other compensation or costs incurred in accordance with the environmental license.

Taxes

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statement of income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

The Company pays the majority of its income taxes in Colombia, where the statutory income tax rate is 25%. In addition, there is an incremental 9% income tax surcharge ("**CREE**" being the Spanish acronym) to substitute the elimination of certain payroll taxes primarily related to low-income salaries. In general, the CREE is applied on an adjusted taxable income base, but in no case can the CREE taxable income be less than 3% of the taxpayer's net equity as of the preceding taxation year. The Company accounts for CREE taxes as an income tax expense or recovery.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the date of the consolidated statement of financial position between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- Where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting earnings nor taxable earnings or loss; and

- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable earnings will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized except:

- Where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting earnings nor taxable earnings or loss; and

- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable earnings will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each date of the consolidated statement of financial position and reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each date of the consolidated statement of financial position and are recognized to the extent that it becomes probable that future taxable earnings will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of the reporting period.

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statement of income.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Revenue Recognition

Revenue from sales of oil and gas is recognized when the significant risks and rewards of ownership have been transferred. This generally occurs when product is physically delivered, the title passes to the buyers and collection is reasonably assured.

Revenue is stated based on our share of production (after in-kind royalties) after deducting sales taxes, excise duties and similar levies.

The Company follows the entitlements method in accounting when the share of production of a joint-interest partner is above or below the proportionate interest. Under the entitlements method, revenue reflects the participant's share of production regardless of which participant has actually made the sale and invoiced the production. This is achieved by adjusting the cost of sales.

Borrowing Costs

Borrowing costs directly relating to the acquisition, construction or production of a qualifying capital project under construction are capitalized and added to the project cost during construction until such time as the assets are substantially ready for their intended use, i.e. when they are capable of commercial production. Where funds are borrowed specifically to finance a project, the amount capitalized represents the actual borrowing costs incurred.

Where surplus funds are available for a short term out of money borrowed specifically to finance a project, the income generated from such short-term investments is also capitalized and reduced from the total capitalized borrowing cost. Where the funds used to finance a project form part of general borrowings, the amount capitalized is calculated using a weighted average of rates applicable to relevant general borrowings of the Company during the period. All other borrowing costs are recognized in the consolidated statement of income using the effective interest rate method.

Share-Based Compensation

The Company accounts for the granting of stock options using the fair-value method on stock options granted to officers, employees and consultants. Share-based compensation is recorded in the consolidated statement of income for options granted, with a corresponding amount reflected in contributed surplus. Share-based compensation is the fair value of stock options at the time of the grant, estimated using the Black-Scholes option pricing model. When the stock options are exercised, the associated amounts previously recorded as contributed surplus are reclassified to common share capital. The Company has not incorporated an estimated forfeiture rate for stock options that will not vest as all options granted are fully vested at the date of grant.

In addition to stock options, the Company has a Deferred Share Unit ("**DSU**") plan under which non-employee directors and employees receive units in consideration for services provided to the Company. Units awarded under the DSU vest immediately and may only be settled in cash upon retirement. On the grant date, the Company recognizes a share-based compensation expense for the DSU awards at fair value with a corresponding liability. The fair value of the DSUs is estimated using current market price and number of DSU's issued. The liability is revalued each reporting period and the change in fair value is recorded in share-based compensation expense.

Foreign Currency Translation

The consolidated financial statements are presented in U.S. dollars, which is also the Company's functional currency.

Transactions denominated in a foreign currency are initially recorded at the rate of exchange on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the closing rates on the date of the consolidated statement of financial position. All differences are recorded in net earnings or losses. Non-monetary items are translated using the historical exchange rates as at the dates of the initial transactions.

For a foreign operation whose functional currency is not the U.S. dollar, the foreign operation's assets and liabilities are translated at the closing rate as at the date of the consolidated statement of financial position, and revenue and expenses are translated using the rate as at the time of the transaction. All exchange differences resulting from the translation are recognized in other comprehensive income.

Earnings Per Share

The Company computes basic earnings per share using net earnings divided by the weighted average number of the common shares outstanding. The Company computes diluted earnings per share using net earnings adjusted for the impact of the potential dilution if the stock options and warrants were exercised and exchanged for common shares. The Company follows the treasury stock method in the calculation of diluted earnings per share. This method assumes that any proceeds received from in-the-money options and warrants would be used to buy common shares at the average market price for the period.

Share Repurchases

When shares of the Company are repurchased for cancellation, the amount of the consideration paid, which includes directly attributable costs net of any tax effect, is recognized as a deduction from common shares to the extent of the book value of the shares outstanding with the excess deducted from contributed surplus.

When shares of the Company are repurchased and retained, the amount of consideration paid, which includes directly attributable costs and net of any tax effect, is recognized as treasury shares within the equity section of the Consolidated Statement of Financial Position.

Gross earnings

The Company uses the financial measure "Gross earnings", as management believes that the measure is an important indicator of the Company's ability to generate liquidity through operating earnings to fund future working capital needs, service outstanding debt, and fund future capital expenditures.

2.3. Changes in Accounting Policies and Disclosures

There were a number of new standards and interpretations effective from January 1, 2014, that the Company applied for the first time in the current year. These included IFRS 9 (2013) *Financial Instruments* ("**IFRS 9 2013**") and IFRIC 21 *Levies* ("**IFRIC 21**"). As a result of these new standards certain comparative figures were restated and disclosures updated.

The nature and impact of each new relevant standard and/or amendment is described below. Other than the changes described below, the accounting policies adopted are consistent with those of previous financial years.

IFRS 9 (2013) *Financial Instruments*

IFRS 9 (2013) replaces IAS 39 *Financial Instruments: Recognition and Measurement* ("**IAS 39**") and addresses accounting for financial instruments including hedge accounting.

IFRS 9 (2013) establishes a single classification and measurement approach for financial assets that reflects the business model in which they are measured (previously there multiple impairment models and complicated reclassification rules). The standard also includes an improved hedge accounting model to better link the economics of risk management with its accounting treatment.

Upon adoption of IFRS 9 (2013) certain comparative figures were restated and the impact of such restatement on the financial position of the Company and results of operations are disclosed in Note 30.

IFRIC 21 *Levies*

IFRIC 21 clarifies that an entity recognizes a liability for a levy no earlier than when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period, in accordance with the relevant legislation.

The adoption of IFRIC 21 did not have any material impact on the Company's Consolidated Financial Statements.

2.4. Standards Issued but Not Yet Effective

Standards issued but not yet effective up to the date of issuance of the Company's financial statements that are likely to have an impact on the Company are listed below. This listing is of standards and interpretations issued that the Company reasonably expects to be applicable at a future date. The Company intends to adopt those standards when they become effective.

IFRS 3 *Business Combinations*

IFRS 3 Business Combinations The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable). The Company is in the process of assessing the impact of IFRS 3 on its consolidated financial statements. This policy will become effective for annual periods starting after, or on July 1, 2014.

IFRS 8 *Operating Segments*

The amendments are applied retrospectively and clarifies that:

- An entity must disclose the judgements made by management in applying the aggregation criteria, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'.
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

This policy will become effective for annual periods starting after, or on July 1, 2014.

IFRS 15 *Revenue from Contracts with Customers*

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

IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset. The Company is in the process of assessing the impact of IFRS 16 and IAS 38 on its consolidated financial statements. This policy will become effective for annual periods starting after, or on January 1, 2014.

(U.S. $ thousands, except share and per share amounts or unless otherwise stated)

IAS 24 *Related Party Disclosures*

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. The Company is in the process of assessing the impact of IAS 24 on its consolidated financial statements. This policy will become effective for annual periods starting after, or on July 1, 2014.

Amendments to IFRS 11 Joint Arrangements

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. The Company is in the process of assessing the impact of these amendments on its consolidated financial statements.

IFRS 9 (2014)

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

3. Composition of the Company

The following table summarizes the Company's significant subsidiaries and equity associates, the location of their registered offices, the Company's interest, and the method of consolidation.

Company	Registered Office	Recognition Method	Percentage Interest As at December 31 2014	2013
Pacific Rubiales Energy Corp.	Canada	Parent holding company	Parent holding company	
Subsidiaries				
Pacific Stratus International Energy Ltd.	Canada	Consolidated	100%	100%
Rubiales Holding Corp.	Switzerland	Consolidated	100%	100%
Pacific Midstream Ltd.	Bermuda	Consolidated	63.64%	100%
Major International Oil S.A.	Panama	Consolidated	100%	100%
Meta Petroleum Corp.	Switzerland	Consolidated	100%	100%
Pacific Stratus Energy Colombia Corp.	Panama	Consolidated	100%	100%
Petro Eléctrica de los Llanos S.A. (1)	Panama	Consolidated	100%	100%
Pacific Off Shore Perú S.R.L.	Peru	Consolidated	100%	100%
Pacific Brasil Exploração e Produção de Óleo e Gás Lt	Brazil	Consolidated	100%	100%
Pacific Rubiales International Holdings, S.a.r.l.	Luxembourg	Consolidated	100%	100%
Pacific Global Capital	Luxembourg	Consolidated	100%	-
CGX Energy Inc.	Canada	Consolidated	57.56%	64.39%
Investments in associates				
ODL Finance S.A. (1)	Panama	Equity method	35.00%	35.00%
Oleoducto Bicentenario de Colombia S.A.S. (1)	Colombia	Equity method	43.03%	43.03%
Pacific Power Generation Corp.	Panama	Equity method	24.90%	24.90%
Pacific Coal Resources Ltd.	Panama	Equity method	13.28%	14.35%
Pacific Infrastructure Ventures Inc.	British Virgin Islands	Equity method	41.65%	49.40%
Joint arrangements				
Maurel and Prom Colombia B.V.	Netherlands	Joint operation	49.999%	49.999%

(1) ODL, Bicentenario and PEL are entities held by Pacific Midstream Ltd.

(U.S. $ thousands, except share and per share amounts or unless otherwise stated)

4. Business Acquisitions

Acquisitions in 2014

Cubiro and Arrendajo Blocks

Cubiro and Arrendajo were commercially producing blocks of which the Company shared an interest with LAEFM Colombia LTD ("**LAEFM**"). On August 12 and September 15, 2014 the Company completed the acquisition of the remaining interests in Cubiro and Arrendajo respectively from LAEFM.

Prior to the completion of this acquisition, Cubiro and Arrendajo were recognized as joint operations pursuant to certain private participation agreements previously entered into by the Company with LAEFM. The consideration for the two transactions consisted of $250 million in cash, as well as contingent consideration of $21.93 per barrel of proven and probable oil reserves upon the certification of certain areas on the Cubiro Block as at December 31, 2014. Based on the reserve certification, the contingent consideration was determined to be $27 million.

The transaction is being accounted for as a business combination with the Company identified as the acquirer. As Cubiro and Arrendajo were previously recognized as joint operations, at the time of acquisition of control the previous carrying amounts were considered to have been disposed of at their fair value, resulting in an after-tax net gain of $40.3 million ($61.9 million before-tax) recognized in other income (expense) on the consolidated financial statements. In addition, 100% of the blocks are considered to have been acquired immediately and the assets and liabilities are allocated as follows:

	Arrendajo	Cubiro	Total
Purchase price			
Fair value of previously held joint operations	$ 49,620	$ 371,227	$ 420,847
Cash consideration paid	22,000	228,000	250,000
Contingent payment (current)	-	27,000	27,000
Total purchase price	$ 71,620	$ 626,227	$ 697,847
Fair value of assets acquired and liabilities assumed			
Oil and gas properties (Note 13)	72,457	706,904	779,361
Asset retirement obligation	(837)	(40,177)	(41,014)
Net non-cash working capital	-	(40,500)	(40,500)
Total net assets acquired	$ 71,620	$ 626,227	$ 697,847

There was no material organized work force with the purchase and no goodwill to assign.

Since the date of acquisition, Cubiro and Arrendajo have contributed total revenue, operation costs and net income of $84 million, $41 million and $6 million respectively to the continuing operations of the Company.

If the acquisition of Cubiro and Arrendajo had been completed on January 1, 2014, Oil and Gas Sales, Operating Costs and Net loss would have been $4,994 million, $1,710 million and $1,321 million respectively.

Acquisitions in 2013

*Pacific Infrastructure Venture Inc. ("**PII**", previously Pacific Infrastructure Inc.)*

On February 8, 2013 the Company acquired control of PII by purchasing an additional 2.3 million common shares for $2.2 million in cash and increasing its interest to 50.2%; prior to this date the Company held a 49.38% interest and recognized the investment as an equity interest. Upon acquiring control, a gain of $12.3 million was recognized in other income on the consolidated financial statements.

On October 4, 2013 the Company determined that it no longer held control over PII as a result of the International Finance Corporation's investment, which reduced the Company's interest in PII to 41.65%. Upon loss of control, the Company de-consolidated PII and subsequently accounted for the investment as an associate using the equity method.

(U.S. $ thousands, except share and per share amounts or unless otherwise stated)

PII is an unlisted company established in the British Virgin Islands for the purpose of developing an export terminal, an industrial park, and a free trade zone in Cartagena, Colombia.

*CGX Energy Inc. ("**CGX**")*

On April 26, 2013 the Company acquired control of CGX by purchasing 350 million common shares for C$35 million and increasing its interest to 63.2%; prior to this date the Company held a 36% interest and recognized the investment as an equity interest. CGX is a company listed on the TSX Venture Exchange and is involved in the exploration and development of petroleum and natural gas in Guyana.

The goodwill recognized relates to synergies that the Company expects to realize based on management´s expertise in operating in the region. The goodwill recognized will not be expected to be deductible for income tax purposes.

If the acquisition of CGX had been completed on January 1, 2013, Net Earnings for 2013 would have been $403.5 million.

*Petrominerales Ltd. ("**PMG**")*

On November 28, 2013, the Company completed the acquisition of Petrominerales Ltd ("**PMG**"). PMG was an international oil and gas company involved in the exploration, development and production of crude oil in Colombia, Peru and Brazil. The key assets acquired include all of PMG's producing and E&E blocks in Colombia and Peru. The E&E blocks located in Brazil were spun out to the shareholders of PMG and were not acquired by the Company.

Goodwill recognized is due to a number of factors, including the reduced costs of diluent associated with the ability to mix the acquired high quality light oil production with the Company's existing crude, lower transportation costs due to avoidance of higher cost alternatives and ability to use available infrastructure, synergies provided by managing a portfolio of both acquired and existing fields in Colombia with a single management team and the access to an experienced exploration group. The goodwill recognized is not expected to be deductible for income tax purposes.

The purchase price allocation recognized in the December 31, 2013 financial statements was based on a preliminary assessment of fair value while the Company sought an independent valuation. The valuation had not been completed by the date that the 2013 financial statements were approved for issue by the Company. The valuation was finalized as of December, 31 2014, resulting in an adjustment to the preliminary purchase price allocation. The adjustments that resulted are as follows:

Balance Sheet Line Item Impact	As at December 31, 2013	Finalization of PMG Impact	Restated As at December 31, 2013
Accounts receivable	$ 1,038,162	$ (7,090)	$ 1,031,072
Oil and gas properties	5,483,011	19,513	5,502,524
Exploration and evaluations assets	2,014,804	(162,216)	1,852,588
Intangible assets	105,813	(12,919)	92,894
Investment in Associates	659,111	4,000	663,111
Goodwill	496,612	137,168	633,780
Accounts payable and accrued liabilities	1,683,179	35,500	1,718,679
Deferred tax liability	547,434	(57,044)	490,390

Since the date of acquisition until December 31, 2013, PMG contributed total revenue, operation costs and net loss of $75 million, $35 million and $20 million respectively to the continuing operations of the Company.

If the acquisition of PMG had been completed on January 1, 2013, Oil and Gas Sales, Operating Costs and Net earnings would have been $5,636 million, $2,272 million and $351 million respectively.

*Sabanero Block ("**Sabanero**")*

Sabanero was a producing block owned by Maurel & Prom Colombia B.V. ("**M&P Colombia**") of which the Company had a 49.9% interest and Maurel and Prom S.A. ("**M&P S.A.**") had 50.1%. On September 1, 2013, the Company entered into an agreement with M&P Colombia whereby it would effectively pay $10 million in cash for the remaining 50.1% interest in the Sabanero block.

(U.S. $ thousands, except share and per share amounts or unless otherwise stated)

The purchase price allocation recognized in the December 31, 2013 financial statements was based on a preliminary assessment of fair value while the Company sought an independent valuation.

The valuation was finalized as of December 31, 2014, resulting in no adjustment to the preliminary purchase price allocation.

Since the date of acquisition, Sabanero has contributed total revenue, operation costs and net income of $0.7 million, $0.2 million and $0.5 million respectively to the continuing operations of the Company.

If the acquisition of Sabanero had been completed on January 1, 2013, Oil and Gas Sales, Operating Costs and Net earnings would have been $4,637 million, $2,585 million and $410.2 million respectively.

	PII	CGX	PMG	Sabanero	Total
Purchase price					
Fair value of previously held equity interest	$ 134,414	$ 16,270	$ -	$ 202,582	$ 353,266
Cash paid	2,208	34,287	1,000,341	10,000	1,046,836
Total purchase price	$ 136,622	$ 50,557	$ 1,000,341	$ 212,582	$ 1,400,102
Fair value of assets acquired and liabilities assumed					
Cash and cash equivalents	$ 9,678	$ 35,925	$ 68,779	$ -	$ 114,382
Net non-cash working capital	(6,406)	(16,663)	(491,361)	-	(514,430)
Asset held for sale	-	-	385,000	-	385,000
Exploration and evaluation assets (Note 14)	-	53,500	309,001	-	362,501
Oil and gas properties (Note 13)	-	-	1,170,030	229,540	1,399,570
Plant and equipment (Note 15)	123,645	7,408	6,849	-	137,902
Equity investment (Note 17)	-	-	107,000	-	107,000
Goodwill (Note 19)	48,181	8,192	279,876	-	336,249
Petrominerales debentures (Note 21)	-	-	(538,700)	-	(538,700)
Asset retirement obligation (Note 23)	-	-	(61,938)	(1,640)	(63,578)
Intangibles (Note 16)	142,889	-	-	-	142,889
Warrants liability	-	(115)	-	-	(115)
Deferred tax liabilities	(45,773)	(5,290)	(234,195)	(5,766)	(291,024)
Net assets	$ 272,214	$ 82,957	$ 1,000,341	$ 222,134	$ 1,577,646
Non-controlling interest (at fair value)	(135,592)	(32,400)	-	-	(167,992)
Total net assets acquired	$ 136,622	$ 50,557	$ 1,000,341	$ 222,134	$ 1,409,654
Gain on bargain purchase	-	-	-	(9,552)	(9,552)
	$ 136,622	$ 50,557	$ 1,000,341	$ 212,582	$ 1,400,102
Cash paid	$ (2,208)	$ (34,287)	$ (1,000,341)	$ (10,000)	$ (1,046,836)
Net cash acquired	9,678	35,925	68,779	-	114,382
Net consolidated cash inflow (outflow)	$ 7,470	$ 1,638	$ (931,562)	$ (10,000)	$ (932,454)

5. Material partly-owned subsidiary

*Pacific Midstream Ltd. ("**PM**")*

PM is the holding company for a number of the Company's pipeline and power transmission assets, including a 35% interest in the pipeline ODL, 41.5% interest in the Oleoducto Bicentenario de Colombia ("Bicentenario") pipeline, Petroelectrica, a power transmission entity, and a future liquefied natural gas ("LNG") project. On December 17, 2014, the Company entered into an agreement to engage in a suite of transactions with a goal to divest 43% of its ownership interest in PM to the International Finance Corporation and its associated entities (collectively "IFC") for a total of $320 million. The first transaction, which resulted in the Company receiving $240 million in cash, was completed during 2014. This receipt reduced the Company's ownership interest in PM by 36% and resulted in a gain on disposal of a non-controlling interest of approximately $47.5 million after costs of disposal of approximately $4 million, which has been recorded in contributed surplus. The remaining $80 million is expected to be received in 2015 upon completion of certain condition precedents and the completion and transfer of the LNG project to PM, and will be executed through an additional PM share issuance. Upon receipt of the remaining $80 million, the Company´s interests in PM will be reduced to 57% and IFC´s interest will increase to 43%.

(U.S. $ thousands, except share and per share amounts or unless otherwise stated)

The Company determined that it has retained control of PM based on its power over the relevant activities of PM and exposure to variability in PM's returns as a result of its majority voting rights both as a shareholder and representation at the board of directors.

The Company continued to fully consolidate PM and has recognized a non-controlling interest in the equity section of its Consolidated Statements of Financial Position to reflect the minority interest in PM's assets and liabilities held by IFC.

The financial information of PM's non-controlling interest is provided below. Due to the fact that the acquisition only occurred at the end of December, the Company has determined that the summarized information for the income statement and cash flow statement is immaterial and as such is disclosing solely the Statement of Financial Position as of December 31, 2014.

	Year ended December 31, 2014
Current assets	$ 12,451
Non-current assets	601,919
Total assets	$ 614,370
Current liability	$ 51,763
Non-current liability	104,282
Total liability	156,045
Equity	458,325
	$ 614,370

As of December 31, 2014, the carrying value of the non-controlling interest for PM is $173.4 million. The proportion of the Company's share of net income for the thirteen days after disposition is not material.

6. Segmented Information

The Company is organized into business units based on the main types of activities and has one reportable segment as at December 31, 2014: the exploration, development, and production of heavy crude oil and gas in Colombia. The Company's assets and operations in other countries are still in the early stages of development and are not significant and, therefore are not considered a reportable segment as at December 31, 2014. The Company manages its operations to reflect differences in the regulatory environments and risk factors for each country.

As at December 2014	Canada	Colombia	Peru	Brazil	Papua New Guinea	Guyana	Guatemala	Belize	Others	Total
Cash and cash equivalent	$ 118,009	$ 166,483	$ 26,028	$ 1,101	$ -	$ 6,518	$ 1,469	$ -	$ 14,146	$ 333,754
Non-current assets	-	7,232,893	762,104	369,515	142,826	34,940	45,598	15,469	11,287	8,614,632
	$ 118,009	$ 7,399,376	$ 788,132	$ 370,616	$ 142,826	$ 41,458	$ 47,067	$ 15,469	$ 25,433	$ 8,948,386

As at December 2013	Canada	Colombia	Peru	Brazil	Papua New Guinea	Guyana	Guatemala	Belize	Others	Total
Cash and cash equivalent	$ 342,666	$ 244,194	$ 19,960	$ 14,337	$ -	$ 10,773	$ 86	$ -	$ 487	$ 632,503
Non-current assets	-	7,632,620	810,025	290,532	127,342	44,279	35,280	1,500	259	8,941,837
	$ 342,666	$ 7,876,814	$ 829,985	$ 304,869	$ 127,342	$ 55,052	$ 35,366	$ 1,500	$ 746	$ 9,574,340

(U.S. $ thousands, except share and per share amounts or unless otherwise stated)

The selected Consolidated Statement of Income components by reporting segment are as follows:

As at December 2014	Colombia	Corporate	Other Non-Reportable Segments	Total
Sales	$ 4,865,341	$ -	$ 84,681	$ 4,950,022
Oil & gas operating cost	1,649,742	-	38,814	1,688,556
Purchase of oil for trading	400,674	-	-	400,674
Underlift	(62,716)	-	-	(62,716)
Fees paid on suspended pipeline capacity	78,742	-	-	78,742
General and administrative	271,969	50,573	38,139	360,681
Depletion, depreciation, amortization	1,622,570	-	19,007	1,641,577
Impairment and exploration expenses	1,439,130	-	186,228	1,625,358
Finance cost	20,931	239,218	1,151	261,300
Share of loss of equity-accounted investees	25,019	8,306	-	33,325
Income tax	266,348	(85,811)	8,199	188,736
Net loss	(741,686)	(374,782)	(218,367)	(1,334,835)

As at December 2013	Colombia	Corporate	Other Non-Reportable Segments	Total
Sales	$ 4,575,657	$ -	$ 51,202	$ 4,626,859
Oil & gas operating cost	1,619,857	-	32,164	1,652,021
Purchase of oil for trading	139,657	-	-	139,657
Underlift	(68,348)	-	-	(68,348)
General and administrative	269,397	45,521	21,654	336,572
Depletion, depreciation, amortization	1,334,836	-	20,816	1,355,652
Impairment and exploration expenses	24,286	-	(545)	23,741
Finance cost	25,787	136,599	16	162,402
Share of loss of equity-accounted investees	31,186	(2,039)	-	29,147
Income tax	505,807	(205)	(626)	504,976
Net income	600,069	(135,274)	(48,161)	416,634

The Company's revenue based on the geographic location of customers is as follows:

	Year ended December 31 2014	2013
China	$ 2,733,646	$ 807,499
United States	1,010,292	2,350,483
Spain	429,561	557,547
South Korea	226,412	-
Colombia	165,338	195,019
Peru	84,681	51,202
Other countries	300,092	665,109
Total revenue	$ 4,950,022	$ 4,626,859

Other countries include sales to countries (with the exception of Colombia and Peru) that individually represent less than 5% of sales.

7. Production and Operating Costs

	Year ended December 31 2014	2013
Oil and gas production costs	$ 805,397	$ 687,714
Transportation costs	690,060	637,302
Diluent costs	115,121	239,167
Other costs	77,978	87,838
	$ 1,688,556	$ 1,652,021

8. Fees Paid on Suspended Pipeline

Beginning in February 2014, the Bicentenario pipeline (Note 17) has experienced periodic suspensions following security-related disruptions. For the year ending December 31, 2014 under the take-or-pay agreement between the

(U.S. $ thousands, except share and per share amounts or unless otherwise stated)

Company and Bicentenario, the Company has recognized net fees paid of $78.7 million in take-or-pay fees to Bicentenario for the disrupted pipeline capacity. At the year end the pipeline was operating.

9. Income Tax

Pacific Rubiales has significant operational presence in Colombia, and pays a substantial portion of its income taxes in Colombia. As such, in order to provide a more relevant point of interpretation of the effective tax rate, the rate reconciliation utilizes the Colombian statutory tax rate as the starting point.

A reconciliation between income tax expense and the product of accounting profit multiplied by the Company's domestic tax rate is provided below:

	Year ended December 31	
	2014	2013
Net (loss) earnings before income taxes	$ (1,146,099)	$ 921,610
Colombian statutory income tax rate	34.00%	34.00%
Income tax expense at statutory rate	(389,674)	313,347
Increase (decrease) in income tax provision resulting from:		
Other (non-taxable) non-deductible expenses	137,247	4,711
Foreign exchange impact on deferred income tax	313,304	88,339
Share-based compensation	2,892	11,021
Risk management (gain) loss	(6,284)	41
Differences in tax rates in foreign jurisdictions	97,995	26,309
Losses for which no tax benefit is recorded	33,256	61,208
Income tax expense	$ 188,736	$ 504,976
Current income tax expense	$ 159,387	$ 461,072
Deferred income tax expense :		
Relating to origination and reversal of temporary differences	29,349	43,904
Income tax expense	$ 188,736	$ 504,976

The Company’s deferred tax relates to the following:

	As at December 31	
	2014	2013
Tax loss carry-forwards	$ 35,199	$ 16,477
Oil and gas properties and equipment	(483,160)	(602,087)
Other	(75,673)	95,220
Deferred tax liability	$ (523,634)	$ (490,390)

	As at December 31	
	2014	2013
Beginning of year	$ (490,390)	$ (201,235)
Recognized in deferred income tax (recovery) expense		
Tax loss carry-forwards	18,721	13,190
Oil and gas properties and equipment	181,521	41,973
Others	(170,893)	45,785
Acquisitions and others	(62,593)	(390,103)
End of year	$ (523,634)	$ (490,390)

The Canadian statutory combined income tax rate was 26.5% for the year-ending 2014 and 2013.

The Colombian statutory tax rate for the year-ending 2014 was 34%, which included the 25% general income tax rate and the fairness tax ("**CREE**") at 9%. The Colombian Congress enacted new corporate tax rates increasing to 39% in, 2015, 40% in 2016, 42% in, 2017, and 43% in 2018. As at January 1, 2019, the corporate tax rate will reduce back to 34%. In addition, the Congress introduced a new wealth tax which accrues on net equity as at January 1, 2015, 2016, and 2017; 1.15%, 1.00% and 0.40% respectively.

The Peruvian statutory income tax rate was 30% for the year-ending 2014 and 2013. The Peruvian income tax rate for Block Z-1 was 22% for the year-ending of 2014 and 2013. The Peruvian government passed major tax reforms on December 31, 2014, including a reduction in the general corporate tax rate to 28% for 2015 – 2016; 27% for 2017 – 2018; and 26% for taxation years 2019 and onwards.

The Company's cumulative effective tax rate (income tax expenses as a percentage of net earnings before income tax) was (16.5%) for the year-ending December 31, 2014, compared to 54.8% over the same cumulative year-ending December 31, 2013.

The Company's effective tax rate is subject to fluctuations in the COP exchange rate against the U.S. dollar. Since the Company's oil and gas assets are primarily located in Colombia, the tax base of these assets is denominated in COP, and the related deferred tax balances are revalued periodically to reflect the closing U.S.$-COP exchange rate in accordance with IFRS. Any movement in the exchange rate results in a corresponding unrealized exchange gain or loss being recorded as part of deferred income tax expense or recovery. During periods when there have been large fluctuations in the U.S$-COP exchange rate, these amounts may be significant but are unrealized and may reverse in the future.

For the year-ending 2014, the COP depreciated against the U.S. dollar by 24.17% resulting in an unrealized deferred income tax expense of $313.3 million compared to 8.97% and an unrealized deferred income tax expense of $88.3 million for the year-ending 2013.

Excluding the effect from the above-mentioned foreign exchange fluctuations, the effective tax rate for the Company would be 10.9% for the year ended in December 31, 2014.

In addition, the Company's effective tax rate differs from the statutory rate due to:

- Expenses that are not deductible for tax purposes (such as share-based compensation, foreign and other non-deductible expenditures in both Canada and Colombia);

- Corporate expenses that result in tax loss carry-forwards, but for which no deferred tax assets and recovery have been recognized. When the Company has a reasonable expectation to utilize those losses in the future, a deferred tax asset and a corresponding deferred tax recovery may be recognized, which would reduce the income tax expense.

Deferred tax assets and liabilities are recognized for the carry-forward of unused tax losses and unused tax credits to the extent that it is probable that taxable profits will be available against which the unused tax losses/credit can be utilized.

As at December 31, 2014, non-capital losses totaled $460 million (December 31, 2013 - $514 million) in Canada and expire between 2015 and 2033. Capital losses totaled Nil as at December 31, 2014 (December 31, 2013 - $64 million). No deferred tax assets have been recognized in respect of the non-capital losses as at December 31, 2014 (2013 - Nil). In Colombia, non-capital losses totaled $27.7 million (December 31, 2013 - $1.65 million) and deferred tax assets have been recognized on $5.5 million of those losses.

The temporary differences associated with investments in subsidiaries and joint ventures, for which a deferred tax liability has not been recognized, amounted to approximately $1.1 billion as at December 31, 2014.

10. Earnings per Share

Earnings per share amounts are calculated by dividing the net earnings (loss) for the period attributable to shareholders of the Company by the weighted average number of shares outstanding during the period.

(U.S. $ thousands, except share and per share amounts or unless otherwise stated)

	Year ended December 31 2014	2013
Net (loss) earnings attributable to equity holders of the parent	$ (1,309,625)	$ 426,082
Basic weighted average number of shares	315,487,230	322,989,949
Effects of dilution	-	2,316,523
Diluted weighted average number of shares	315,487,230	325,306,472
Basic (loss) earnings per share attributable to equity holders of the parent	$ (4.15)	$ 1.32
Diluted (loss) earnings per share attributable to equity holders of the parent	$ (4.15)	$ 1.31

All options, warrants and convertible debentures that are anti-dilutive have been excluded from the diluted weighted average number of common shares. 23,168,792 options (2013: 16,794,950) are excluded from the calculation of dilution as they are out-of- the-money.

11. Dividends Paid

	Year ended December 31 2014	2013
Declared and paid	$ 207,553	$ 195,760
Dividend per common share	$ 0.66	$ 0.61

12. Inventories

	As at December 31 2014	2013
Crude oil and gas	$ 22,356	$ 42,272
Materials and supplies	22,984	17,254
	$ 45,340	$ 59,526

13. Oil and Gas Properties

Cost	
Cost as at December 31, 2012	$ 5,495,671
Additions	1,661,393
Transfer from exploration and evaluation assets (Note 14)	211,210
Disposals	(30,557)
Acquisitions (Note 4)	1,174,556
Net acquisition of Sabanero (Note 4)	16,958
Change in asset retirement obligation (Note 23)	44,246
Cost as at December 31, 2013	8,573,477
Additions	1,706,064
Transfer from exploration and evaluation assets (Note 14)	139,295
Disposals	(63,673)
Net acquisition of Cubiro and Arrendajo (Note 4)	263,174
Currency translation adjustment	(33,964)
Change in asset retirement obligation (Note 23)	29,165
Cost as at December 31, 2014	$ 10,613,538

(U.S. $ thousands, except share and per share amounts or unless otherwise stated)

Accumulated depletion and impairment		
Accumulated depletion and impairment as at December 31, 2012	$	1,791,618
Charge for the year		1,281,256
Deemed disposition of Sabanero		(1,921)
Accumulated depletion and impairment as at December 31, 2013		3,070,953
Charge for the year		1,561,982
Deemed disposition of Cubiro and Arrendajo		(131,875)
Impairment (Note 19)		979,000
Accumulated depletion and impairment as at December 31, 2014	$	5,480,060

Net book value		
December 31, 2013	$	5,502,524
December 31, 2014		5,133,478

Included in the amount subject to depletion is $2.3 billion (December 31, 2013 - $2.8 billion) of estimated future development costs that are required to bring proved undeveloped reserves to production. $34 million of oil and gas properties were under construction as at December 31, 2014 (December 31, 2013-$230 million), and as such are not currently subject to depletion.

14. Exploration and Evaluation Assets

As at December 31, 2012	$	878,823
Additions		446,125
Transfer to oil and gas properties (Note 13)		(211,210)
Acquisitions (Note 4)		362,501
Reclassified from other assets		409,026
Disposal		(8,936)
Impairment and exploration expenses (Note 19)		(23,741)
As at December 31, 2013		1,852,588
Additions		795,916
Transfer to oil and gas properties (Note 13)		(139,295)
Impairment and exploration expenses (Note 19)		(259,158)
Disposal		(6,570)
As at December 31, 2014	$	2,243,481

15. Plant and Equipment

Cost		Land & buildings		Assets under construction		Other plant & equipment		Total
Cost as at December 31, 2012	$	44,464	$	-	$	86,718	$	131,182
Additions		13,103		75,290		42,883		131,276
Acquisitions (Note 4)		19,233		111,942		6,727		137,902
Loss of control of PII		(18,809)		(180,255)		(1,982)		(201,046)
Cost as at December 31, 2013		57,991		6,977		134,346		199,314
Additions		-		88		65,073		65,161
Cost as at December 31, 2014	$	57,991	$	7,065	$	199,419	$	264,475

(U.S. $ thousands, except share and per share amounts or unless otherwise stated)

Accumulated depreciation								
Accumulated depreciation as at December 31, 2012	$	16,366	$	-	$	31,195	$	47,561
Loss of control of PII		(309)		-		-		(309)
Charge for the year		9,757		-		16,705		26,462
Accumulated depreciation as at December 31, 2013		25,814		-		47,900		73,714
Charge for the year		6,947		-		26,087		33,034
Impairment (Note 19)		-		4,200		-		4,200
Accumulated depreciation as at December 31, 2014	$	32,761	$	4,200	$	73,987	$	110,948

Net book value								
December 31, 2013	$	32,177	$	6,977	$	86,446	$	125,600
December 31, 2014		25,230		2,865		125,432		153,527

16. Intangible Assets

Cost		
Cost as at December 31, 2012	$	190,000
Acquisitions (Note 4)		142,889
Additions		3,911
Loss of control of PII		(146,800)
Cost as at December 31, 2013 and 2014	$	190,000

Accumulated amortization		
Accumulated amortization as at December 31, 2012	$	71,116
Charge for the year		25,990
Accumulated amortization as at December 31, 2013		97,106
Charge for the year		30,762
Accumulated amortization as at December 31, 2014	$	127,868

Net book value		
December 31, 2013	$	92,894
December 31, 2014		62,132

Capacity rights comprise the rights to the available capacity of the OCENSA pipeline system in Colombia, and the right to available capacity at the crude blending station. The OCENSA right is amortized based on the usage of the 160 million barrel capacity over the term of the agreement.

Acquisitions in 2013 include a Port Concession intangible, which was acquired as part of PII. This acquisition value was subsequently deconsolidated due to the loss of control of PII.

(U.S. $ thousands, except share and per share amounts or unless otherwise stated)

17. Investments in Associates

The Company's investments in associates are as follows:

	ODL	Bicentenario	PII	Pacific Power	Pacific Coal	CGX	Total
As at December 31, 2012	$ 187,377	$ 130,021	$ 122,583	$ 15,823	$ 8,320	$ 18,719	$ 482,843
Investment	34,593	3,078	1,250	5,000	-	-	43,921
Income (loss) from equity investments	(14,686)	(11,386)	(5,113)	1,405	1,135	(502)	(29,147)
PII acquisition (Note 4)	-	-	(122,142)	-	-	-	(122,142)
Foreign currency translation	(15,871)	(8,115)	(2,477)	-	-	-	(26,463)
PMG Acquisition (Note 4)	-	107,000	-	-	-	-	107,000
CGX Acquisition (Note 4)	-	-	-	-	-	(18,217)	(18,217)
Loss of control of PII	-	-	225,316	-	-	-	225,316
As at December 31, 2013	$ 191,413	$ 220,598	$ 219,417	$ 22,228	$ 9,455	$ -	$ 663,111
Investment	34,853	34,600	-	-	-	-	69,453
Income (loss) from equity investments	11,068	(2,927)	(33,669)	833	(2,922)	-	(27,617)
Foreign currency translation	(36,905)	(33,251)	(23,967)	-	-	-	(94,123)
Dividends	(38,076)	-	-	-	-	-	(38,076)
Impairment of equity investments	-	-	-	-	(5,708)	-	(5,708)
As at December 31, 2014	$ 162,353	$ 219,020	$ 161,781	$ 23,061	$ 825	$ -	$ 567,040

Set out below are the investments made by the Company in associates during the year end and as at December 31, 2014. Investments in associates are accounted for using the equity method, including the Company's proportionate share of the associates' net income or loss recognized in the consolidated statement of income.

*ODL Finance S.A. (“**ODL**”)*

The Company holds a 35% interest in ODL, a Panamanian company with a Colombian branch that has constructed an oil pipeline for the transportation of heavy crude oil produced from the Rubiales field. Ecopetrol, S.A. (“**Ecopetrol**”), the national oil company of Colombia, owns the remaining 65% interest. The capital contribution did not change the Company's equity interest percentage. ODL's functional currency is the Colombian peso and the currency translation adjustment upon conversion to U.S. dollars is recorded in other comprehensive income.

The Company has a take-or-pay contract with ODL to finance the debt obligations of ODL. The payments of $34.9 million (2013: $34.6 million) related to this agreement are reflected as an increase of the investments in ODL according to the Company's participating interest.

The Company has take-or-pay contracts with ODL for the transportation of crude oil from the Rubiales field to Colombia's oil transportation system for a total commitment of $123 million from 2015 to 2020.

*Oleoducto Bicentenario de Colombia (“**Bicentenario**”)*

The Company holds a 43.03% interest in Bicentenario, a corporation established and owned by a consortium of oil producers operating in Colombia led by Ecopetrol. Bicentenario's functional currency is the Colombian peso and the currency translation adjustment upon conversion to U.S. dollars has been recorded in other comprehensive income. The investment in Bicentenario is accounted for using the consolidation method.

The Company has a take-or-pay contract with Bicentenario to finance the debt obligations of Bicentenario. The payments of $34.6 million (2013: $3.1 million) related to this agreement are reflected as an increase of the investments in Bicentenario according to the Company's participating interest.

The Company has take-or-pay contracts with Bicentenario for the transportation of crude oil from the Rubiales field to Colombia's oil transportation system, for a total commitment of $1.7 billion from 2015 to 2025. The Bicentenario pipeline has experienced ongoing periods of security-related disruptions since February 2014. During the year ended December 31, 2014, the Company paid $95.5 million under the take-or pay contract, and $78.9 million in suspended pipeline fees for a period of time for which no transport service was received. During the year ended December 31, 2014, Bicentenario paid the Company $20 million, which represents the Company's share of the amount distributed to all shareholders of Bicentenario to compensate for the disrupted pipeline service.

*Pacific Infrastructure Ventures Inc. (“**PII**”)*

PII is a Panamanian company established for the purpose of developing an export terminal, an industrial park, and a free trade zone in Cartagena. In February 2013, the Company acquired a controlling interest in PII and subsequently in October 2013, lost control and reverted back to an equity investment. The functional currency of PII is the U.S. Dollar.

As at December 31, 2014, the Company's interest in PII is 41.65% with the balance being held by Blue Pacific Assets Corp. (“**Blue Pacific**”) and IFC. The Company holds two board seats in PII.

(U.S. $ thousands, except share and per share amounts or unless otherwise stated)

*Pacific Power Generation Corp ("**Pacific Power**", previously Ronter)*

The investment in Pacific Power represents a 24.9% (2013: 24.9%) indirect interest in Promotora de Energia Electrica de Cartagena & Cia, S.C.A. ESP ("**Proelectrica**"). Proelectrica is a private, Cartagena, Colombia-based 90-megawatt electrical utility peak-demand supplier to the local Cartagena utility. The functional currency of Pacific Power is the U.S. dollar. During 2013, Pacific Power issued new shares to certain shareholders and the Company invested an additional $5 million to maintain its equity interest at 24.9%.

*Pacific Coal Resources Ltd. ("**Pacific Coal**")*

Pacific Coal is engaged in the acquisition and development of coal mining assets and related businesses in Colombia. As at December 31, 2014, the Company's interest in Pacific Coal was 13.28% (December 31, 2013: 14.4%).

During year ended December 31, 2014 the Company determined that the investment was impaired and recorded an impairment of $5.7 million as a result of recording its investment based on the price on the TSX Venture Exchange of $0.11 (C$0.125) as of December 31, 2014.

The functional currency of Pacific Coal is the U.S dollar.

The Company has determined that it holds significant influence but not control over Pacific Coal as a result of the Company's equity interests and a number of common directors.

The Company received cash dividends of $38 million from its equity-accounted investments during the twelve month period ending December 31, 2014 (2013: Nil).

The table below summarizes the financial information for the Company's significant investments in associates (figures represent 100% of the underlying entities' interest):

	ODL	Bicentenario	PII
As at and for the year ended December 31, 2014			
Current assets	$ 214,634	$ 201,877	$ 98,456
Non-current assets	721,552	1,442,481	667,547
Current liabilities	(153,661)	(356,271)	(142,966)
Non-current liabilities	(318,659)	(356,271)	(236,616)
Equity	463,866	499,698	386,421
Proportion of the Company's ownership (1)	35.00%	43.03%	41.65%
Carrying amount of the investment	$ 162,353	$ 219,020	$ 161,781
Revenue	$ 348,013	$ 272,277	$ -
Expenses	(316,390)	(279,079)	(82,888)
Net gain (loss)	31,623	(6,802)	(82,888)
Company's share of the profit (loss) for the year	$ 11,068	$ (2,927)	$ (33,669)

(1) ODL and Bicentenario are entities held by Pacific Midstream Ltd., an entity held 63.64% by Pacific Rubiales.

(U.S. $ thousands, except share and per share amounts or unless otherwise stated)

	ODL	Bicentenario	PII
As at and for the year ended December 31, 2013			
Current assets	$ 207,134	$ 306,990	$ 34,062
Non-current assets	957,165	1,695,729	539,192
Current liabilities	(50,995)	(400,518)	(41,415)
Non-current liabilities	(566,406)	(1,098,835)	(2,180)
Equity	546,898	503,366	529,659
Proportion of the Company's ownership	35.00%	43.03%	41.43%
Carrying amount of the investment	$ 191,413	$ 216,598	$ 219,417
Revenue	$ 252,397	$ 36,785	$ -
Expenses	(294,355)	(58,487)	(12,703)
Net loss	(41,958)	(21,702)	(12,703)
Company's share of the loss for the year	$ (14,686)	$ (11,386)	$ (5,113)

18. Other Assets

	As at December 31 2014	As at December 31 2013
Bicentenario loan	$ 41,992	$ 41,992
Bicentenario prepayments	87,971	-
Long term receivables	10,375	-
Investments	19,924	13,998
Advances	42,390	-
	$ 202,652	$ 55,990

Bicentenario loan and Prepayments

During 2011, the Company, along with the other shareholders of Bicentenario, entered into certain subordinated loan agreements with Bicentenario. As at December 31, 2014, Bicentenario has the option to draw down an additional $97.3 million (December 31, 2013 - $97.3 million) pursuant to these agreements. The principal of the subordinated loan will be repaid in 10 equal semi-annual installments starting in 2025 or earlier, after Bicentenario has repaid its bank loans in full. The loans carry an annual interest rate of 7.32%. As at December 31, 2014, the balance of loans outstanding to the Company under the agreement is $42 million (December 31, 2013: $42 million), representing the amounts advanced less repayments. Interest income of $2.7 million was recognized during the year ending December 31, 2014 (2013: $2.1 million).

Prepayments include advances for the usage of the Bicentenario pipeline.

Long term receivables, Investments and Advances

These assets include a variety of items such as receivables from the sale of OCENSA, investments in other companies such as Oleoducto de Colombia and Platino, and advances for pipeline usage and on the construction, testing and commissioning of gas facilities.

19. Goodwill and Impairment test

As at December 31, 2012	$ 345,712
Acquisitions (Note 4)	336,249
Loss of control of PII	(48,181)
As at December 31, 2013	633,780
Derecognition on Cubiro and Arrendajo transaction (Note 4)	(13,771)
Impairment	(383,000)
As at December 31, 2014	$ 237,009

(U.S. $ thousands, except share and per share amounts or unless otherwise stated)

The breakdown of impairment and exploration expense is as follows:

Impairment	$	1,432,000
Exploration expenses		193,358
Impairment and exploration expenses	$	1,625,358

Impairment test

The Company assesses at the end of each reporting period whether there is any indication, from external and internal sources of information, that an asset or cash generating unit ("**CGU**") and goodwill may be impaired. Information the Company considers include changes in the market, economic and legal environment in which the Company operates that are not within its control and affect the recoverable amount of the oil & gas, exploration and evaluation properties and goodwill. Predominantly due to the significant decline in oil prices in the latter part of 2014, the Company has determined that indicators of impairment existed as of December 31, 2014, and as such, has performed a test for recoverability of the value of the assets.

Internal sources of information include the manner in which long lived assets are being used or are expected to be used and indications of economic performance of the assets. Estimates include but are not limited to the discounted future after-tax cash flows expected to be derived from the Company's properties, costs to sell the properties and the discount rate. Reductions in oil price forecasts, increases in estimated future costs of production, increases in estimated future capital costs, reductions in the amount of recoverable reserves and resources and/or adverse current economics can result in a write-down of the carrying amounts of the Company's oil and gas, exploration and evaluation assets and/or goodwill. An impairment loss is recognized when the carrying amount exceeds the recoverable amount.

The Company's impairment tests of oil and gas and exploration and evaluation assets are performed at the CGU level, previously mentioned in the Estimation Uncertainty section of the financial statements. The recoverable amount is calculated based on value in use, predominantly derived from the future cash flows of the reserves and resources over the life of the blocks.

Assumptions used in the model to determine the recoverable amounts included:

- After-tax discount rate of 10% (12.8% before tax) as determined by the weighted average cost of capital taking into consideration the expected return on investment by the Company's investors, the cost of debt based on the interest-bearing borrowings of the Company and segment specific risk based on publicly available market data.

- Long-term WTI benchmark oil price of $64, $77, $83, $87 and $91 per barrel for 2015-2019 respectively and inflated by approximately 2% subsequent to that period. Prices are based on the compilation of independent industry analyst forecasts, published indices and management's own assumptions.

- Hydrocarbon reserves and resources which are estimates of the amount of hydrocarbons that can be economically and legally extracted from the Company´s oil and gas properties. The Company estimates its commercial reserves and resources based on information compiled by external reserve engineers relating to the geological and technical data on the size, depth, shape and grade of the hydrocarbon body and suitable production techniques and recovery rates. Commercial reserves are determined using estimates of oil and gas in place, recovery factors and future commodity prices, the latter having an impact on the total amount of recoverable reserves and the proportion of the gross reserves which are attributable to the host government under the terms of the agreements. Future development costs are estimated using assumptions as to the number of wells required to produce the commercial reserves, the cost of such wells and associated production facilities, and other capital costs.

- Production based on updated hydrocarbon reserve reports, recent operating and exploration results, future operating costs based on revised budgets, capital expenditures, inflation and long-term foreign exchange rates.

All goodwill, with the exception of $8 million allocated to Guyana which arose from the acquisition of CGX, was allocated to the Colombian operating segment.

As at December 31, 2014, based on the impairment test performed by the Company, the carrying amounts of certain assets exceeded their recoverable amount, and as such, the Company concluded that a total of $1,432 million before tax of impairment charges would be recorded (2013: Nil). The breakdown of the charges taken is as follows:

(U.S. $ thousands, except share and per share amounts or unless otherwise stated)

Oil and gas properties		
Central Colombia CGU	$	(826,000)
South Colombia CGU		(153,000)
Exploration and evaluation assets		
Other non-Colombia		(24,000)
Guyana (CGX)		(41,800)
Plant and equipment		
Guyana (CGX)		(4,200)
Total impairment of E&E and D&P		(1,049,000)
Goodwill allocated to Colombia		(375,000)
Goodwill allocated to Guyana (CGX)		(8,000)
Total impairment before tax		(1,432,000)
Deferred tax effect		332,860
Total impairment after tax	$	(1,099,140)

The recoverable amount of the above CGUs is as follows: Central Colombia CGU: $4,106 million, South Colombia CGU: $228 million, Other non-Colombian CGU: $208 million, Guyana (CGX): $36 million.

The impairments recorded, excluding goodwill, may be reversed if and when the recoverable amount of the assets and CGUs increase in future periods.

Exploration expense

During 2014 the Company expensed certain previously capitalized exploration costs included in exploration and evaluation assets in Colombia and Peru for approximately $193 million (2013: $23.7 million), as a result of relinquishing the licenses to the blocks. $108 million of the expense related to Block 138 in Peru that the Company has received approval from the government to extend the exploration period by one year subsequent to December 31, 2014.

20. Assets Held for Sale

On December 23, 2013 the Company sold its 5% interest and the associated transportation rights in Oleoducto Central S.A. ("**OCENSA**"), an oil pipeline in Colombia. The OCENSA equity and transportation rights were acquired by the Company as part of the Petrominerales acquisition in November 2013. The consideration consisted of cash of consideration of $360 million, dividends from OCENSA totalling approximately $15 million, and a $10 million receivable with annual interest of 15% to be paid in five years. As of December 31, 2014, the $10 million long-term receivable is included in other assets on the Consolidated Statement of Financial Position.

21. Interest-Bearing Loans and Borrowings

	Maturity	Currency	Interest Rate	As at December 31 2014	As at December 31 2013
Senior Notes - 2011	2021	USD	7.25%	$ 654,947	$ 963,893
Senior Notes - March 2013	2023	USD	5.125%	990,785	989,730
Senior Notes - November 2013	2019	USD	5.375%	1,285,284	1,281,961
Senior Notes - September 2014	2025	USD	5.625%	1,048,908	-
Bank loans (1)	2024	COP	DTF + 3.9%	-	78,794
Petrominerales debentures	2014	USD		-	283,000
Other debt	2015-2017	USD	Various	388,561	504,433
Short-term working capital loans and facilities	2015	USD/COP	Various	285,364	270,000
				$ 4,653,849	$ 4,371,811
Current portion				$ 321,655	$ 553,571
Non-current portion				4,332,194	3,818,240
				$ 4,653,849	$ 4,371,811

(1) Represents bank loans received for the construction of power transmission lines to supply additional electricity to two fields in Colombia. The loan amount is for up to $112 million with an interest rate of 4.2% plus DTF (90-day benchmark rate in Colombia). These loans were repaid in 2014 and are no longer available.

(U.S. $ thousands, except share and per share amounts or unless otherwise stated)

The following table summarizes the main components of finance cost for the years ended December 31, 2014 and 2013:

	As at December 31	
	2014	2013
Interest on Senior Notes	$ 215,025	$ 91,991
Interest on other debt	56,281	73,985
Accretion of asset retirement obligations	11,257	2,403
Lease financing costs	8,418	11,556
Interest income	(29,681)	(17,533)
Finance costs	$ 261,300	$ 162,402

2011 Senior Notes

The 2011 Senior Notes, due December 12, 2021, are direct, unsecured, subordinated obligations with interest payable in arrears at a rate of 7.25% on June 12 and December 12 of each year.

The 2011 Senior Notes are on the Official List of the Luxembourg Stock Exchange and trade on the Euro MTF. Under the terms of the notes, the Company is required to maintain: (1) an interest coverage ratio of greater than 2.5; and (2) a debt to EBITDA ratio of less than 3.5, or would otherwise be restricted from incurring additional indebtedness. The covenants do not apply during any period of time when the notes have an investment grade rating from at least two rating agencies. The Company was compliant with the covenants during the year.

In December 2013, the Company issued an additional $0.3 billion of its 2011 Senior Notes maturing December 12, 2021.

On October 23, 2014, the Company exchanged principal of $322 million of the existing 2011 Senior Notes for Senior Notes with a 2025 maturity and a coupon of 5.625%. The notes were tendered for $364 million (see *September 2014, Senior Notes*)

The 2011 Senior Notes are carried at amortized cost using the effective interest rate method with note discount and transaction costs netted against the principal. The principal amount outstanding on the 2011 Senior Notes as at December 31, 2014 was $690 million (2013: $1,012 million). For the year ending December 31, 2014, $73 million (2013: $62 million) in interest expense related to the 2011 Senior Notes has been recorded in the Consolidated Statements of Income.

March 2013 Senior Notes

On March 28, 2013, the Company closed the issuance of $1 billion of senior notes that are due March 28, 2023 ("**March 2013 Senior Notes**"). The March 2013 Senior Notes are direct, unsecured, subordinated obligations with interest payable in arrears at a rate of 5.125% on March 28 and September 28 of each year.

The March 2013 Senior Notes are listed on the Official List of the Luxembourg Stock Exchange and trade on the Euro MTF. Under the terms of the notes, the Company is required to maintain: (1) an interest coverage ratio of greater than 2.5; and (2) a debt to EBITDA ratio of less than 3.5, or would otherwise be restricted from incurring additional indebtedness. The covenants do not apply during any period of time when the notes have an investment grade rating from at least two rating agencies. The Company was compliant with the covenants during the period.

The March 2013 Senior Notes are carried at amortized cost using the effective interest rate method with note discount and transaction costs netted against the principal. The principal amount outstanding on the March 2013 Senior Notes as at December 31, 2014 was $1 billion (December 2013: $1 billion). For the year ending December 31, 2013, $52 million (2013: $39 million) in interest expense related to the 2013 Senior Notes has been recorded in the consolidated statement of income.

November 2013 Senior Notes

On November 26, 2013, the Company closed the issuance of $1.3 billion of senior notes due November 26, 2019 ("**November 2013 Senior Notes**"). The November 2013 Senior Notes are direct, unsecured, subordinated obligations with interest payable in arrears at a rate of 5.375% on January 26 and July 26 of each year.

The November 2013 Senior Notes are listed on the Official List of the Luxembourg Stock Exchange and trade on the Euro MTF. Under the terms of the notes, the Company is required to maintain: (1) an interest coverage ratio of greater than 2.5: and (2) a debt to EBITDA ratio of less than 3.5, or would otherwise be restricted from incurring additional indebtedness. The covenants do not apply during any period of time when the notes have an investment grade rating from at least two rating agencies. The Company was compliant with the covenants during the period.

The November 2013 Senior Notes are carried at amortized cost using the effective interest rate method with note discount and transaction costs netted against the principal. The principal amount outstanding on the November 2013 Senior Notes as at December 31, 2013 was $1.3 billion (December 2013: $1.3 billion). For the year ending December 31, 2014, $73 million (2013: $7 million) in interest expense related to the November 2013 Senior Notes has been recorded in the consolidated statement of income.

September 2014 Senior Notes

On September 19, 2014, the Company closed the issuance of $750 million of senior notes due January 19, 2025 ("**September 2014 Senior Notes**"). The September 2014 Senior Notes are direct, unsecured, unsubordinated obligations with interest payable in arrears at a rate of 5.625% on January 19 and July 19 of each year.

In October 2014, the Company issued an additional $364 million of its September 2014 Senior Notes maturing January 19, 2025, the proceeds of which were used to repay $322 million of 2021 Senior Notes with a coupon of 7.25%.

The September 2014 Senior Notes are listed on the Official List of the Luxembourg Stock Exchange and trade on the Euro MTF. Under the terms of the notes, the Company is required to maintain: (1) an interest coverage ratio of greater than 2.5: and (2) a debt to EBITDA ratio of less than 3.5, or would otherwise be restricted from incurring additional indebtedness. The covenants do not apply during any period of time when the notes have an investment grade rating from at least two rating agencies. The Company was compliant with the covenants during the period.

The September 2014 Senior Notes are carried at amortized cost using the effective interest rate method with note discount and transaction costs netted against the principal. The principal amount outstanding on the September 2014 Senior Notes as at December 31, 2014 was $1,114 million (December 2013: Nil). For the year ending December 31, 2014, $17 million in interest expense related to the September 2014 Senior Notes has been recorded in the consolidated statement of income.

Other Debt

In 2013, the Company borrowed $109 million from Bank of America ("**2013 BOFA Loan**") which carries an interest rate of LIBOR + 1.5% and matures in November 2016, with interest payments due biannually. As at December 31, 2014, the principal outstanding was $72.6 million (December 31, 2013: $109 million). The 2013 BOFA loan is subject to covenants that require the Company to maintain: (1) an interest coverage ratio of greater than 2.5; and (2) a debt-to-EBITDA ratio of less than 3.5. The Company was compliant with the covenants during the period.

On April 4, 2014, the Company borrowed $75 million from Banco Latinoamericano de Comercio Exterior ("**Bladex Facility**"). The Bladex Facility carries an interest rate of LIBOR + 2.70% and the principal is repaid in equal parts on October 2016, April and October 2017, and April 2018 with interest payments on the outstanding principal due biannually. As at December 31, 2014, the principal outstanding was $75 million. The Bladex Facility is subject to covenants that require the Company to maintain (1) interest coverage ratio of greater than 2.5; (2) a debt-to-EBITDA ratio of less than 3.5, and (3) net worth of greater than $1,000 million. The Company was compliant with these covenants in 2014.

On April 8, 2014 the Company borrowed $250 million from HSBC bank USA ("**HSBC Facility**"). The HSBC Facility carries an interest rate of LIBOR plus 2.75%, and the principal is to be repaid as follow: 15% in April 2016, 25% in October 2016 and 60% in April 2017, with interest payments on the outstanding principal due quarterly. At December 31, 2014 the principal amount outstanding was $250 million; $37.5 million to be repaid in 2016 and $212.5 million to be repaid in 2017. The HSBC facility is subject to covenants that require the Company to maintain (1) interest coverage ratio of greater than 2.5; (2) a debt to EBITDA ratio of less than 3.5 and (3) net worth of greater than $1,000 million. The Company was compliant with these covenants in 2014.

During April 2014, the Company entered into a new revolving credit facility of $1 billion denominated in U.S. dollars with a syndicate of international and Colombian banks, which is fully committed to its maturity in 2017. The $400 million U.S. dollar credit facility and the $300 million Colombian peso facility that the Company had previously were duly cancelled. The new U.S. dollar revolving credit facility has an interest rate determined in accordance with the ratings assigned to the Company's senior notes; based on the credit rating as of December 31, 2014, the interest rate was LIBOR + 2.25%. In addition, the Company is required to pay commitment fees of 0.95% on the unutilized portion under the revolving credit facility. As of December 31, 2014 the Company has drawn down Nil on the revolving credit facility.

(U.S. $ thousands, except share and per share amounts or unless otherwise stated)

Short-term Working Capital Loans and Facilities

Working capital facilities that are denominated in U.S. dollars have interest rates ranging from LIBOR +0.95% to LIBOR + 1.5%. The total balance outstanding on these working capital facilities was $185 million as at December 31, 2014 (December 31, 2013: $270 million).

During October 2014, the Company entered into a number of working capital facilities that are denominated in Colombian Pesos and have interest rates ranging from 5.9% to 6%. The total balance outstanding on these working capital facilities was $100 million (COP$240,000 million).

Petrominerales debentures

As part of the acquisition of Petrominerales, the Company assumed two convertible debentures (the 2016 and 2017 debentures) totaling $538 million. The Company provided notice to the holders of these convertible debentures for redemption at fair value plus accrued interest, as provided for in the indentures of the two debentures. As of December 31, 2013, the balance of debentures that had not yet been redeemed was $283 million. The outstanding balance was repaid in full in January 2014.

22. Finance Lease

The Company has entered into two power-generation arrangements to supply electricity for three of its oil fields in Colombia until June 2016 and August 2021. In addition, the Company has lease and take-or-pay arrangements for airplanes and IT equipment that are accounted for as finance leases. The arrangements have been accounted for as finance leases with an average effective interest rate of 12.85%. The Company's minimum lease payments are as follows:

	As at December 31 2014	As at December 31 2013
Within 1 year	$ 23,346	$ 25,843
Year 2	14,567	20,447
Year 3	6,790	14,657
Year 4	6,778	6,793
Year 5	6,778	6,778
Thereafter	11,310	18,491
Total minimum lease payments	69,569	93,009
Amounts representing interest	(18,766)	(27,222)
Present value of net minimum lease payments	$ 50,803	$ 65,787
Current portion	$ 17,202	$ 17,807
Non-current portion	33,601	47,980
Total obligations under finance lease	$ 50,803	$ 65,787

For the year ending December 31, 2014, interest expense of $8.4 million (2013: $11.5 million) was incurred on these finance leases.

(U.S. $ thousands, except share and per share amounts or unless otherwise stated)

23. Asset retirement Obligation

The Company makes full provision for the future cost of decommissioning oil production facilities on a discounted basis upon the installation of those facilities.

As at December 31, 2012	$	91,349
Arising during the year		44,246
Acquisitions (Note 4)		63,578
Accretion expense		2,403
As at December 31, 2013		201,576
Arising during the year		29,165
Acquisitions		15,799
Accretion expense		11,257
As at December 31, 2014	$	257,797

The asset retirement obligation represents the present value of decommissioning costs relating to oil and gas properties, of which up to $323 million are expected to be incurred (December 31, 2013: $238 million). Cash flows are expected to occur in a variety of countries and currencies, and the discount rates and inflation rates are chosen in association with the currencies in which the liabilities are expected to be settled. The future decommissioning costs are discounted using the risk-free rate between 3.61% and 4.43% and an inflation rate of 1.3% for cash flows expected to be settled in USD, and a risk-free rate between 5.99% and 8.99% and an inflation rate of 3.65% for cash flows expected to be settled in COP (December 31, 2013: USD Risk Free Rate of 3.41%-5.38% with inflation of 1.5%, COP Risk Free Rate 6.03%-8.35% with inflation of 1.94%) to arrive at the present value. Assumptions, based on the current economic environment, have been made which management believe are a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual decommissioning costs will ultimately depend upon future market prices for the necessary decommissioning expenditures, which will reflect market conditions at the relevant time. Furthermore, the timing of decommissioning is likely to depend on when the fields cease to produce at economically viable rates. This in turn will depend upon future oil and gas prices, which are inherently uncertain.

24. Contingencies and Commitments

A summary of the Company's commitments, undiscounted and by calendar year, is presented below:

	2015	2016	2017	2018	2019	to 2020	Total
LNG Project	$ 59,088	$ 59,088	$ 59,088	$ 59,088	$ 59,088	$ 590,877	$ 886,317
ODL Take or Pay Agreement	23,992	33,355	18,725	18,725	18,725	9,363	122,885
Minimum work commitments	138,589	73,816	73,534	73,804	6,771	-	366,514
OBC Take or Pay Agreement	163,780	164,228	163,780	163,780	163,780	914,922	1,734,270
Operating leases	887,073	278,852	126,439	103,215	96,083	740,447	2,232,109
Transportation and processing commitment	48,183	48,183	48,183	42,991	39,843	175,991	403,374
Purchase Genser Power	45,396	23,750	-	-	-	-	69,146
Community obligations	14,419	-	-	-	-	-	14,419
Total	$ 1,380,520	$ 681,272	$ 489,749	$ 461,603	$ 384,290	$ 2,431,600	$ 5,829,034

The Company has various guarantees in place in the normal course of business. As at December 31, 2014, the Company has issued letters of credit and guarantees for exploration and operational commitments for a total of $434 million (December 31, 2013: $368 million).

Association contracts

Certain association contracts signed before 2003 with Ecopetrol include clauses in which Ecopetrol may commence participating in the operation of new discoveries made by the Company at any time, without prejudice to the Company's right to be reimbursed for the investments made on their sole account and risk (back-in right). The contract provides that if Ecopetrol decides to declare the commerciality of the field and participate in the commercial phase of the association contract, the Company shall have the right to be reimbursed for 200% of the total costs incurred during the exploration phase of the contract. Once the reimbursement has been made, Ecopetrol is entitled to acquire a 50% share of the oil production of the fields. No back-in rights were exercised as at December 31, 2014.

Contingencies

The Company is involved in various claims and litigation arising in the normal course of business. Because the outcome of these matters is uncertain, there can be no assurance that such matters will be resolved in the Company's favour. The Company does not currently believe that the outcome of adverse decisions in any pending or threatened proceedings related to these and other matters or any amount which it may be required to pay by reason thereof would have a material impact on its financial position, results of operations or cash flows.

Tax Review in Colombia

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

The DIAN has officially reassessed several value-added tax ("**IVA**") declarations on the basis that the volume of oil produced and used for internal consumption at certain fields in Colombia should have been subject to IVA. As at December 31, 2014, the amounts reassessed, including interest and penalties, is estimated at $52.3 million. The Company disagrees with the DIAN's reassessment and official appeals have been initiated. Several other taxation periods back to 2011 with respect to IVA on field oil consumption are also currently under review by the DIAN. For the periods that are under review, if the DIAN's views were to prevail, the Company estimates that the IVA, including interest and penalties, could range between $20 million and $51.8 million. The Company continues to utilize oil produced for internal consumption, which is an accepted practice for the oil industry in Colombia.

The DIAN is also reviewing certain income tax deductions with respect to the special tax benefit for qualifying petroleum assets as well as other exploration expenditures. As at December 31, 2014, the DIAN has reassessed $67.6 million of tax owing, including estimated interest and penalties, with respect to the denied deductions.

As of December 31, 2014, the Company believes that the disagreements with the DIAN related to IVA and denied income tax deductions will be resolved in favour of the Company. As a result, no provision has been made in the financial statements.

High Price Royalty in Colombia

The Company has certain exploration contracts acquired through business acquisitions where there existed outstanding disagreements with the Agencia Nacional de Hidrocarburos (National Hydrocarbon Agency or "**ANH**" of Colombia) relating to the interpretation of the high-price participation clause. These contracts require high-price participation payments to be paid to the ANH once an exploitation area within a contracted area has cumulatively produced five million or more barrels of oil. The disagreement is around whether the exploitation areas under these contracts should be determined individually or combined with other exploration areas within the same contracted area, for the purpose of determining the five million barrel threshold. The ANH has interpreted that the high-price participation should be calculated on a combined basis.

The Company disagrees with the ANH's interpretation, and asserts that in accordance with the exploration contracts, the five million barrel threshold should be applied on each of the exploitation areas within a contracted area. The Company has several contracts that are subject to the ANH high-price participation. One of these contracts is the Corcel Block, which was acquired as part of the Petrominerales acquisition and the only one for which an arbitration process has been initiated. However, the arbitration process for Corcel was under suspension at the time the Company acquired Petrominerales. The amount under arbitration was approximately $150 million plus related interest of $70 million as of December 31, 2014. The Company also disagrees with the interest rate that the ANH has used in calculating the interest cost. The Company asserts that since the high-price participation is denominated in the U.S. dollar, the contract requires the interest rate to be three-month LIBOR plus 4%, whereas the ANH has applied the highest legally authorized interest rate on Colombian Peso liabilities, which was over 20%. An amount under discussion with the ANH for another contract is approximately $90 million plus interest.

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

Natural gas supply agreements

Since the discovery of the La Creciente field in early 2007, the Company has focused on developing a commercial strategy to service the domestic market while concurrently exploring export opportunities. The Company has entered into take-or-pay contracts and interruptible contracts totaling 60MMBtu per day.

(U.S. $ thousands, except share and per share amounts or unless otherwise stated)

25. Issued Capital

(a) Authorized, issued and fully paid common shares

The Company has an authorized capital of an unlimited number of common shares with no par value.

Continuity schedule of share capital is as follows:

	Number of Shares		Amount
As at December 31, 2012	318,369,088	$	2,623,993
Issued on exercise of options	5,954,523		56,900
Issued on conversion of convertible debentures	192,941		3,695
Repurchase of shares	(2,012,800)		(16,768)
As at December 31, 2013	322,503,752		2,667,820
Issued on exercise of options	2,647,900		49,748
Repurchase of shares	(11,896,605)		(107,083)
As at December 31, 2014	313,255,047	$	2,610,485

(b) Stock options

The Company has established a “rolling” Stock Option Plan (the “**Plan**”) in compliance with the applicable TSX policy for granting stock options. Under the Plan, the maximum number of shares reserved for issuance may not exceed 10% of the total number of issued and outstanding common shares. The exercise price of each option shall not be less than the market price (as defined under the TSX Company Manual) of the Company’s stock at the date of grant.
A summary of the changes in stock options is presented below:

	Number of options outstanding		Weighted average exercise price (C$)
As at December 31, 2012	24,903,965	$	16.99
Granted during the year	7,213,500		23.29
Expired during the year	(245,250)		24.28
Exercised during the year	(5,954,523)		6.85
As at December 31, 2013	25,917,692		21.01
Exercised during the period	(2,647,900)		13.45
Cancelled during the year	(101,000)		23.38
As at December 31, 2014	23,168,792	$	21.86

The weighted average share price at the time when the stock options were exercised during the year ending December 31, 2014 was C$13.47 (2013 – C$22.50).

(U.S. $ thousands, except share and per share amounts or unless otherwise stated)

The following table summarizes information about the stock options outstanding and exercisable:

Outstanding & exercisable		Exercise price (C$)	Expiry date	Remaining contractual life (years)
116,667	$	6.30	July 10, 2017	2.53
3,632,300		14.08	February 9, 2015	0.11
3,000		19.00	March 16, 2015	0.21
2,708,875		20.56	April 23, 2015	0.31
10,000		20.09	May 18, 2015	0.38
5,000		24.41	June 23, 2015	0.48
34,500		27.58	September 29, 2015	0.75
250,000		34.43	February 2, 2016	1.09
3,747,250		25.76	March 16, 2016	1.21
53,000		28.01	May 3, 2016	1.34
12,000		25.59	May 26, 2016	1.40
160,000		22.05	September 27, 2016	1.74
5,000		24.68	October 24, 2016	1.82
5,259,700		22.75	January 18, 2017	2.05
69,000		29.10	March 30, 2017	2.25
6,212,000		23.26	January 28, 2018	3.08
747,500		24.32	February 8, 2018	3.11
143,000		19.21	November 15, 2018	3.88
23,168,792	$	21.86		1.71

No stock options were granted to employees, directors or contractors during 2014.

(c) Deferred share units

The Company established the Deferred Share Unit Plan (the "**DSU Plan**") for its non-employee directors during 2012 and for its employees in July 2014. Each DSU represents the right to receive a cash payment on retirement or termination equal to the volume-weighted average market price of the Company's shares at the time of surrender. Cash dividends paid by the Company are credited as additional DSUs. The fair value of the DSUs granted and the changes in their fair value during the period were recognized as share-based compensation on the Consolidated Statement of Income with a corresponding amount recorded in accounts payable and accrued liabilities on the Consolidated Statement of Financial Position.

The following table summarizes information about the DSU's outstanding:

	Number of DSUs outstanding		Amount
As at December 31, 2012	145,563	$	3,326
Granted during the year	195,395		3,726
Fair value adjustment for the year	-		(891)
As at December 31, 2013	340,958		6,161
Granted during the year	2,151,955		34,727
Settled during the year	(5,527)		(37)
Fair value adjustment for the year	-		(23,776)
As at December 31, 2014	2,487,386	$	17,075

The December 31, 2014 liability is based on a fair value of $6.86 per DSU approximating the Company's closing share price in U.S. dollars.

For the year ending December 31, 2014, $10.2 million (December 31, 2013 $2.8 million) were recorded as share-based compensation expense in respect to DSUs granted during the period and the change in fair value.

26. Related-party Transactions

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

a) In June 2007, the Company entered into a 5-year lease agreement with Blue Pacific Assets Corp. ("**Blue Pacific**") for administrative office space in one of its Bogota, Colombia locations. Monthly rent expense of $87 thousand was payable to Blue Pacific under this agreement. Three directors and officers, as well as executive officer of the Company control, or provide investment advice to the holders of, 76% of the shares of Blue Pacific. During 2011, the lease was amended to include additional space in Bogota for a 10-year term with a monthly rent of $0.5 million and assignment of the lessor to an entity controlled by Blue Pacific. Effective January 1, 2014, Blue Pacific ceased to be a party to the lease agreements upon assigning the rights under these agreements to a third party that is not related to the Company. The Company also has a lease agreement for an office in Caracas, Venezuela for approximately $6 thousand per month. The office space is 50% owned by a family member of an executive officer of the Company.

   Blue Pacific provides the Company with passenger air transport services on an as-needed basis. The Company paid $0.2 million in 2014 for these services (2013: $0.1 million).

b) In October 2012, the Company and Ecopetrol (**"Ecopetrol"**) signed two Build, Own, Manage, and Transfer ("**BOMT**") agreements with Consorcio Genser Power-Proelectrica and its subsidiaries ("**Genser-Proelectrica**") to acquire certain power generation assets for the Rubiales field. Genser-Proelectrica is a joint venture between Promotora de Energia Electrica de Cartagena & Cia S.C.A.E.S.P ("**Proelectrica**") and Genser Power Inc. ("**Genser**") which is 51% owned by Pacific Power Generation Corp. ("**Pacific Power**"). On March 1, 2013, these contracts were assigned to TermoMorichal SAS ("**TermoMorichal**"), the company created to perform the agreements, in which Pacific Power has a 51% indirect interest. Total commitment under the BOMT agreements is $229.7 million over ten years. In April 2013, the Company and Ecopetrol entered into another agreement with Genser-Proelectrica to acquire additional assets for a total commitment of $57 million over ten years. At the end of the Rubiales Association Contract in 2016, the Company's obligations along with the power generation assets will be transferred to Ecopetrol. During the year ended December 31, 2014, those assets were under construction and the Company paid cash advances of $7.6 million, which were recorded in other assets (2013:$9.4 million). The Company has accounts payable of $5.9 million (December 2013:$0.4 million) due to Genser-Proelectrica. In addition, on May 5, 2014, a subsidiary of the Company provided a guarantee in favour of XM Compania de Expertos en Mercados S.A. on behalf of Proelectrica guaranteeing obligations pursuant to an energy supply agreement in the aggregate amount of approximately $16.7 million. The Company has a 24.9% indirect interest in Proelectrica. In December 2014, the Company entered into a new contract with Genser, related to the operation and maintenance of the power generation facility located in the Sabanero field.

   In October 2013, the Company entered into connection agreements and energy supply agreements with Proeléctrica for the supply of power to the oil fields in the Llanos basin. The connection agreements authorize Meta and Agro Cascada S.A.S. to use the connection assets of Petroelectrica for power supply at the Quifa and Rubiales fields. The agreement commenced on November 1, 2013 and operates for 13 years. During period ended December 31, 2014, the Company made payments of $69.1 million (2013: Nil) under this agreement.

   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. The Company recorded revenues of $13.4 million (2013: $31.5 million), from such agreements. The Company has trade accounts receivables of $7.5 million (2013:$0.2 million), from Proelectrica.

   Under the energy supply agreements, Proelectrica provides electricity to the Company for power supply at the Quifa and Rubiales fields, with payments to be calculated monthly on a demand-and-deliver basis. The term of the agreement is until December 31, 2026. The aggregate estimated energy supply agreement is for 1.5 million kilowatts.

c) In December 2014, the Company and TermoMorichal entered into an agreement for the construction, procurement, testing and operation of the synchronized load sharing system at the Rubiales field which will be executed in 2015. TermoMorichal is 51% owned by Proelectrica and 49% owned by Genser.

d) As at December 31, 2014, the Company had trade accounts receivable of $7.5 million (December 31, 2013: $0.2 million) from Proelectrica, in which the Company has a 24.9% 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 $13.4 million for the year ending December 31, 2014 (2013: $31.5 million).

e) During the year ending December 31, 2014, the Company paid $7.8 million (2013: $34 million) to Transportadora Del Meta S.A.S. ("**Transmeta**") in crude oil transportation costs. In addition, the Company has accounts receivable of $1.1 million (2013: $1.5 million) from Transmeta and accounts payable of $0.9 million (2013: $1.7 million) to Transmeta as at December 31, 2014. Transmeta is controlled by a director of the Company.

f) As at December 31, 2014, loans receivable from related parties in the aggregate amount of $856 thousand (December 31, 2013: $452 thousand) are due from one director and six officers (2013: two directors and six officers) of the Company. The loans are non-interest bearing and payable in equal monthly payments over a 48-month terms.

g) The Company has entered into aircraft transportation agreements with Helicopteros Nacionales de Colombia S.A.S. ("**Helicol**"), a company controlled by a director of the Company. During 2014, the Company paid $15.4 million (2013: $14.9 million) in fees as set out under the transportation agreements. As at December 31, 2014, the Company had accounts payable of $2.8 million to Helicol (December 31, 2013: $2.5 million).

h) During the year ending December 31, 2014, the Company paid $165 million to ODL (2013: $122.6 million) for crude oil transport services under the pipeline take-or-pay agreement, and has accounts payable of Nil to ODL as at December 31, 2014 (2013: $7.4 million). In addition, the Company received $2.6 million from ODL during the year ending December 31, 2014 (2013: $1.2 million) with respect to certain administrative services, rental equipment and machinery. The Company has accounts receivable from ODL as at December 31, 2014 of $0.4 million (2013: $0.1 million).

i) During the year ending, December 31, 2014, the Company paid $174.4 million to Oleoducto Bicentenario de Colombia S.A.S. ("**Bicentenario**") (2013: $97.9 million), a pipeline company in which the Company has a 27.6% interest, for crude oil transport services under the pipeline take-or-pay agreement. As at December 31, 2014 the balance of loans outstanding to Bicentenario under the agreement detailed in Note 18 (other assets), is $42 million (December 31, 2013: $42 million). Interest income of $2.7 million was recognized during the year ending December 31, 2014 (2013: $2.2 million). Interest of $5.9 million was paid on the loans during the year ended December 31, 2014. The Company has received $0.6 million during the year ending December 31, 2014 (2013: $0.7 million) with respect to certain administrative services, rental equipment and machinery. The Company has advanced $87.7 million as at December 31, 2014 (December 31, 2013: $90 million) to Bicentenario as a prepayment of transport tariff, which is amortized against the barrels transported. As of December 31, 2014, the Company has an additional accounts receivable from Bicentenario of $20 million representing the return of a portion of the tariffs paid during the period of disrupted pipeline service.

j) The Company has established a charitable foundation in Colombia, Pacific Rubiales Foundation, with the objective of advancing social and community development projects in the country. During 2014, the Company contributed $43.7 million to this foundation (2013: $68 million). The Company has advances of $5.0 million (2013: $0.4 million), as the contribution is recognized when the funds are committed and/or spent. As at December 31, 2014 the Company had accounts payable of $8.7 million (2013: $0.5 million).

   The Company has established a charitable foundation in Colombia called the Foundation for Social Development of Available Energy (FUDES) previously known as Vichituni Foundation (acquired as part of the Petrominerales acquisition), with the objective of advancing social and community development projects in Colombia. During 2014, the Company contributed $0.2 million to this foundation (2013: $0.2 million).

k) In October 2012, the Company entered into an agreement with Pacific Coal, Blue Advanced Colloidal Fuels Corp. ("**Blue ACF**"), Alpha Ventures Finance Inc. ("**Alpha**"), and an unrelated party whereby the Company acquired from Pacific Coal a right to a 5% equity interest in Blue ACF for cash consideration of $5 million. Blue ACF is a company engaged in developing colloidal fuels, with its majority shareholder being Alpha, which is controlled by Blue Pacific. As part of the purchase, Pacific Coal has also assigned to the Company the right to acquire up to an additional 5% equity interest in Blue ACF for additional investment of up to $5 million. The Company currently has a 13.28% equity interest in Pacific Coal.

l) As at December 31, 2014, the Company has demand loans receivable from Pacific Infrastructure Inc. ("**PII**") in the amount of $71.4 million (December 31, 2013: Nil). The loans are guaranteed by PII's pipeline project and bear interest that ranges from LIBOR + 2% to 7% per annum. The Company owns 41.65% of PII. In addition, during the year ending December 31, 2014, the Company has received $1.3 million (2013: Nil) from PII with respect to contract fees for advisory services and technical assistance in pipeline construction of "Oleoducto del Caribe". In addition, the Company has accounts receivable of $1.0 million (2013:$1.0 million) from Pacific Infrastructure Inc. Colombia.

(U.S. $ thousands, except share and per share amounts or unless otherwise stated)

In December 2012, the Company entered into a take-or-pay agreement with Sociedad Puerto Bahia, a company that is wholly owned by Pacific Infrastructure. Pursuant to the terms of the agreement, Sociedad Puerto Bahia will provide for the storage, transfer, loading and unloading of hydrocarbons at its port facilities. The contract term will commence in 2014 and run for seven years, renewable in one-year increments thereafter. These contracts may indirectly benefit Blue Pacific and other unrelated minority shareholders of Pacific Infrastructure.

The Company's key management personnel include its Board of Directors and the executive officers.

	As at December 31	
	2014	2013
Short-term employee benefits	$ 30,597	$ 21,578
Post-employment pension and medical benefits	2,568	5,216
Share-based payments	26,697	30,926
	$ 59,862	$ 57,720

27. Financial Assets and Liabilities

Overview of Risk Management

The Company explores, develops and produces oil and gas and enters into contracts to sell its oil and gas production, and to manage its market risk associated with commodity markets, and notably its exposure to WTI pricing. The Company also enters into supply agreements and purchases goods and services denominated in non-functional currencies such as Colombian Pesos for its Colombian-based activities. These activities expose the Company to market risk from changes in commodity prices, foreign exchange rates, interest rates, and credit and liquidity risks that affect the Company's earnings and the value of associated financial instruments it holds.

The Company seeks to minimize the effects of these risks by using derivative financial instruments to hedge its risk exposures. The Company's strategy, policies and controls are designed to ensure that the risks it assumes comply with the Company's internal objectives and its risk tolerance. It is the Company's policy that no speculative trading in derivatives shall be undertaken.

When possible and cost effective, the Company applies hedge accounting. Hedging does not guard against all risks and is not always effective. The Company could recognize financial losses as a result of volatility in the market values of these contracts.

Risks Associated with Financial Assets and Liabilities

(a) Market Risks

Commodity Price Risk

Commodity price risk is the risk that the cash flows and operations of the Company will fluctuate as a result of changes in commodity prices associated with WTI pricing. Significant changes in commodity prices can also impact the Company's ability to raise capital or obtain additional debt financing. Commodity prices for crude oil are impacted by world economic events that dictate the levels of supply and demand. While the Company does not engage in speculative financial instrument trading, it may enter into various hedging strategies such as costless collars, swaps, and forwards to minimize its commodity price risk exposure to WTI pricing.

Foreign Currency Risk

Foreign exchange risk arises from changes in foreign exchange rates that may affect the fair value or future cash flows of the Company's financial assets or liabilities. As the Company operates primarily in Colombia, fluctuations in the exchange rate between the Colombian peso and the U.S. dollar can have a significant effect on the Company's reported results.

To mitigate the exposure to the fluctuating COP/USD exchange rate associated with operating and general and administrative expenses incurred in COP, the Company may enter into various hedging strategies such as currency costless collars, swaps and forwards. In addition, the Company may also enter into currency derivatives to manage the foreign exchange risk on financial assets that are denominated in the Canadian dollar.

The Company's foreign exchange gain/loss primarily includes unrealized foreign exchange gains and losses on the translation of COP-denominated risk management assets and liabilities held in Colombia.

(U.S. $ thousands, except share and per share amounts or unless otherwise stated)

Interest Rate Risk

The Company is exposed to interest rate risk on its outstanding variable-rate revolving credit borrowings due to fluctuations in market interest rates. The Company monitors its exposure to interest rates on an ongoing basis.

Sensitivity Analysis on Market Risks

The details below summarize the sensitivities of the Company's risk management positions to fluctuations in the underlying benchmark prices, with all other variables held constant. Fluctuations in the underlying benchmarks could have resulted in unrealized gains or losses impacting pre-tax net earnings as follows:

- A $1 change in the WTI price would have resulted in a $64 million change in revenue as at December 31, 2014 (2013: $3 million).
- A 10% change in the COP/USD exchange rate would have resulted in a $8.1 million change in foreign exchange gain/loss as at December 31, 2014 (2013: $0.2 million).
- A 1% (100 basis points) change in the interest rate would increase or decrease interest expense by $7.9 million (2013: $4.0 million).

(b) Credit Risk

Credit risk arises from the potential that the Company may incur a loss if a counterparty to a financial instrument fails to meet its obligations in accordance with agreed terms. The Company actively limits the total exposure to individual client counterparties and holds a trade credit insurance policy for indemnification for losses from non-collection of trade receivables.

		As at December 31 2014		As December 31 2013
Trade receivable	$	224,871	$	444,878
Advances / deposits		108,828		164,348
Recoverable VAT and Withholding Tax		157,776		140,889
Other receivables		163,874		45,165
Receivable from joint arrangements		252,745		236,761
Allowance for doubtful accounts		(3,849)		(969)
	$	904,245	$	1,031,072
Loan and advance to Bicentenario (non-current, Note 18)		129,963		41,992
	$	1,034,208	$	1,073,064

As at December 31, 2014 three of the Company's customers had accounts receivable that were greater than 10% of total trade accounts receivable. The Company's credit exposure to these customers was $102 million, $29 million and $25 million, or 46%, 13% and 11% of trade accounts receivable respectively (December 30, 2013: three customers at $95.4 million, $90.6 million and $57.5 million or 21%, 20% and 13% of trade accounts receivable). Revenues from these customers for 2014 were $156 million, $29 million and $21 million or 17%, 3% and 2% of revenue (December 31, 2013: $95.3 million, $90.6 million and $33.8 million or 2%, 2% and 1% of revenue), respectively.

The majority of the recoverable VAT and Withholding Tax is due to the Colombian and Peruvian tax authorities.

The majority of the receivables from joint arrangements are due from Ecopetrol.

Included in other receivables are short-term loans receivable from PII of $71 million. The loans are guaranteed by PII's pipeline project and bear interest that ranges from LIBOR + 2% to 7% per annum.

The Company does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets, except for the loan with PII.

(U.S. $ thousands, except share and per share amounts or unless otherwise stated)

(c) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's process for managing liquidity risk includes ensuring, to the extent possible, that it will have sufficient liquidity to meet its liabilities when they become due. The Company prepares annual capital expenditure budgets which are monitored and updated as required. In addition, the Company requires authorizations for expenditures on projects to assist with the management of capital. As at December 31, 2014, the Company had available $1 billion of revolving credit. The following are the contractual maturities of non-derivative financial liabilities (undiscounted):

Financial liability due in	2015	2016	2017	2018	2019	Subsequent to 2020	Total
Accounts payable and accrued liabilities	$ 1,918,969	$ -	$ -	$ -	$ -	$ -	$ 1,918,969
Long-term debt and bank indebtedness	321,655	73,833	212,500	212,500	75,000	4,104,200	4,999,688
Obligations under finance lease (Note 22)	23,346	14,567	6,790	6,778	6,778	11,310	69,569
Total	$ 2,263,970	$ 88,400	$ 219,290	$ 219,278	$ 81,778	$ 4,115,510	$ 6,988,226

Accounts payable and accrual liabilities consisted of the following as at December 31, 2014 and 2013:

	Year ended December 31 2014	2013
Trade and other payables	$ 600,404	$ 463,701
Accrued liabilities	844,500	818,363
Payables - JV partners	45,409	4,280
Advances, warranties, and deposits	127,535	114,982
Witholding taxes and other provisions	301,121	317,353
	$ 1,918,969	$ 1,718,679

(d) Hedge Accounting and Risk Management Contracts

The terms and conditions of the hedging instruments and expected settlement periods are as follows for instruments outstanding as at:

December 31, 2014

Type of Instrument	Term	Notional Amount / Volume (bbl)	Floor/ Ceiling or strike price	Benchmark	Carrying amount Assets	Liabilities
Subject to Hedge Accounting:						
Foreign Currency Risk						
Zero-cost collars	January to December 2015	240,000	2070-2251 COP/$	COP/USD	$ -	$ (26,672)
Zero-cost collars	January to June 2015	180,000	2020-2180 COP/$	COP/USD	-	(17,984)
Commodities Price Risk						
Zero-cost collars	January to March 2015	600,000	80 / 112	WTI	16,017	-
Zero-cost collars	January to June 2015	900,000	80 / 111,50	WTI	22,852	-
Total					**$ 38,869**	**$ (44,656)**
Not Subject to Hedge Accounting:						
Foreign Currency Risk						
Zero - Cost Collar	January 2015 to December 2015	150,000	1900-2050 COP/$	COP/USD	$ -	$ (23,409)
Commodities Price Risk						
Zero-cost collars	January to December 2015	1,200,000	75 / 90	BRENT	16,999	-
Zero-cost collars	January to June 2015	3,000,000	75 / 88-89,15	WTI	3,738	-
Total					**$ 20,737**	**$ (23,409)**
Total December 31, 2014					**$ 59,606**	**$ (68,065)**

(U.S. $ thousands, except share and per share amounts or unless otherwise stated)

December 31, 2013

Type of Instrument	Term	Notional Amount/ Volume (bbl)	Floor/ Ceiling or strike price	Benchmark	Carrying amount Assets	Carrying amount Liabilities
Subject to Hedge Accounting:						
Foreign Currency Risk						
Zero-cost collars	January to December 2014	180,000	1920-2075 COP/$	COP/USD	$ 1,820	$ -
Zero-cost collars	January to December 2014	300,000	1850-2085 COP/$	COP/USD	-	(3,900)
Total					**$ 1,820**	**$ (3,900)**
Not Subject to Hedge Accounting:						
Foreign Currency Risk						
Zero-cost collars	January to May 2014	25,000	1900-1950 COP/$	COP/USD	$ 41	$ -
Forwards	January to February 2014	35,000	1910 COP/$	COP/USD	-	(339)
Zero-cost collars	January 2014	14,000,000	1.06 - 1.07 C$	COP/USD	-	(84)
Commodities Price Risk						
Zero-cost collars	January to September 2014	2,475,000	80/ 106-111	WTI	287	-
Zero-cost collars	January to December 2014	3,107,500	80/ 108-111	WTI	-	(868)
Extendible zero-cost collars (counterparty option)	January to June 2014	3,000,000	80/ 109-110	WTI	-	(1,719)
Total					**$ 328**	**$ (3,010)**
Total December 31, 2013					**$ 2,148**	**$ (6,910)**

Instruments Subject to Hedge Accounting

Hedging Relationship

The Company's hedging strategies for which hedge accounting is applied consists of the following:

- Foreign exchange: From its highly probable forecasted COP expenditures, the Company has identified the foreign exchange fluctuation risk as the hedged item. To mitigate the risk, currency collars were entered into and classified as hedging instruments. The collars used limit the risk of variability in cash flows arising from the fluctuations in the COP to USD exchange rates above and below the specified ranges.

  To determine the effectiveness of the hedging relationship, the Company assesses the critical terms between the hedged item and hedging instruments on a qualitative basis. If mismatches in the terms are noted, a quantitative assessment is used to determine the impact of potential ineffectiveness.

  The sources of ineffectiveness identified in the current foreign exchange hedging strategy relate to differing credit ratings of the counterparties and the duration of the relationship. These sources of ineffectiveness were insignificant for the years ending December 31, 2014 and 2013.

- Commodity price: The Company's forecasted sales are subject to the benchmark price, quality differential, and location differential risk components. As part of the Company's risk management strategy, the benchmark price risk component is hedged, which has historically comprised approximately 94% of the hedged item as a whole. The basis and location risk components are not subject to hedge accounting, as it was not considered economical.

  From its forecasted sales, the Company has identified its WTI price risk as the specific benchmark risk component to be hedged, consistent with the Company's risk management strategy and exposure. The Company utilized commodity price collars as designated hedging instruments to manage related fluctuations in cash flow above or below the specified ranges.

  To determine the effectiveness of the hedging relationship, the Company assesses the critical terms between the hedged item and hedging instruments on a qualitative basis. If mismatches in the terms are noted, a quantitative assessment is used to determine the impact of potential ineffectiveness.

  The sources of ineffectiveness identified in the current commodities hedging strategy relate to differing credit ratings of the counterparties. The sources of ineffectiveness were insignificant for the year ending December 31, 2014.

(U.S. $ thousands, except share and per share amounts or unless otherwise stated)

The following table summarizes PRE's outstanding financial derivative positions subject to hedge accounting:

As at December 31, 2014:

	Hedging Instrument		Hedged Item		
	Line item in the statement of financial position where the hedging instrument is located	**Changes in fair value used for calculating hedge ineffectiveness for 2014**	**Changes in fair value used for calculating hedge ineffectiveness for 2014**	**Cumulative Cash flow hedge reserve for continuing hedges gain/(loss)**	**Cumulative Cash flow hedge reserve for discontinued hedges gain/(loss)**
Cash flow hedges:					
Foreign Currency Risk					
- Zero-cost collars	Risk Management Assets	$ -	$ -	$ -	$ -
- Zero-cost collars	Risk Management Liabilities	(33,988)	(34,216)	(33,978)	-
Commodities Price Risk					
- Zero-cost collars	Risk Management Assets	-	-	-	-
- Zero-cost collars	Risk Management Liabilities	-	-	-	-
		$ (33,988)	$ (34,216)	$ (33,978)	$ -

Impact of Hedging Relationship

The Company excludes changes in fair value relating to the option time value from ineffectiveness assessments of and records these amounts in other comprehensive income, as a cost of hedging. For 2014, this amount was $4.7 million unrealized loss (2013: $4.3 million unrealized gain).

As at December 31, 2014:

	Change in the value of the hedging instrument recognized in OCI gain/(loss)	**Hedge ineffectiveness recognized in profit or loss gain/(loss)**	**Line item in profit or loss (that includes hedge ineffectiveness)**	**Amount reclassified from the cash flow hedge reserve to profit or loss gain/(loss)**	**Line item affected in profit or loss because of the reclassification**
Foreign exchange risk					
- Zero-cost collars	$ (43,276)	$ 3,957	Foreign exchange gain (loss)	$ (8,199)	Production and operating costs
Commodities Price Risk					
- Zero-cost collars	67,720	-	Risk management gain (loss)	28,636	Revenue
	$ 24,444	$ 3,957		$ 20,437	

Instruments Not Subject to Hedge Accounting:

As part of the Company's risk management strategy, derivative financial instruments are used to manage its exposure to its risks in addition to those designated for hedge accounting.

As these instruments have not been designated as hedges, the change in fair value is recorded in profit or loss. For the year ending December 31, 2014, the Company recorded gains of $23 million on commodity price risk management contracts in net earnings (2013: $0.2 million loss). Included in these amounts were $30 million in unrealized gain (2013: $0.2 million unrealized loss) representing the change in the fair value of the derivatives, and realized loss of $7 million (2013: Nil) respectively.

For the year ending December 31, 2014, the Company recorded a foreign exchange loss of $23 million in net earnings on foreign currency risk management contracts. These amounts are unrealized and represent the change in the fair value of the derivatives.

(e) Fair Value

The Company's financial instruments are cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities, risk management assets and liabilities, bank debt, finance lease obligation, debentures and fair value through other comprehensive income investments on the statement of financial position. The carrying value and fair value of these financial instruments are disclosed below by financial instrument category.

(U.S. $ thousands, except share and per share amounts or unless otherwise stated)

	As at December 31, 2014		As at December 31, 2013	
	Carrying value	Fair value	Carrying value	Fair value
Financial Assets				
Financial assets measured at amortized cost				
Cash and cash equivalents	$ 333,754	$ 333,754	$ 632,503	$ 632,503
Restricted cash	15,644	15,644	16,980	16,980
Accounts receivable	904,245	904,245	1,031,072	1,038,162
Bicentenario Loan (Note 18)	41,992	41,992	41,992	41,992
Ocensa Receivable	10,375	10,375	-	-
	$ 1,306,010	$ 1,306,010	$ 1,722,547	$ 1,729,637
Financial assets mandatorily measured at fair value through profit or loss (FVTPL)				
Held-for-trading derivatives that are not designated in hedge accounting relationships	20,737	20,737	328	328
	20,737	20,737	328	328
Financial assets designated as measured at fair value through other comprehensive income (FVTOCI)				
Investments in equity instruments	19,924	19,924	13,998	13,998
	19,924	19,924	13,998	13,998
Derivative instruments in designated hedge accounting relationships	38,869	38,869	1,820	1,820
	38,869	38,869	1,820	1,820
	$ 1,385,540	$ 1,385,540	$ 1,738,693	$ 1,745,783
Financial Liabilities				
Financial liabilities measured at amortized cost				
Accounts payable and accrued liabilities	$ (1,918,969)	$ (1,918,969)	$ (1,718,679)	$ (1,718,679)
Long-term debt	(673,925)	(680,446)	(1,136,227)	(1,140,535)
Senior Notes (1)	(3,979,924)	(5,014,365)	(3,235,584)	(3,323,242)
Obligations under finance lease (see Note 22)	(50,803)	(64,006)	(65,787)	(80,899)
	(6,623,621)	(7,677,787)	(6,156,277)	(6,263,355)
Financial liabilities measured at fair value through profit or loss (FVTPL)				
Held-for-trading derivatives that are not designated in hedge accounting relationships	(23,409)	(23,409)	(3,010)	(3,010)
	(23,409)	(23,409)	(3,010)	(3,010)
Derivative instruments in designated hedge accounting relationships	(44,656)	(44,656)	(3,900)	(3,900)
	(44,656)	(44,656)	(3,900)	(3,900)
	$ (6,691,686)	$ (7,745,852)	$ (6,163,187)	$ (6,270,265)

(1) Total fair value of the various Senior Notes is estimated using their last traded prices as at December 31, 2014.

When drawn, bank debt bears interest at a floating rate; accordingly, the fair value approximates the carrying value.

Due to the short-term nature of cash and cash equivalents, accounts receivable and other current assets and accounts payable and accrued liabilities, their carrying values approximate their fair values.

The following table summarizes the Company's financial instruments that are carried or disclosed at fair value in accordance with the classification of fair value input hierarchy in *IFRS 7 Financial Instruments - Disclosures*.

(U.S. $ thousands, except share and per share amounts or unless otherwise stated)

December 31, 2014

	Quoted prices in active markets Level 1	Significant Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total
Financial assets at Fair Value				
Held for trading derivatives that are not designated in hedge accounting relationships	-	20,737	-	20,737
Derivative instruments in designated hedge accounting relationships	-	38,869	-	38,869
Financial assets at FVTOCI				
Investments in equity instruments	13,774	-	6,150	19,924
Other Assets				
Loan to Bicentenario	-	41,992	-	41,992
OCENSA receivable	-	10,375	-	10,375
Financial liabilities at Fair Value				
Held for trading derivatives that are not designated in hedge accounting relationships	-	(23,409)	-	(23,409)
Derivative instruments in designated hedge accounting relationships	-	(44,656)	-	(44,656)
Other liabilities				
Long-term debt	-	(680,446)	-	(680,446)
Senior notes	(5,014,365)	-	-	(5,014,365)
Obligations under finance lease	-	(64,006)	-	(64,006)

December 31, 2013

	Quoted prices in active markets Level 1	Significant Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total
Financial assets at Fair Value				
Held for trading derivatives that are not designated in hedge accounting relationships	-	328	-	328
Derivative instruments in designated hedge accounting relationships	-	1,820	-	1,820
Financial assets at FVTOCI				
Investments in equity instruments	1,966	-	11,924	13,890
Other Assets				
Loan to Bicentenario	-	41,992	-	41,992
Financial liabilities at Fair Value				
Held for trading derivatives that are not designated in hedge accounting relationships	-	(3,010)	-	(3,010)
Derivative instruments in designated hedge accounting relationships	-	(3,900)	-	(3,900)
Other liabilities				
Long-term debt	-	(1,140,535)	-	(1,140,535)
Senior notes	(3,323,242)	-	-	(3,323,242)
Obligations under finance lease	-	(80,899)	-	(80,899)

The Company uses Level 1 inputs, being the last quoted price of the traded investments, to measure the fair value of its financial assets at FVTOCI, with the exception of certain investments that do not have an observable market.

(U.S. $ thousands, except share and per share amounts or unless otherwise stated)

The Company uses Level 2 inputs to measure the fair value of its risk management contracts. The fair values of these contracts are estimated using internal discounted cash flows based upon forward prices and quotes obtained from counterparties to the contracts, taking into account the credit worthiness of those counterparties or the Company's credit rating when applicable.

The Company uses Level 3 inputs to measure the fair value of certain investments that do not have an active market.

Valuation Techniques

The foreign currency forward contracts are measured based on observable spot exchange rates, and the yield curves of the respective currencies, as well as the currency basis spreads between the respective currencies. The credit risks associated with the counterparties and the Company are estimated based on observable benchmark risk spreads.

Commodity risk management contracts are measured at observable spot and forward WTI prices.

Investment in unquoted ordinary shares that have no observable market data are valued at cost.

(f) Capital management

The Company's objectives when managing capital are: (i) to maintain a flexible capital structure, which optimizes the cost of capital at acceptable risk; and (ii) to maintain investor, creditor and market confidence to sustain the future development of the business.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its underlying assets. To maintain or adjust the capital structure, the Company may from time to time issue shares, raise debt and/or adjust its capital spending to manage its current and projected debt levels.

The Company monitors capital based on the following non-standardized IFRS measures: current and projected ratios of debt to cash flow from operations and debt to capital employed. The Company's objective, which is currently met, is to maintain a debt to cash flow from operations ratio of less than three times. The ratio may increase at certain times as a result of acquisitions. To facilitate the management of this ratio, the Company prepares annual budgets, which are updated depending on varying factors such as general market conditions and successful capital deployment. The Company's share capital is not subject to external restrictions.

There were no changes in the Company's approach to capital management from the previous year.

	As at December 31	
	2014	2013
Equity attributable to equity holders of the parent	$ 2,467,637	$ 4,195,574
Long-term debt	4,332,194	3,818,240
Working capital deficit	812,758	156,718
	$ 7,612,589	$ 8,170,532

28. Supplemental Disclosure on Cash Flows

Changes in non-cash working capital are as follows:

	Year ended December 31	
	2014	2013
Decreased (Increase) in accounts receivables	$ 137,014	$ (192,700)
(Increase) in income taxes receivable	(97,164)	(65,410)
Decrease in accounts payable and accrued liabilities	150,471	88,037
Decreased in inventories	9,067	50,943
(Increase) in income taxes payable	(113,873)	(158,424)
(Increase) decrease in prepaid expenses	(2,457)	1,543
	$ 83,058	$ (276,011)

(U.S. $ thousands, except share and per share amounts or unless otherwise stated)

Other cash flow information is as follows:

		Year ended December 31		
		2014		2013
Cash income taxes paid	$	204,199	$	624,015
Cash interest paid		216,260		72,504
Cash interest received		3,731		2,792

29. Subsequent Events

a) In January 2015, the Company granted approximately 4.8 million DSUs to its executives and certain employees. The price on grant was $3.27, for a total value of approximately $15.7 million to be recorded as share-based compensation.

b) Effective January 1, 2015, the Colombian Congress introduced a new wealth tax which is calculated on a taxable base (net equity) in excess of COP$1 billion ($0.4 million) as at December 31 of the previous year. The applicable rates for January 1, 2015, 2016, and 2017 are 1.15%, 1.00% and 0.40%, respectively. Based on the Company's taxable base, the Company will only accrue a liability for the 2015 fiscal year and will not make an accrual for future years, pursuant to IAS 37 and IFRIC 21. The 2015 wealth tax payable is estimated at approximately $40.4 million.

c) Subsequent to December 31, 2014, the Company has entered into commodity price risk management contracts totaling a notional volume of approximately 31.7 million barrels.

d) On February 5 and March 13, 2015 the Company drew $100 million and $900 million respectively from its revolving credit facility, to repay short-term working capital facilities in the aggregate principal amount of $484.3 million and increase cash on hand by $515.7 million. At the same time, the Company's permitted consolidated leverage ratio (Debt to EBITDA) was renegotiated with the syndicate of lenders and increased from 3.5:1.0 to 4.5:1.0 based on a rolling four quarter average.

30. Adoption of IFRS 9

Effective January 1, 2014 the Company has early adopted IFRS 9 (2013) as described in Note 2. As a result, for all comparative periods up to and including the year that ended December 31, 2013, the Company prepared its financial statements in accordance with IAS 39. The consolidated financial statements for the interim ending December 31, 2014, are the first financial statements presented under IFRS 9 (2013). IAS 8 requires that comparative financial information be provided. The adoption of IFRS 9 (2013) includes full retrospective application, with the exception of hedge accounting and other sections identified for prospective application within the standard.

Classification Effect:

The adoption of IFRS 9 has had the following classification effects:

	Original measurement category under IAS 39	**New measurement category under IFRS 9**
Cash and cash equivalents, restricted cash, trade receivables, and other receivables	Loans and receivables	Financial assets at amortized cost
Loans and receivables (loan to Bicentenario)	Loans and receivables	Financial assets at amortized cost
Investment in equity instruments	Available-for-sale investments	Financial assets at FVTOCI
Accounts payable and accrued liabilities, long-term debt, and finance lease obligation	Loans and receivables	Financial liability at amortized cost
Derivative contracts	Derivatives designated as hedging instruments	Fair value (designated as hedging instruments)

	Original measurement category under IAS 39	New measurement category under IFRS 9
Derivative contracts	Derivatives designated as FVTPL	Derivatives designated as FVTPL

The classification requirements under IFRS 9 have not impacted the measurement or carrying amount.

Effect of Adoption

Balance Sheet Line Item Impact	As at December 31, 2013	Effect of IFRS 9 Adoption	After Adoption As at December 31, 2013	As at January 1, 2013	Effect of IFRS 9 Adoption	After Adoption As at January 1, 2013
Equity						
Time value for hedging instruments reserve	$ -	$ (3,092)	$ (3,092)	$ -	$ (7,415)	$ (7,415)
Retained earnings	1,389,192	3,092	1,392,284	1,154,547	7,415	1,161,962

Comprehensive Income Line Item Impact	Year ended December 31, 2013	Effect of IFRS 9 Adoption	After Adoption As at December 31, 2013
Statements of Income			
Foreign exchange (loss) gain	$ 6,325	$ (4,323)	$ 2,002
Statements of other comprehensive income			
Unrealized gain (loss) on the time value of cash flow hedges	-	(4,323)	(4,323)
EPS-Basic			1.32
EPS-Diluted			1.31

Explanation of IFRS 9 Adoption Adjustments

Time Value Reserve

Under IAS 39, the time value component of option instruments was recognized in earnings at each date of the Interim Consolidated Statement of Financial Positions. Conversely, IFRS 9 requires the option time value of a hedging relationship to be deferred in other comprehensive income for the duration of the relationship. Retrospective adjustment for the time value of option is required.

31. Comparative Financial Statements

The comparative consolidated financial statements have been reclassified from the ones previously presented to conform to the presentation of the current consolidated financial statements.