Consolidated Financial Statements

For the years ending December 31, 2013 and 2012

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 are safeguarded 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"	*"Carlos Pérez Olmedo"*
Chief Executive Officer	Chief Financial Officer

Toronto, Canada
March 10, 2014.

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, 2013 and 2012 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, 2013 and 2012 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Canada,
March 10, 2014.

PACIFIC RUBIALES ENERGY CORP.

Consolidated Statements of Income

(In thousands of U.S. Dollars, except per share information)	Notes	Year ended December 31 2013	2012
Oil and gas sales	5	$ 4,626,859	$ 3,884,762
Cost of operations			
Production and operating costs	6	1,723,330	1,586,420
Depletion, depreciation and amortization		1,379,393	953,504
General and administrative		336,572	278,386
Share-based compensation	23	39,416	32,902
Earnings from operations		1,148,148	1,033,550
Finance costs		(162,402)	(92,860)
Share of loss of equity-accounted investees	16	(29,147)	(102,933)
Foreign exchange		6,325	577
(Loss) gain on risk management	25d	(2,530)	10,130
Other expenses		(34,461)	(30,897)
Net earnings before income tax		925,933	817,567
Income tax expense	7	(504,976)	(289,838)
Net earnings for the year		$ 420,957	$ 527,729
Attributable to:			
Equity holders of the parent		430,405	527,729
Non-controlling interests		(9,448)	-
		$ 420,957	$ 527,729
Basic earnings per share attributable to equity holders of the parent	8	$ 1.33	$ 1.79
Diluted earnings per share attributable to equity holders of the parent	8	$ 1.32	$ 1.74

See accompanying notes to the consolidated financial statements.

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 2013	2012
Net earnings for the year		$ 420,957	$ 527,729
Other comprehensive income (loss) to be reclassified to net earnings in subsequent periods (nil tax effect)			
Foreign currency translation		(30,517)	26,826
Fair value adjustments on available-for-sale- financial-assets		(3,258)	(20,402)
Unrealized gain (loss) on cash flow hedges	25d	(23,044)	70,027
Realized loss on cash flow hedges transferred to earnings	25d	(3,368)	(18,453)
		(60,187)	57,998
Total comprehensive income		$ 360,770	$ 585,727
Attributable to:			
Equity holders of the parent		$ 363,810	$ 585,727
Non-controlling interests		(3,040)	-
		$ 360,770	$ 585,727

See accompanying notes to the consolidated financial statements.

PACIFIC RUBIALES ENERGY CORP.

Consolidated Statements of Financial Position

(In thousands of U.S. Dollars)	Notes	As at December 31 2013	2012 *
ASSETS			
Current			
Cash and cash equivalents		$ 632,503	$ 243,690
Restricted cash		16,980	21,023
Accounts receivables	25a	1,038,162	777,143
Inventories	10	59,526	125,043
Income tax receivable		132,226	42,289
Prepaid expenses		2,760	1,922
Assets held for sale	18	384,634	-
Risk management assets	25d	2,148	26,390
		2,268,939	1,237,500
Non-current			
Oil and gas properties	11	5,483,011	3,704,053
Exploration and evaluation assets	12	2,014,804	878,823
Intangible assets	14	105,813	118,884
Plant and equipment	13	125,600	83,621
Investments in associates	16	659,111	482,843
Other assets	17	55,990	224,121
Goodwill	15	496,612	345,712
Risk management assets	25d	-	270
		$ 11,209,880	$ 7,075,827
LIABILITIES			
Current			
Accounts payable and accrued liabilities		$ 1,683,179	$ 1,247,499
Risk management liability	25d	6,910	3,176
Income tax payable		106,250	245,299
Current portion of long-term debt	19	553,571	7,395
Convertible debenture		-	2,450
Current portion of obligations under finance lease	21	17,807	20,206
		2,367,717	1,526,025
Non-current			
Long-term debt	19	3,818,240	1,184,561
Obligations under finance lease	21	47,980	75,770
Deferred tax liability	7	547,434	201,235
Equity tax payable		-	23,289
Asset retirement obligation	20	201,576	91,349
		6,982,947	3,102,229
EQUITY			
Common shares	23a	2,667,820	2,623,993
Contributed surplus		157,810	157,159
Other reserves		(19,248)	37,899
Retained earnings		1,389,192	1,154,547
Equity attributable to equity holders of the parent		4,195,574	3,973,598
Non-controlling interests		31,359	-
Total equity		4,226,933	3,973,598
		$ 11,209,880	$ 7,075,827

See accompanying notes to the consolidated financial statements.

** The 2012 balances have been re-presented to reflect the finalization of the purchase price allocation for the acquisition of C&C (refer to Note 4).*

PACIFIC RUBIALES ENERGY CORP.

Consolidated Statements of Equity

(In thousands of U.S. Dollars)	Note	Attributable to equity holders of parent								
		Common Shares	Contributed Surplus	Retained Earnings	Cash flow hedge	Foreign currency translation	Fair value Investment	Total	Non-controlling interests	Total Equity
As at December 31, 2011		$ 2,025,665	$ 145,741	$ 756,495	$ (24,069)	$ (16,432)	$ 20,402	$ 2,907,802	$ -	$ 2,907,802
Net earnings for the year		-	-	527,729	-	-	-	527,729	-	527,729
Other comprehensive income		-	-	-	51,574	26,826	(20,402)	57,998	-	57,998
Total comprehensive income		-	-	527,729	51,574	26,826	(20,402)	585,727	-	585,727
Issued on exercise of warrants		97	-	-	-	-	-	97	-	97
Issued on exercise of options	23	64,636	(18,055)	-	-	-	-	46,581	-	46,581
Issued on acquisition of C&C	4	533,582	-	-	-	-	-	533,582	-	533,582
Issued on conversion of convertible debentures	23	13	-	-	-	-	-	13	-	13
Share-based compensation		-	29,473	-	-	-	-	29,473	-	29,473
Dividends paid	9	-	-	(129,677)	-	-	-	(129,677)	-	(129,677)
As at December 31, 2012		2,623,993	157,159	1,154,547	27,505	10,394	-	3,973,598	-	3,973,598
Net earnings for the year		-	-	430,405	-	-	-	430,405	(9,448)	420,957
Other comprehensive income		-	-	-	(26,412)	(27,477)	(3,258)	(57,147)	(3,040)	(60,187)
Total comprehensive income		-	-	430,405	(26,412)	(27,477)	(3,258)	373,258	(12,488)	360,770
Acquisition of subsidiaries	4	-	-	-	-	-	-	-	167,992	167,992
Issued on exercise of options	23	56,900	(16,217)	-	-	-	-	40,683	-	40,683
Issued on conversion of convertible debentures	23	3,695	-	-	-	-	-	3,695	-	3,695
Share-based compensation		-	35,383	-	-	-	-	35,383	3,830	39,213
Dividends paid	9	-	-	(195,760)	-	-	-	(195,760)	-	(195,760)
Transaction with non-controlling interest		-	-	-	-	-	-	-	(2,640)	(2,640)
Repurchase of shares		(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	$ 1,389,192	$ 1,093	$ (17,083)	$ (3,258)	$ 4,195,574	$ 31,359	$ 4,226,933

See accompanying notes to the consolidated financial statements.

PACIFIC RUBIALES ENERGY CORP.

Consolidated Statements of Cash Flows

(In thousands of U.S. Dollars)	Notes	Year ended December 31 2013	2012
OPERATING ACTIVITIES			
Net earnings for the year		$ 420,957	$ 527,729
Items not affecting cash:			
Depletion, depreciation and amortization		1,379,393	953,504
Accretion expense		10,902	4,633
Unrealized loss (gain) on risk management contracts	25d	2,452	(40,729)
Share-based compensation		39,213	32,902
Gain (loss) on cash flow hedges included in operating expense	25d	(3,368)	(18,453)
Deferred income tax	7	43,428	(179,379)
Unrealized foreign exchange loss		57,352	2,855
Share of loss of equity-accounted investees	16	29,147	102,933
Gain on acquisitions and loss of control	4	(67,791)	-
Other		1,427	1,549
Changes in non-cash working capital	26	(276,011)	415,191
Net cash provided by operating activities		1,637,101	1,802,735
INVESTING ACTIVITIES			
Additions to oil and gas properties and plant and equipment		(1,732,031)	(1,100,221)
Additions to exploration and evaluation assets		(419,235)	(411,669)
Additions to intangible assets		(3,911)	-
Investment in associates and other assets		(318,103)	(678,080)
Loss of control of PII		(1,907)	-
Decrease (increase) in restricted cash		2,431	(7,497)
Business acquisitions net cash outflow	4	(932,454)	(199,554)
Net cash used in investing activities		(3,405,210)	(2,397,021)
FINANCING ACTIVITIES			
Advances from debt and Senior Notes	19	3,997,434	463,021
Repayment of debt		(1,591,716)	(265,438)
Transaction costs		(44,947)	-
Proceeds from the exercise of warrants and options		40,690	46,678
Dividends paid	9	(195,760)	(129,677)
Repurchase of common shares		(35,283)	-
Net cash provided by financing activities		2,170,418	114,584
Effect of exchange rate changes on cash and cash equivalents		(13,496)	(6,279)
Change in cash and cash equivalents during the year		388,813	(485,981)
Cash and cash equivalents, beginning of the year		243,690	729,671
Cash and cash equivalents, end of the year		$ 632,503	$ 243,690
Cash		$ 599,731	$ 216,993
Short-term money market instruments		32,772	26,697
		$ 632,503	$ 243,690

See accompanying notes to the consolidated financial statements.

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, 2013, were authorized for issue by the board of directors on March 10, 2014. Pacific Rubiales Energy Corp. is a company incorporated and domiciled in Canada whose shares are publicly traded on the Toronto Stock Exchange, Bolsa de Valores de Colombia (the Colombian Stock Exchange) and the Bolsa de Valores Mercadorias e Futuros (the Brazilian 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 thousand, 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 statement 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 (of the Company) 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. The Company prepares and reviews separate detailed budgets and forecast calculations for each of the CGUs. Impairment assessment is generally carried out separately for each CGU based on cash flow forecasts calculated using proven and probable reserves 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 that it operates in, 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 22.

Financing for ODL

As part of the investment in *ODL Finance S.A. ("***ODL***") (Note 16),* the Company has signed certain "Take-or-Pay" contracts with ODL to finance the debt obligations of ODL. The payments related to this agreement are reflected as an increase in the investments in ODL 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 were made as an investment on the basis that they were directly related to meeting ODL'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 when indicators of impairment are present and when E&E assets are transferred to oil and gas properties. 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. 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 and tangible assets. The Company monitors internal and external indicators of impairment relating to its tangible and intangible assets. Refer to Note 15.

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 20.

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 25.

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 may be tested for impairment at the level of each CGU, groups of CGU's, or each operating segment.

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.

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 initial 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

Financial assets within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of assets not at fair value through profit or loss, transaction costs. The Company considers whether a contract contains an embedded derivative when the Company first becomes a party to the contract. Embedded derivatives are separated from the host contract, which is not measured at fair value through profit or loss, when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

The Company determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates this designation at the end of each financial period.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss includes financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or a financial guarantee contract. Gains or losses on investments held for trading are recognized as profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method less impairment.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The amortization is included in finance cost in the consolidated statement of income. The losses arising from impairment are recognized in the consolidated statement of income in finance costs.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale and that are not classified in any of the previous categories. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences, are recognized in other comprehensive income. When an investment is derecognized, the cumulative gain or loss in other comprehensive income is transferred to net earnings.

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.

Financial liabilities

Financial liabilities within the scope of IAS 39 are classified at initial recognition as financial liabilities at fair value through profit or loss other liabilities, or derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognized initially at fair value and in the case of loans and borrowings, net of directly attributable transaction costs.

Interest-bearing loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the consolidated statement of income when the liabilities are derecognized as well as through the effective interest rate method amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs. The amortization is included in finance cost in the consolidated statement of income.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through the statement of income.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognized in profit or loss.

Own use exemption

Contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Company's expected purchase, sale or usage requirements fall within the exemption from IAS 32 and IAS 39, which is known as the 'own use exemption'. These contracts are accounted for as executory contracts. The Company recognizes such contracts in its consolidated statement of financial position only when one of the parties meets its performance obligation.

Fair value hierarchy

The Company uses a three-level hierarchy to categorize the significance of the inputs used in measuring 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.

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.

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.

In December 2012, the Colombian Congress enacted legislation that came into effect on January 1, 2013 where the statutory income tax rate was reduced from 33% to 25%. In addition, the law introduced 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 after deducting royalties, 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 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. Fair value of DSUs is estimated using the Black-Scholes pricing model. The liability is revalued each reporting period and the change in fair value is recorded in share-based compensation expenses.

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 interest expense on the convertible debentures and the impact of the potential dilution if the stock options, warrants and the convertible debt 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 and 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.

2.3. Changes in Accounting Policies and Disclosures

There were a number of new standards and interpretations effective from January 1, 2013, that the Company applied for the first time in the current year. These included IFRS 10 *Separate Financial Statements*, IFRS 11 *Joint Arrangements, IAS 1 Presentation of Financial Statement, IAS 28 Investment in Associates and Joint Ventures and IFRS 13 Fair Value Measurement*. While none of these standards required a restatement of previous financial statements, they did result in, certain disclosures being updated. In addition, the application of IFRS 12 *Disclosure of Interests in Other Entities* resulted in additional disclosures in the consolidated financial statements.

Several other amendments apply for the first time in 2013. However, they do not impact the annual consolidated financial statements of the Company.

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 10 *Consolidated Financial Statements* and IAS 27 *Separate Financial Statements*

IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also addresses the issues covered in SIC-12 *Consolidation – Special Purpose Entities*.

IFRS 10 establishes a single control model that applies to all entities including structured entities (previously referred to as special purpose entities). The changes introduced by IFRS 10 require management to exercise significant judgment to determine which entities are controlled and therefore are required to be consolidated by a parent, compared to the requirements that were included in IAS 27.

The application of IFRS 10 and IAS 27 did not impact the Company's accounting for its interest in subsidiaries. However, the accounting policy note was updated to reflect the new requirements of IFRS 10 and IAS 27 (see Note 2).

IFRS 11 *Joint Arrangements* and IAS 28 *Investments in Associates and Joint Ventures*

The application of IFRS 11 and IAS 28 did not impact the Company's accounting for its interests in joint arrangements because the Company determined that its joint arrangements that were previously classified as jointly controlled assets were classified as joint operations under IFRS 11.

As a result, the Company's previous methods of accounting for its joint arrangements continue to be appropriate under IFRS 11. However, the accounting policy note has been updated to reflect the new requirements of IFRS 11 and IAS 28 (see Note 2).

IFRS 12 *Disclosure of Interests in Other Entities*

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in IFRS 12 are more comprehensive than the previously existing disclosure requirements for such investments, but have no impact on the Company's position or performance. IFRS 12 disclosures are provided in Note 3 and Note 16.

IFRS 13 *Fair Value Measurement*

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. IFRS 13 defines fair value as an exit price. As a result of the guidance in IFRS 13, the Company re-assessed its policies for measuring fair value values — in particular, its valuation inputs such as non-performance risk for fair value measurement of liabilities. IFRS 13 also requires additional disclosures.

Application of IFRS 13 has not materially impacted the fair value measurements of the Company. Additional disclosures, where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. The fair value hierarchy is provided in (Note 25(f)).

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 9 Financial Instruments: Classification and Measurement

IFRS 9, as issued reflects the IASB's work to date on the replacement of IAS 39 *Financial Instruments: Recognition and Measurement,* and applies to the classification and measurement of financial assets and financial liabilities as defined in IAS 39. In November 2013, the IASB issued a new version of IFRS 9 (IFRS 9 (2013)) which includes the new hedge accounting requirements and some related amendments to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures*. IFRS 9 (2013) does not have a mandatory effective date. The Company is in the process of determining the impact of the new standard on the financial results of the Company and the possibility of early adoption.

IFRS 21 IFRIC Interpretation 21 Levies

IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014. The adoption of IFRIC 21 may have an impact on the Company's accounting for production and similar taxes, which do not meet the definition of income tax in IAS 12. The Company is still assessing and quantifying the effect.

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, 2013 2013	2012 *
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 Holding Corp.	British Virgin Islands	Consolidated	100%	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.	Panama	Consolidated	100%	100%
PetroMagdalena Energy Corp.	Canada	Consolidated	100%	100%
C&C Energía Ltd.	Canada	Consolidated	Amalgamated	100%
Pacific Off Shore Perú S.R.L.	Peru	Consolidated	100%	100%
Pacific Brasil Exploração e Produção de Óleo e Gás Ltda.	Brazil	Consolidated	100%	100%
Pacific Rubiales PNG Ltd.	Papua New Guinea	Consolidated	100%	100%
Petrominerales Ltd.	Canada	Consolidated	100%	-
CGX Energy Inc. (1)	Canada	Consolidated	64.3%	35%
Investments in associates				
ODL Finance S.A.	Panama	Equity method	35.0%	35.0%
Oleoducto Bicentenario de Colombia S.A.S.	Colombia	Equity method	43.0%	33.4%
Pacific Power Generation Corp.	Panama	Equity method	24.9%	24.9%
Pacific Coal, S.A.	Panama	Equity method	14.35%	14.35%
Pacific Infrastructure Ventures Inc.	British Virgin Islands	Equity method	41.43%	49.40%
Joint arrangements				
Maurel and Prom Colombia B.V.	Netherlands	Joint operation	49.999%	49.999%

(1) CGX Energy was accounted for using the equity method prior to April 26, 2013.

4. Business Acquisitions

Acquisitions in 2013

	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)	(448,771)	-	(471,840)
Asset held for Sale (Note 18)	-	-	385,000	-	385,000
Exploration and evaluation assets (Note 12)	-	53,500	471,217	-	524,717
Oil and gas properties (Note 11)	-	-	1,150,517	229,540	1,380,057
Plant and equipment (Note 13)	123,645	7,408	6,849	-	137,902
Equity investment	-	-	103,000	-	103,000
Goodwill (Note 15)	48,181	8,192	142,708	-	199,081
Petrominerales debentures (Note 19)	-	-	(538,700)	-	(538,700)
Asset retirement obligation (Note 20)	-	-	(61,938)	(1,640)	(63,578)
Intangibles (Note 14)	142,889	-	12,919	-	155,808
Warrants liability	-	(115)	-	-	(115)
Deferred tax liabilities	(45,773)	(5,290)	(291,239)	(5,766)	(348,068)
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)

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

PII is a 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. Prior to February 8, 2013, the Company held a 49.38% interest in PII, and accounted for it as an associate using the equity method. On February 8, 2013, the Company acquired an additional 2.3 million common shares of PII for $0.95 per share for a total $2.2 million in cash, increasing the Company's interest to 50.2%. The additional investment resulted in the Company acquiring control of PII. The transaction was accounted for as a business combination with the Company identified as the acquirer. As PII was previously accounted for using the equity method, upon acquiring control the difference between the carrying value at the time of the acquisition and the fair value, in the amount of $12.3 million, was recognized as a gain in other expenses on the consolidated statement of income. The Company elected to measure the non-controlling interest in PII at fair value. The results of PII after the acquisition date and until it was deconsolidated on October 4, 2013 have been consolidated in the Company's financial results.

The acquisition of PII will allow the Company to further increase its crude oil storage and transportation business while reducing reliance on third-party services.

Since the date of acquisition until October 2013 date of loss control PII has contributed a net loss of $12.1 million to the continuing operations of the Company.

The goodwill recognized related to the deferred tax liabilities recognized on the intangibles. The goodwill recognized is not expected to be deductible for income tax purposes.

If the acquisition of PII had been completed on January 1, 2013, the consolidated statements of income for 2013 would have included revenue and loss of Nil and $9.6 million, respectively.

De-recognition of PII as a subsidiary

During October and November 2013, pursuant to a subscription agreement, PII received an investment from the International Finance Corporation and associated entities (collectively "**IFC**") for a total of $150 million in cash. In return for the $150 million investment, IFC received 112 million newly issued convertible preferred shares at a stated price of $1.25 per share and 10 million newly issued common shares at a stated price of $1.00 per share. In addition to the convertible preferred shares and the common shares, IFC also received certain warrants, equity calls and put options that provide IFC with protection rights subject to future milestones in PII's projects. Each convertible preferred share and common share provides one vote pursuant to a newly executed shareholders' agreement. As a result of the investment, IFC obtained a 27.2% interest in PII and PRE's interest was reduced to 41.4%.

The Company determined that it no longer held control over PII effectively on October 4, 2013, when PII signed a bank loan agreement, thus requiring IFC to make its investment.

Upon loss of control, the Company de-recognized the assets and liabilities of PII, non-controlling interests, other components of equity relating to PII and the adjustments associated with the purchase price allocation. An investment in an associate was recognized at fair value and a gain of approximately $47.9 million was recognized in other expenses in the consolidated statement of income. PII has subsequently been accounted for using the equity method.

CGX Energy Inc. ("CGX")

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 Company's interest in CGX prior to April 26, 2013 was 36% and the Company held two seats on CGX's board of directors; the interest was accounted for by the Company as an associate using the equity method. On April 26, 2013, the Company purchased, as part of a private placement, 350 million units at a price of C$0.10 per unit for an aggregate price of $34.3 million (C$35 million). Each unit was comprised of one common share in the capital of CGX and one whole common share purchase warrant of CGX with an exercise price of C$0.17. As a result of the private placement, the Company's interest increased to 63.3% and the Company acquired control of CGX.

This transaction is accounted for as a business combination with the Company identified as the acquirer. The Company elected to measure the non-controlling interest in CGX at fair value. Upon acquiring control, the Company recognized a loss of $1.9 million in other expenses in the consolidated statement of income, which is the difference between the carrying value of the existing ownership interest at the time of acquisition and the fair value. The results of CGX after the acquisition date have been consolidated in the Company's financial results.

The acquisition is in line with the Company's strategy of early-stage, large resource capture, technical strengths and the objective of building the leading Latin American independent explorer and producer of hydrocarbons.

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.

The purchase price allocation was finalized in December 2013, resulting in an adjustment to the preliminary purchase price allocation reported in the Company's 2013 interim consolidated financial statements. The adjustments resulted in a decrease in exploration and evaluation assets of $2.9 million, an increase in goodwill of $1.0 million, and decreased deferred tax liabilities of $1.9 million.

Since the date of acquisition, CGX has contributed a net loss of $12.4 million to the continuing operations of the Company.

Between the date of acquisition and December 31, 2013, the Company acquired an additional 5.8 million shares of CGX at $0.15 per share, for an aggregate purchase price of $0.9 million. As at December 31, 2013 the Company's interest in CGX is 64.3%.

If the acquisition of CGX had been completed on January 1, 2013, the consolidated statements of income for 2013 would have included revenue and loss of Nil million and $13.1 million, respectively.

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.

The Company acquired all of the issued and outstanding shares of PMG for C$11.00 cash per common share for a total of approximately $1,000 million, the assumption of net debt denominated in U.S. dollars of approximately $753 (consisted of $539 million of convertible debentures and $214 million of facilities immediately due and included in net working capital), and the transfer of approximately $86 million of seed capital to a newly formed exploration and production company consisting of PMG's Brazilian assets.

The transaction is being accounted for as a business combination with the Company identified as the acquirer. The acquisition has been accounted for on a preliminary basis taking into account the information available at the time these consolidated financial statements were prepared. The fair values related to the PMG acquisition disclosed below are preliminary as at December 31, 2013 due to the complexity of the acquisition and the inherently uncertain nature of valuing exploration assets and oil and gas properties. The fair values of the identifiable assets and liabilities will be completed within 12 months of the acquisition.

Goodwill recognized is due to a number of factors including the synergies provided by managing a portfolio of both acquired and existing fields in Colombia, access to PMG's current production of high quality light oil to act as diluent for blending with the company's growing heavy oil production and the opportunity to secure additional oil transportation capacity through PMG's infrastructure investments. The goodwill recognized is not expected to be deductible for income tax purposes.

Since the date of acquisition, PMG has contributed a net loss of $21.9 million to the continuing operations of the Company. If the acquisition of PMG had been completed on January 1, 2013, the consolidated statement of income for 2013 would have included revenue and net earnings of $990 million and $522 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.

The transaction is being accounted for as a business combination with the Company identified as the acquirer. As Sabanero was previously recognized as a jointly controlled asset, at the time of acquisition of control the previous carrying amount was considered to have been disposed of at its fair value of $202.6 million. In addition, 100% of the block is considered to have been acquired immediately at a consideration of $212.6 million, consisting of the $202.6 million for the fair value of the previously held asset plus $10 million of cash paid. The consideration has been allocated to the assets which consist of the Sabanero block, related PP&E and the licences and rights associated with the block. There was no material organized work force with the purchase and accordingly no goodwill to assign. A gain on bargain purchase of approximately $9.5 million arising from the transaction was recognized in other expenses. The gain on bargain purchase was due to the fact that the Company was one of a limited number of purchasers well positioned to operate Sabanero and incorporate it into existing infrastructures and other oil assets around the block.

If the acquisition of Sabanero had been completed on January 1, 2013, the consolidated statements of income for 2013 would have included revenue and loss of $12.6 million and $6.3 million, respectively.

Acquisitions in 2012

PetroMagdalena ("PMD")

On July 27, 2012, the Company increased its interest in PMD, an oil and gas exploration and production company with working interests in Colombia, to 100%. The purchase price allocation was finalized in December 2012.

From the date of acquisition (July 27, 2012) to December 31, 2012, PMD contributed $19 million to the Company's revenue and caused losses of $16 million to the Company's net earnings. If the acquisition of PMD had been completed on January 1, 2012, the consolidated statements of income for 2012 would have included revenue of $119 million and losses of $38 million, respectively.

C&C Energia Ltd. ("C&C")

On December 31, 2012 the Company completed the acquisition of C&C Energia Ltd ("**C&C**"). C&C is an oil and gas company engaged in the exploration and development of oil resources in Colombia.

The purchase price allocation recognized in the December 31 2012 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 2012 financial statements were approved for issue by the Company.

The valuation was finalized as of December, 31 2013 resulting in an adjustment to the preliminary purchase price allocation. The adjustments resulted in a decrease of $128.7 million in oil and gas assets, an increase of $1.4 million in exploration and evaluation assets, an increase in equity and other assets of $11 million, an increase of $8.1 million in asset retirement obligation and a decrease in net non-cash working capital of $25 million. As a result, there was a decrease in deferred tax liability of $44 million and a corresponding increase in goodwill on acquisition of $105 million.

If the acquisition of C&C had been completed on January 1, 2012, the consolidated statements of income for 2012 would have included revenue and profit of $448 million and $87 million, respectively.

The fair value of the identifiable assets and liabilities of both PMD and C&C as at the date of acquisition were:

	PMD	C&C	Total
Purchase price			
Cash consideration paid	$ 226,598	$ 65	$ 226,663
Equity instruments (22.8 million of common shares of the Company) (Note 23)	-	533,582	533,582
Fair value of interest held before acquisition	13,639		13,639
Total purchase price	$ 240,237	$ 533,647	$ 773,884
Fair value of assets acquired and liabilities assumed			
Cash and cash equivalents	$ 6,313	$ 20,796	$ 27,109
Net non-cash working capital	(79,025)	(42,881)	(121,906)
Oil and gas properties (Note 11)	286,186	327,924	614,110
Exploration and evaluation assets (Note 12)	100,003	64,140	164,143
Plant and equipment (Note 13)	3,050	1,017	4,067
Goodwill (Note 15)	72,573	172,503	245,076
Equity investment (Note 16)	-	2,331	2,331
Other asset	-	16,676	16,676
Long-term debt	(49,360)	-	(49,360)
Asset retirement obligation (Note 20)	(5,443)	(26,566)	(32,009)
Deferred tax liabilities	(94,060)	(2,293)	(96,353)
Net assets acquired	$ 240,237	$ 533,647	$ 773,884
Cash paid	(226,598)	(65)	(226,663)
Net cash acquired	6,313	20,796	27,109
Net consolidation cash outflow (inflow)	$ (220,285)	$ 20,731	$ (199,554)

Goodwill arose for both acquisitions principally because of the synergies that the Company can realize from managing a portfolio of both acquired and existing fields in Colombia, and the requirement to recognize deferred income tax liabilities for the difference between the assigned fair values and the tax bases of net assets acquired in a business combination. None of the goodwill recognized is expected to be deductible for income tax purposes.

5. 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, 2013: the exploration, development, and production of heavy crude oil and gas in Colombia. The Company's assets 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, 2013. The Company manages its operations to reflect differences in the regulatory environments and risk factors for each country.

As at December 31, 2013, all of the Company's assets are located in Colombia except for $328 million (December 31, 2012: $18 million) in cash and cash equivalents held in Canada and the United States; $776 million (December 31, 2012: $328 million) of non-current assets in Peru; $127 million (December 31, 2012: $62 million) of non-current assets

in Papua New Guinea; $35 million (December 31, 2012: $19 million) of non-current assets in Guatemala, $291 million (December 31, 2012: $85 million) of non-current assets in Brazil, and $44 million of non-current assets in Guyana.

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

	Year ended December 31	
	2013	2012
North and Central America	$ 2,377,251	$ 1,696,214
Europe	753,634	916,588
Asia	1,249,755	1,041,233
Colombia	195,019	229,776
Peru	51,200	-
Others	-	951
	$ 4,626,859	$ 3,884,762

6. Production and Operating Costs

	Year ended December 31	
	2013	2012
Oil and gas operating costs	$ 1,791,678	$ 1,521,400
(Underlift) overlift	(68,348)	65,020
Total	$ 1,723,330	$ 1,586,420

7. Income Tax

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	
	2013	2012
Net earnings before income taxes	$ 925,933	$ 817,567
Canadian statutory income tax rate	26.50%	26.50%
Income tax expense at statutory rate	245,372	216,655
Increase (decrease) in income tax provision resulting from:		
Other (non-taxable) non-deductible expenses	92,082	(33,347)
Special tax benefit	-	(7,477)
Share-based compensation	10,824	8,719
Risk management loss (gain)	41	(938)
Differences in tax rates in foreign jurisdictions	96,773	68,067
Losses for which no tax benefit is recorded	59,884	31,937
Change in tax rates	-	6,222
Income tax expense	$ 504,976	$ 289,838
Current income tax expense	461,548	469,217
Deferred income tax expense (recovery):		
Relating to origination and reversal of temporary differences	43,428	(179,379)
Income tax expense	$ 504,976	$ 289,838

The Company's deferred tax relates to the following:

		2013		2012
Tax loss carry forwards	$	16,477	$	3,287
Oil and gas properties and equipment		(659,131)		(253,956)
Other		95,220		49,434
Deferred tax liability	$	(547,434)	$	(201,235)

		As at December 31		
		2013		2012
Beginning of year	$	(201,235)	$	(284,462)
Recognized in deferred income tax (recovery) expense				
Tax loss carry forwards		13,190		3,287
Oil and gas properties and equipment		(15,071)		143,691
Others		45,785		32,401
Acquisitions and others		(390,103)		(96,152)
End of year	$	(547,434)	$	(201,235)

The Canadian statutory combined income tax rate was 26.50% for 2012 and 2013. The Peruvian income tax rate for Block Z-1 was 22% for both 2012 and 2013.

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

The effective tax rate (income tax expenses as a percentage of net earnings before income tax) was 55.1% for 2013 compared to 35% for the same period in 2012. The Company's effective tax rate differs from the statutory rate due to the following:

- Expenses that are not deductible for tax purposes (such as share-based compensation, foreign exchange gains or losses, and other non-deductible expenditures in both Canada and Colombia);
- Corporate expenses that result in tax loss carry forwards, except 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; and
- Foreign exchange effect on the deferred tax, which is primarily determined on COP-denominated assets and liabilities, as the Company's assets are primarily located in Colombia. As a result, the tax base of these assets is denominated in COP, and the related deferred tax balances are subject to fluctuations in the U.S.-COP exchange rate. The appreciation of the COP against the U.S. dollar by 8.97% during the year estimated in an unrealized deferred income tax expense of $98.7 million. In comparison, the Company recorded a $90.4 million unrealized income tax recovery during 2012 as a result of the depreciation of the COP against the U.S. dollar by 8.98%

Deferred tax assets 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/credits can be utilized.

As at December 31, 2013, non-capital losses totalled $514 million (December 31, 2012 - $370 million) in Canada and expire between 2013 and 2033. Capital losses totalled $64 million as at December 31, 2013 (December 31, 2012 - $68 million). No deferred tax assets have been recognized in respect of the non-capital losses as at December 31, 2013 (2012 - Nil). In Colombia, non-capital losses totalled $1.65 million (December 31, 2012 - $83 million) and deferred tax assets have been recognized on $470 of those losses.

Company has other deductible temporary differences such as share issue costs, net foreign exchange and risk management contract losses totalling $6.89 million (December 31, 2012 - $14.6 million) for which $3.4 million deferred tax assets has been recognized.

8. Earnings per Share

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

	Year ended December 31	
	2013	2012
Net earnings attributable to equity holders of the parent	$ 430,405	$ 527,729
Basic weighted average number of shares	322,989,949	294,576,424
Effects of dilution	2,316,523	8,246,805
Diluted weighted average number of shares	325,306,472	302,823,229
Basic earnings per share attributable to equity holders of the parent	$ 1.33	$ 1.79
Diluted earnings per share attributable to equity holders of the parent	$ 1.32	$ 1.74

All options, warrants and convertible debentures that are anti-dilutive have been excluded from the diluted weighted average number of common shares.

9. Dividends Paid

	Year ended December 31	
	2013	2012
Declared and paid	$ 195,760	$ 129,677
Dividend per common share	$ 0.61	$ 0.44

10. Inventories

	As at December 31	
	2013	2012
Crude oil and gas	$ 42,272	$ 114,198
Materials and supplies	17,254	10,845
	$ 59,526	$ 125,043

11. Oil and Gas Properties

Cost	
Cost as at December 31, 2011	$ 3,481,244
Additions	1,076,623
Transfer from exploration and evaluation assets (Note 12)	95,849
Acquisitions (Note 4)	614,110
BPZ farm-in	215,320
Change in asset retirement obligation (Note 20)	12,525
Cost as at December 31, 2012	5,495,671
Additions	1,661,393
Transfer from exploration and evaluation assets (Note 12)	211,210
Disposals	(238,613)
Acquisitions (Note 4)	1,380,057
Change in asset retirement obligation (Note 20)	44,246
Cost as at December 31, 2013	$ 8,553,964

Accumulated depletion		
Accumulated depletion as at December 31, 2011	$	998,091
Charge for the year		793,527
Accumulated depletion as at December 31, 2012		1,791,618
Charge for the year		1,281,256
Disposals		(1,921)
Accumulated depletion as at December 31, 2013	$	3,070,953

Net book value		
December 31, 2012	$	3,704,053
December 31, 2013		5,483,011

Included in the amount subject to depletion is $2.8 billion (December 31, 2012 - $936 million) of estimated future development costs that are required to bring proved undeveloped reserves to production. $230 of oil and gas properties were under construction as at December 31, 2013 (December 31, 2012-$110), and as such are not currently subject to depletion.

12. Exploration and Evaluation Assets

As at December 31, 2011	$	437,901
Additions		411,669
Transfer to oil and gas properties (Note 11)		(95,849)
Acquisitions (Note 4)		164,143
BPZ farm-in		63,019
Impairment		(102,060)
As at December 31, 2012		878,823
Additions		446,125
Transfer to oil and gas properties (Note 11)		(211,210)
Acquisitions (Note 4)		524,717
Reclasified from other assets (Note 17)		409,026
Impairment		(24,853)
Disposal		(7,824)
As at December 31, 2013	$	2,014,804

In 2013, the impairment of $24.9 million (December 31, 2012: $102 million) represented the write-down of certain exploration and evaluation assets that have been or were in the process of being returned to the government or abandoned.

13. Plant and Equipment

Cost	Land & buildings	Assets under construction	Other plant & equipment	Total
Cost as at December 31, 2011	$ 26,435	$ -	$ 77,082	$ 103,517
Additions	16,615	-	6,983	23,598
Acquisitions (Note 4)	1,414	-	2,653	4,067
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
Accumulated depreciation				
Accumulated depreciation as at December 31, 2011	$ 11,310	$ -	$ 12,206	$ 23,516
Charge for the year	5,056	-	18,989	24,045
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
Net book value				
December 31, 2012	$ 28,098	$ -	$ 55,523	$ 83,621
December 31, 2013	32,177	6,977	86,446	125,600

14. Intangible Assets

Cost	**Port Concession**	**Capacity Rights**	**Total**
Cost as at December 31, 2011 and 2012	$ -	$ 190,000	$ 190,000
Acquisitions (Note 4)	142,889	12,919	155,808
Additions	3,911	-	3,911
Loss of control of PII	(146,800)	-	(146,800)
Cost as at December 31, 2013	$ -	$ 202,919	$ 202,919
Accumulated amortization			
Accumulated amortization as at December 31, 2011	$ -	$ 45,039	$ 45,039
Charge for the year	-	26,077	26,077
Accumulated amortization as at December 31, 2012	-	71,116	71,116
Charge for the year	-	25,990	25,990
Accumulated amortization as at December 31, 2013	$ -	$ 97,106	$ 97,106
Net book value			
December 31, 2012	$ -	$ 118,884	$ 118,884
December 31, 2013	-	105,813	105,813

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.

15. Goodwill and Impairment Test

Cost as at December 31, 2011	$ 100,636
Acquisitions (Note 4)	245,076
Cost as at December 31, 2012	345,712
Acquisitions (Note 4)	199,081
Loss of control of PII	(48,181)
Cost as at December 31, 2013	$ 496,612

Impairment test for goodwill

The Company assessed the goodwill for impairment as at December 31, 2013 and 2012. The Company's goodwill is

tested for impairment at the operating segment level, which includes $488.4 million of goodwill allocated to Colombia and $8.2 million allocated to Guyana. The recoverable amount for each operating segment is the sum of the value-in-use for each cash-generating unit, which is calculated based on the future cash flows of the proven and probable reserves over reserve life, discounted by the Company's weighted average cost of capital of 11.5%. As at December 31, 2013 and 2012, the recoverable amount for each operating segment exceeded the carrying amount including goodwill; as such no impairment was recognized. No reasonably possible change in assumptions would cause goodwill to be impaired.

Hydrocarbon reserves are estimates of the amount of hydrocarbons that can be economically and legally extracted from the Company oil and gas properties. The Company estimates its commercial reserves and resources based on information compiled by appropriately qualified persons 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. The current long-term Castilla and Vasconia oil price assumptions used in the estimation of commercial reserves are:

$/bbl	$82.70 - $102.94
$/Mmbtu	$3.80 - $5.40

16. 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, 2011	$ 147,004	$ 121,312	$ 23,546	$ 8,907	$ 47,041	$ 60,624	$ 408,434
Investment	34,954	-	100,000	5,040	-	29,339	169,333
Fair value adjustment	-	-	-	-	-	(21,147)	(21,147)
Income (loss) from equity investments	(7,427)	(5,852)	(2,712)	1,876	(9,323)	(34,230)	(57,668)
Impairment of equity investments	-	-	-	-	(29,398)	(15,867)	(45,265)
Foreign currency translation	12,846	12,231	1,749	-	-	-	26,826
C&C Acquisition (Note 4)	-	2,330	-	-	-	-	2,330
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)
Foreign currency translation	(15,871)	(8,115)	(2,477)	-	-	-	(26,463)
PII acquisition (Note 4)	-	-	(122,142)	-	-	-	(122,142)
CGX acquisition (Note 4)	-	-	-	-	-	(18,217)	(18,217)
Loss of control of PII	-	-	225,316	-	-	-	225,316
PMG Acquisition (Note 4)	-	103,000	-	-	-	-	103,000
As at December 31, 2013	$ 191,413	$ 216,598	$ 219,417	$ 22,228	$ 9,455	$ -	$ 659,111

Set out below are the investments made by the Company in associates during the year end and as at December 31, 2013. 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 investment represents 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. The remaining 65% interest is owned by Ecopetrol, S.A. ("**Ecopetrol**"), the national oil company of Colombia. In 2012, additional capital was contributed by the partners to ODL, of which the Company's share was $35 million. In 2013, additional capital was contributed by the partners to ODL, of which the Company's share was $34.6 million. 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 ship-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 $171 million from 2014 to 2017. The Company has a take-or-pay contract with ODL to finance the debt obligations of ODL. The payments related to this agreement are reflected as an increase of the investments in ODL according to the Company's participating interest.

Oleoducto Bicentenario de Colombia ("Bicentenario")

Bicentenario is a corporation established and owned by a consortium of oil producers operating in Colombia led by Ecopetrol, with the Company owning 43%. 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.

In December 2012, upon completion of the acquisition of C&C, the Company acquired another 0.5% interest in Bicentenario that was previously owned by C&C.

In November 2013, upon completion of the acquisition of PMG, the Company acquired another 9.65% interest in Bicentenario that was previously owned by PMG. Bicentenario will be building and operating a private-use oil pipeline in Colombia between Casanare and Coveñas. As of December 31, 2013, the shareholders of Bicentenario have a transport agreement at a set rate per barrel, upon completion of the first phase.

The Company has ship-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 $2.4 billion from 2014 to 2025.

Pacific Infrastructure 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. The Company had a 49.38% interest in PII as at December 31, 2012. 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; refer to Note 4 for further details. The functional currency of PII is the U.S. Dollar.

As at December 31, 2013, the Company's interest in PII is 41.43% and the balance is held by Blue Pacific Assets Corp. ("**Blue Pacific**") and IFC. The Company holds two board seats in PII.

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

The investment in Pacific Power represents a 24.9% (2012: 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. In December 2012, the Company acquired an additional 4.4 million newly issued common shares of Pacific Power for $1.15 per share for $5 million in aggregate. 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, 2013, the Company's interest in Pacific Coal was 14.35% (December 31, 2012: 14.4%) and the investment was estimated at $2.6 million (December 31, 2012: $8.3 million), based on the last traded price on the TSX Venture Exchange of C$0.42 (December 31, 2012: C$1.26).

The functional currency of Pacific Coal is the Canadian 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 did not receive any cash dividends from its equity-accounted investments during the twelve month period ending December 31, 2013 (2012: Nil).

Summarized Financial Information

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

	ODL	OBC	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 losses	(41,958)	(21,702)	(12,703)
Company's share of profit for the year	$ (14,686)	$ (11,386)	$ (5,113)

	ODL	OBC	PII
As at and for the year ended December 31, 2012			
Current assets	$ 171,478	$ 54,995	$ 18,940
Non-current assets	1,141,342	1,247,639	236,400
Current liabilities	(147,804)	(105,140)	(5,999)
Non-current liabilities	(629,652)	(807,977)	(1,198)
Equity	535,364	389,517	248,143
Proportion of the Company's ownership	35.00%	33.38%	49.40%
Carrying amount of the investment	$ 187,377	$ 130,021	$ 122,583
Revenue	$ 241,019	$ 107	$ -
Expenses	(297,304)	(19,556)	(6,505)
Net losses	(56,285)	(19,449)	(6,505)
Company's share of profit for the year	$ (7,427)	$ (5,852)	$ (2,712)

17. Other Assets

	As at December 31	
	2013	2012
Bicentenario loan	$ 41,992	$ 32,562
Farm-in interests	-	170,028
Other	13,998	21,531
	$ 55,990	$ 224,121

Bicentenario loan

During 2011, the Company, along with the other shareholders of Bicentenario, entered into certain subordinated loan agreements with Bicentenario. As at December 31, 2013, Bicentenario has the option to draw down an additional $97.3 million (December 31, 2012 - $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, 2013, the balance of loans outstanding to the Company under the agreement is $42 million, including $9.4 million from the acquisition of PMG (December 31, 2012: $32.6 million), representing the amounts advanced less repayments. Interest income of $2.1 million was recognized during the year ending December 31, 2013 (2012: $5.8 million).

Farm-in interests

As of December 31, 2013, the Company has received approval for the advances for exploration farm-in interests in Brazil and Colombia in the amount of $409 million, all of which were reclassified to exploration and evaluation assets during the year ending December 31, 2013.

In 2012, $170 million was included as other assets, representing advances made for farm-in interests in exploration assets in Brazil, Colombia, and Papua New Guinea that were subject to regulatory approval as at December 31, 2012.

18. Assets Held for Sale

On December 23, 2013 PRE reached an agreement to sell its 5% interest and transportation rights in Oleoducto Central S.A. ("**OCENSA**"), an oil pipeline in Colombia, for $385 million. The OCENSA equity and transportation rights were acquired by the Company as part of the acquisition of PMG (Note 4). The consideration consists of $260 million for equity interest, $15 million of OCENSA related to the 2013, fiscal year, and $110 million for the transportation rights.

The OCENSA equity and transportation rights are classified as held for sale as of December 31, 2013, as certain closing conditions have not been met.

19. Interest-Bearing Loans and Borrowings

	Maturity	Currency	Interest Rate	As at December 31 2013	2012 *
Senior Notes - 2009	2016	USD	8.75%	$ -	$ 89,818
Senior Notes - 2011	2021	USD	7.25%	963,893	646,964
Senior Notes - March 2013	2023	USD	5.125%	989,730	-
Senior Notes - November 2013	2019	USD	5.375%	1,281,961	-
Revolving credit facility - US Dollar	2015	USD	LIBOR + 2.75%	395,827	353,599
Revolving credit facility - COP (1)	2015	COP	DTF + 2.25%	(259)	24,895
BOFA Loan - 2013	2016	USD	LIBOR + 1.5%	108,865	-
Working Capital Facilities	2014	USD	LIBOR + 0.95% - 1.4%	270,000	-
Bank loans (2)	2024	COP	DTF + 4.2%	78,794	52,437
Bank loans	2016	COP	DTF + 2.65%	-	22,909
Promissory note	2015	COP	7.96%	-	1,334
Petrominerales debentures	2014	USD		283,000	-
				$ 4,371,811	$ 1,191,956
Current portion				$ 553,571	$ 7,395
Non-current portion				3,818,240	1,184,561
				4,371,811	1,191,956
Convertible Deventures				-	2,450
				$ 4,371,811	$ 1,194,406

(1) Represents deferred finance cost.
(2) 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).

2009 Senior Notes

On March 21, 2013, the Company exercised its right to redeem the entire aggregate principal amount of the outstanding notes. The total redemption amount was $109.8 million, including $91.5 million in principal and $18.3 million in early redemption premium, and the early redemption premium was expensed as finance costs. Additionally, the Company paid $3 million in accrued interest.

For the year ending December 31, 2013, $3.4 million (2012: $8.5 million) in interest expense related to the 2009 Senior Notes has been recorded in the consolidated statement of income.

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. 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.

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, 2013 was $1,012 million (2012:$712 million). For the year ending December 31, 2013, $62 million (2012: $24.5 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. 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, 2013 was $1 billion (December 2012: Nil). For the year ending December 31, 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. 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 was $1.3 billion (December 2012: Nil). For the year ending December 31, 2013, $7 million in interest expense related to the November 2013 Senior Notes has been recorded in the consolidated statement of income.

Revolving credit facilities

During 2012, the Company closed a $400 million revolving credit facility (the "**US Dollar Facility**") and a Colombian Peso equivalent of $282 million (COP$543,366 million) revolving credit facility (the "**Peso Facility**") with a syndicate of international and Colombian banks. The US Dollar Facility carries an interest rate of LIBOR plus 2.75% and matures on September 21, 2015, with any unused facility subject to a commitment fee of 0.95%. On April 15, 2013 the Company repaid the entire outstanding balance of $358 million on the US Dollar Facility. In December 2013, the Company drew down the full $400 million from the US Dollar Facility to finance the acquisition of PMG. As at December 31, 2013, there remained $400 million principal outstanding on the US Dollar Facility (December 31, 2012: $353.6 million).
The Peso Facility has an interest rate based on the DTF as well as a commitment fee of 0.40% on any unused facility and matures on September 21, 2015. As at December 31, 2013, the Company did not have any borrowings outstanding under this facility.

Both the US Dollar Facility and the Peso Facility are subject to covenants that require the Company to maintain (1) 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 year.

2013 BOFA Loan

On May 2, 2013, the Company entered into a new loan agreement with Bank of America (the "2013 BOFA Loan") for $109 million. The 2013 BOFA Loan carries an interest rate of LIBOR plus 1.5% and matures on November 2016, with interest payments due biannually.

The 2013 BOFA Loan is subject to covenants that require the Company to maintain: (1) a debt to EBITDA ratio of less than 3.5; and (2) an interest coverage ratio of greater than 2.5. The Company was compliant with the covenants during the period.

Working capital credit facilities

The Company has several short-term credit facilities which mature in 2014 to fund working capital needs. These working capital facilities are denominated in U.S. dollars with interest rates ranging from LIBOR plus 0.9% to LIBOR plus 1.4%. The total balance outstanding on these working capital facilities was $270 million as at December 31, 2013 (2012 – Nil).

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.

20. 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, 2011	$	45,400
Arising during the year		12,525
Acquisitions (Note 4)		32,009
Accretion expense		1,415
As at December 31, 2012		91,349
Arising during the year		44,246
Accretion expense		2,403
Acquisitions (Note 4)		63,578
As at December 31, 2013	$	201,576

The asset retirement obligation represents the present value of decommissioning costs relating to oil and gas properties, of which up to $238 million are expected to be incurred (December 31, 2012:$93 million). The future decommissioning costs are discounted using the risk-free rate between 3.57% and 4.38% (December 31, 2012:2.50% and 2.92%) 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.

21. 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	
	2013	2012
Within 1 year	$ 25,843	$ 31,910
Year 2	20,447	28,895
Year 3	14,657	23,586
Year 4	6,793	19,299
Year 5	6,778	7,095
Thereafter	18,491	25,598
Total minimum lease payments	93,009	136,383
Amounts representing interest	(27,222)	(40,407)
Present value of net minimum lease payments	$ 65,787	$ 95,976
Current portion	$ 17,807	$ 20,206
Non-current portion	47,980	75,770
Total obligations under finance lease	$ 65,787	$ 95,976

For the year ending December 31, 2013, interest expense of $11.5 million (2012:$13.1 million) was incurred on these finance leases.

22. Contingencies and Commitments

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

	2014	2015	2016	2017	2018	Subsequent to 2018	Total
Bicentenario Take or Pay Agreement	$ 208,007	$ 208,007	$ 208,577	$ 208,007	$ 208,007	$ 1,369,996	$ 2,410,601
Operating purchase and leases	913,347	416,194	220,351	51,986	46,794	274,159	1,922,831
LNG Project	59,088	59,088	59,088	59,088	59,088	590,877	886,317
Minimum work commitment	311,062	128,237	43,405	10,181	5,536	-	498,421
ODL Take or Pay Agreement	18,165	29,790	41,415	23,251	23,251	34,876	170,748
Community obligations	21,500	555	160	-	-	-	22,215
Transmission line project	18,592	-	-	-	-	-	18,592
Total	$ 1,549,761	$ 841,871	$ 572,996	$ 352,513	$ 342,676	$ 2,269,908	$ 5,929,725

The Company has various guarantees in place in the normal course of business. As at December 31, 2013, the Company has issued letters of credit and guarantees for exploration and operational commitments for a total of $368 million (December 31, 2012:$257 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, 2013.

PMD class action lawsuit

The class action lawsuit against PetroMagdalena Energy Corp. ("**PMD**") that was filed in May 2011 claiming total damages of C$50 million was settled in November 2013 upon receipt of court approval of a settlement agreement between the parties to the class action lawsuit. The final settlement amount was C$9 million, an amount that is within the limits of the Corporation's D&O insurance policy. The settlement amount has been paid as of December 31, 2013.

Tax Review in Colombia

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

The DIAN has reassessed value added tax ("**IVA**") for 2009, on the basis that the volume of oil produced and used for internal consumption at certain fields in Colombia should have been subjected to IVA. The amount reassessed, including interest and penalties, is estimated to be $10 million. The Company disagrees with the DIAN's reassessment and as of December 31, 2013, an official appeal has been initiated. Several other taxation periods through to 2011 in respect of IVA on field oil consumption are currently under review by the DIAN, but no reassessments have been issued. For the periods that are under review, if the DIAN's views were to prevail, the Company estimates that the IVA, including interest and penalties, could range between $12 million and $41 million. The Company continues to utilize oil produced for internal consumption, which is an accepted practice for the oil industry in Colombia.

The DIAN is also reviewing certain income tax deductions in respect of the special tax benefit for qualifying petroleum assets, as well as other exploration expenditures. To date, the DIAN has reassessed $12 million of tax owing, including estimated interest and penalties, with respect to the denied deductions. The Company disagrees with the reassessment and is in discussion with the DIAN to reverse the denial of deductions.

As of December 31, 2013, 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 consolidated 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 $178 million plus related interest of $70 million as of December 31, 2013. 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 $64 million plus interest.

The Company and the ANH are currently in discussion to further understand the differences in interpretation of these exploration contracts, and expect to resolve these differences within one year. 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.

23. Issued Capital

a) Authorized, issued and fully paid common shares

The Company has 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, 2011	292,178,055	$	2,025,665
Issued on exercise of warrants	9,766		97
Issued on exercise of options	3,408,759		64,636
Issued on conversion of convertible debentures	1,012		13
Issued on the C&C acquisition (Note 4)	22,771,496		533,582
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

(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, 2011	22,414,968	$	14.93
Granted during the year	5,964,500		22.83
Expired during the year	(66,744)		22.96
Exercised during the year	(3,408,759)		13.50
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

The weighted average share price at the time when the stock options were exercised during the year ending December 31, 2013 was C$22.50 (2012 – C$27.60).

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

Outstanding & exercisable		Exercise price (C$)	Expiry date	Remaining contractual life (years)
10,000	$	10.86	July 30, 2014	0.6
2,147,200		13.09	October 12, 2014	0.8
4,044,500		14.08	February 9, 2015	1.1
3,000		19.00	March 16, 2015	1.2
2,791,375		20.56	April 23, 2015	1.3
10,000		20.09	May 17, 2015	1.4
5,000		24.41	June 22, 2015	1.5
37,000		27.58	September 29, 2015	1.7
250,000		34.43	February 2, 2016	2.1
3,755,250		25.76	March 16, 2016	2.2
53,000		28.01	May 3, 2016	2.3
12,000		25.59	May 26, 2016	2.4
160,000		22.05	September 27, 2016	2.7
21,000		24.68	October 24, 2016	2.8
5,302,700		22.75	January 20, 2017	3.1
70,500		29.10	March 30, 2017	3.2
116,667		6.30	July 10, 2017	3.5
6,215,500		23.26	January 28, 2018	4.1
760,500		24.32	February 8, 2018	4.1
152,500		19.21	November 15, 2018	4.9
25,917,692	$	21.01		2.5

The following stock options with a 5-year life were granted to employees, directors and consultants during 2012 and 2013:

	Number of options granted	Weighted average exercise price (C$)	Weighted average fair value (C$)
During the year ended December 31, 2012	5,964,500	$ 22.83	$ 8.58
During the year ended December 31, 2013	7,213,500	$ 23.29	$ 4.96

The fair value of the stock options issued have been calculated using the Black-Scholes option pricing model, based on the following assumptions:

	As at December 31, 2013	
For options granted during the year ending:	2013	2012
Weighted average risk-free interest rate:	1.16%	0.95%
Expected life:	2.5 years	2.5 years
Weighted expected volatility:	37%	38%
Expected weighted average dividend yield:	2.28%	1.10%

(c) Deferred share units

The Company established the Deferred Share Unit Plan (the "**DSU** Plan") for its non-employee directors during 2012. Each DSU represents the right to receive a cash payment on retirement 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. As at December 31, 2013, 340,959 DSUs were outstanding with a fair value of $6.3 million (December 31, 2012: 145,563 DSUs valued at $3.3 million) estimated using the Black-Scholes option pricing model. The fair value of the DSUs was 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.

24. 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 for administrative office space in one of its Bogotá, Colombia locations. Monthly rent expense of $87 is payable to Blue Pacific under this agreement. Three directors and officers of the Company control, or provide investment advice to the holders of, 67.2% of the shares of Blue Pacific. During 2011, the lease was amended to include additional space in Bogotá for a 10-year term with a monthly rent of $0.5 million, and assignment of the lessor to an entity controlled by Blue Pacific.

b) As at December 31, 2013, the Company had trade accounts receivable of $0.2 million (December 31, 2012:$4.4 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 $31.5 million for the year ending December 31, 2013 (2012:$39.3 million).

   In October 2012, the Company and Ecopetrol signed two Build, Own, Manage, and Transfer ("**BOMT**") agreements with Consorcio Genser Power-Proelectrica and its subsidiaries ("Genser-Proelectrica") to acquire certain power generation assets for the Rubiales field. Genser-Proelectrica is a joint venture between Proelectrica and Genser Power Inc. which is 51% owned by Pacific Power. Total commitment under the BOMT agreements is $229.7 million over ten years. In April 2013, the Company and Ecopetrol entered into another agreement with Genser-Proelectrica to acquire additional assets for a total commitment of $57 million over ten years. At the end of the Rubiales Association Contract in 2016, the Company's obligations along with the power generation assets will be transferred to Ecopetrol. During the year ending December 31, 2013, those assets were under construction and the Company paid cash advances of $9.4 million (2012: Nil). The Company has accounts payable of $0.4 million (December 2012: Nil) due to Genser-Proelectrica.

c) During the year ending December 31, 2013, the Company paid $34 million (2012:$40.7 million) to Transportadora Del Meta S.A.S. ("Transmeta") in crude oil transportation costs. In addition, the Company has accounts receivable of $1.5 million (2012:$2.4 million) from Transmeta and accounts payable of $1.7 million (2012:$8.5 million) to Transmeta as at December 31, 2013. Transmeta is controlled by a director of the Company.

d) Loans receivable from related parties in the aggregate amount of $452 (December 31, 2012:$179) are due from two directors and six officers (2012:three directors and three officers) of the Company. The loans are non-interest bearing and payable in equal monthly payments over a 48-month terms.

e) The Company has entered into aircraft transportation agreements with Petroleum Aviation Services S.A.S. ("PAS"), a company controlled by a director of the Company. During 2013, the Company paid $14.3 million (2012:$14.3 million) in fees as set out under the transportation agreements. The Company accounts payable to PAS as at December 31, 2013 $2.5 million (2012:$2.8 million).

f) During the year ending, December 31, 2013, the Company paid $122.6 million to ODL (2012:$125.8 million) for crude oil transport services under the pipeline take-or-pay agreement, and has accounts payable of $7.4 million to ODL as at December 31, 2013 (2012:$5 million). In addition, the Company received $1.2 million from ODL during the year ending December 31, 2013 (2012:$0.8 million) with respect to certain administrative services and rental equipment and machinery. The Company accounts receivable from ODL as at December 31, 2013 $0.1 million (2012:$0.2 million).

g) As at December 31, 2013, the balance of loans outstanding to Bicentenario under the agreement in Note 17 (other assets) is $42 million (December 31, 2012: $32.6 million). Interest income of $2.2 million was recognized during the year ending December 31, 2013 (2012: $5.8 million). The Company has received $0.7 million as at December 31, 2013 (2012: $2.1 million) with respect to certain administrative services and rental equipment and machinery and has accounts receivable from Bicentenario as at December 31, 2013 $77.5 million. In addition, the Company has advanced $90 million as of December 31, 2013 (December 31, 2012: Nil) to Bicentenario as a prepayment of transport tariff, which is amortized against the barrels transported. The advance is included in accounts receivable as of December 31, 2013.

h) During 2013, the Company paid $0.6 million (2012: $2.5 million) to Helicopteros Nacionales de Colombia S.A.S. ("Helicol") with respect to air transportation services. Helicol is controlled by a director of the Company.

i) The Company has established two charitable foundations in Colombia, Pacific Rubiales Foundation and Vichituni Foundation (acquired as part of the Petrominerales acquisition), with the objective of advancing social and community development projects in the country. During 2013, the Company contributed $68.2 million to these foundations (2012: $40.7 million).

j) In October 2012 the Company entered into an agreement and consent 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 company engaged in developing colloidal fuels, and is currently 100% owned by 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 14.4% equity interest in Pacific Coal.

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

	As at December 31	
	2013	2012
Short-term employee benefits	$ 21,578	$ 15,390
Post-employment pension and medical benefits	5,216	1,951
Shared-based payment	30,926	21,387
	$ 57,720	$ 38,728

25. Financial Risk Management Objectives and Policies

The Company's principal financial liabilities, other than derivatives, comprise accounts payable and accrued liabilities, long-term debt, finance lease obligations and convertible debentures. The main purpose of these financial instruments is to manage short-term cash flow and raise financing for the Company's capital expenditure program. The Company has various financial assets such as accounts receivable, cash and cash equivalents and restricted cash, which arise directly from its operations.

It is the Company's policy that no speculative trading in derivatives shall be undertaken.

The main risks that could adversely affect the Company's financial assets, liabilities or future cash flows are credit risk, interest rate risk, foreign currency risk, liquidity risk, and commodity price risk. Management reviews and agrees policies for managing each of these risks, which are summarized below.

The following discussion also includes a sensitivity analysis that is intended to illustrate the sensitivity to changes in market variables on the Company's financial instruments and show the impact on profit or loss and equity, where applicable. Financial instruments affected by market risk include bank loans and overdrafts, accounts receivable, accounts payable and accrued liabilities and derivative financial instruments.

The sensitivity analysis has been prepared using the amounts of debt and other financial assets and liabilities held as at those dates.

(a) Credit risk

	As at December 31	
	2013	2012
Trade receivable	$ 444,878	$ 298,277
Advances / deposits	164,348	143,624
Recoverable VAT	140,889	81,192
Other receivables	52,255	70,883
Receivable from joint arrangements	236,761	184,443
Allowance for doubtful accounts	(969)	(1,276)
	$ 1,038,162	$ 777,143
Loan to Bicentenario (non-current, Note 17)	41,992	32,555
	$ 1,080,154	$ 809,698

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. 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 $95.4 million, $90.6 million, and $57.5 million or 21%, 20% and 13% of trade accounts receivable, respectively (2012: two customers at $95 million and $38 million or 31% and 13% of trade accounts receivable). Revenues from these customers for 2013 were $95.3 million, $90.6 million and $33.8 million or 2%, 2% and 1% of revenue (2012:$195 million and $89 million or 5% and 2% of revenue, respectively).

The entire amount of the recoverable VAT as at December 31, 2013, and December 31, 2012, is due from the Colombian tax authority.

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

(b) 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. A 10% variation in the interest rate would increase or decrease interest expense by $1 million respectively.

(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, 2013, the Company had available $300 million of revolving credit. The following are the contractual maturities of non-derivative financial liabilities (undiscounted):

Financial liability due in	2014	2015	2016	2017	2018	Subsequent to 2018	Total
Accounts payable and accrued liabilities	$ 1,683,179	$ -	$ -	$ -	$ -	$ -	$ 1,683,179
Long-term debt and bank indebtedness	533,571	433,228	142,487	1,477	1,477	3,259,571	4,371,811
Obligations under finance lease (Note 21)	25,843	20,447	14,657	6,793	6,778	18,491	93,009
Total	$ 2,242,593	$ 453,675	$ 157,144	$ 8,270	$ 8,255	$ 3,278,062	$ 6,147,999

(d) Risk management contracts

The Company has the following risk management contracts outstanding:

As of December 31, 2013

Type of Instrument	Term	Notional Amount/Volume (bbl)	Floor/ceiling or strike price ($/bbl)	Benchmark	Fair value
Foreign currency risk					
Currency collars	January to December 2014	180,000	1920-2075 COP/$	N/A	$ 1,820
Currency collars	January to May 2014	25,000	1900-1950 COP/$	N/A	41
Currency collars	January to December 2014	300,000	1850-2085 COP/$	N/A	(3,900)
Forwards	January to February 2014	35,000	1910 COP/$	N/A	(339)
Currency Collar	January 2014	14,000,000	1.06 - 1.07 CAD/$	N/A	(84)
Commodity 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 (counterparties option)	January 2014 to June 2014	3,000,000	80 / 109-110	WTI	(1,719)
					$ (4,762)
Current assets					$ 2,148
Current liabilities					(6,910)
					$ (4,762)

Type of Instrument	Term	Notional Amount/Volume (bbl)	Floor/ceiling or strike price ($/bbl)	Benchmark	Fair value
Foreign currency risk					
Currency collar	January 2013 to December 2013	525,000	1825-1986 COP/$	N/A	$ 22,590
Forwards	March 2013 to December 2013	17,500	1890 COP/$	N/A	1,699
Forwards	May 2013 to February 2014	17,500	1910 COP/$	N/A	1,348
Commodity price risk					
Zero-cost collars	January to June 2013	1,200,000	80 / 115-118	WTI	1,023
Zero-cost collars	January to June 2013 extendible July to December 2013	5,280,000	80 / 111-121	WTI	(3,176)
					$ 23,484
Current assets					$ 26,390
Non-current assets					270
Current liabilities					(3,176)
					$ 23,484

Foreign currency risk

The Company is exposed to foreign currency fluctuations in Colombian pesos (COP). Such exposure arises primarily from expenditures that are incurred in COP and its fluctuation against the U.S. dollar. The Company monitors its exposure to such foreign currency risks. To reduce its foreign currency exposure associated with operating expenses incurred in COP, the Company has entered into foreign currency derivatives to manage such risks. These COP-US$ currency collars have been designated as cash flow hedges. The effective portion of the change in the fair value of the above currency hedges is recognized in other comprehensive income as unrealized gains or losses on cash flow hedges. The effective portion is reclassified as production and operating expenses in net earnings in the same period as the hedged operating expenses are incurred. During the year ending December 31, 2013, $23 million of unrealized loss (2012: $70 million of unrealized gains) were initially recorded in other comprehensive income, and $3.4 million (2012: $18.5 million) were subsequently transferred to production and operating cost when the gains became realized. The Company excludes changes in fair value due to the time value of the investments and records these amounts along with hedge ineffectiveness in foreign exchange gains or losses in the period that they arise. During 2013, $1.4 million (2012: $13.2 million) of ineffectiveness was recorded as foreign exchange loss.

The currency forwards are COP-US$ forward contracts that provide an early termination option to the counterparty when certain thresholds are reached.

The C$-US$ currency forwards have not been designated as hedges and the change in fair value is recorded in profit or loss. During the year ending December 31, 2013, the Company recorded an unrealized loss of $2.3 million (2012: $3 million of unrealized gain) representing the change in the fair value of the forward currency price risk management contracts in net earnings.

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. 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. From time to time the Company may attempt to mitigate commodity price risk through the use of financial derivatives. The Company recognizes the fair value of its derivative instruments as assets or liabilities on the statement of financial position. None of the Company’s commodity price derivatives currently qualify as fair value hedges or cash flow hedges, and accordingly, changes in their fair value are recognized in net earnings.

During the year ending December 31, 2013, the Company recorded a loss of $0.2 million (2012: $7.1 million gain) on commodity price risk management contracts in net earnings. Included in these amounts were $0.2 million of unrealized loss (2012: $37.7 million unrealized gain) representing the change in the fair value of the contracts and $77 for the year (2012: $30.6 million realized loss) of realized loss resulting from premiums paid.

If the forward WTI crude oil price estimated at December 31, 2013 had been $1/bbl higher or lower, the unrealized gain or loss on these contracts would change by approximately $3 million (2012: $3 million).

(e) Fair value risk

The Company's financial instruments are cash and cash equivalents, restricted cash, accounts receivable and accounts payable and accrued liabilities, risk management assets and liabilities, bank debt, finance lease obligation, debentures and available-for-sale investments on the statement of financial position. The carrying value and fair value of these financial instruments are disclosed below by financial instrument category, other than those with carrying amounts that are reasonable approximation of fair value.

	As at December 31, 2013		As at December 31, 2012	
Financial instrument	Carrying value	Fair value	Carrying value	Fair value
Assets held for trading				
Commodity price derivatives	287	287	1,023	1,023
Foreign currency forward	-	-	3,047	3,047
Loans and receivables				
Loan to Bicentenario	41,992	41,992	32,562	32,562
Available-for-sale financial assets				
Investment in other assets	13,890	13,890	10,249	10,249
Assets or liabilities designated as cash flow hedges				
Foreign currency derivatives	(2,081)	(2,081)	22,590	22,590
Liabilities held for trading				
Commodity price derivatives	(2,586)	(2,586)	(3,176)	(3,176)
Foreign currency derivaties	(382)	(382)	-	-
Other Liabilities				
Long-term debt	(1,136,227)	(1,140,535)	(388,445)	(447,779)
Senior Notes [1]	(3,235,584)	(3,323,242)	(803,511)	(931,400)
Convertible debentures [2]	-	-	(2,450)	(4,165)
Obligations under finance lease	(65,787)	(80,899)	(95,976)	(101,734)

(1) Fair value of the 2009 senior notes is estimated using the last traded price, representing 111% of the face value of the 2009 senior notes as at December 31, 2012. The fair value of the 2011 Senior Notes is estimated using the last traded price, representing 116% of the face value of the 2011 senior notes as at December 31, 2013.

(2) The closing price of the convertible debenture (PRE.DB – TSX) at December 31, 2013 represented 170% of the face value of the convertible debenture. The fair value of the convertible debenture includes both the fair value of the conversion feature and the debt itself.

When drawn, bank debt bears interest at a floating rate and 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, accounts payable and accrued liabilities, their carrying values approximate their fair values.

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

	As at December 31, 2013		
	Quoted prices in active markets	**Significant Observable inputs**	**Significant unobservable inputs**
Financial instrument	**(Level 1)**	**(Level 2)**	**(Level 3)**
Assets held for trading			
Commodity price derivatives		287	
Loans and receivables			
Loan to Bicentenario		41,992	
Available-for-sale financial assets			
Investment in other assets	1,966		11,924
Liabilities held for trading			
Commodity price derivatives		(2,586)	
Foreign currency derivaties		(382)	
Liabilities designated as cash flow hedges			
Foreign currency derivatives		(2,081)	
Other Liabilities			
Senior Notes	(3,323,242)		
Other debt		(1,140,535)	
Obligations under finance lease		(80,899)	

	As at December 31, 2012		
	Quoted prices in active markets	**Significant Observable inputs**	**Significant unobservable inputs**
Financial instrument	**(Level 1)**	**(Level 2)**	**(Level 3)**
Assets held for trading			
Commodity price derivatives		1,023	
Foreign currency forward		3,047	
Loans and receivables			
Loan to Bicentenario		32,555	
Available-for-sale financial assets			
Investment in other assets	5,224		5,025
Assets held for trading			
Commodity price derivatives		22,590	
Liabilities designated as cash flow hedges			
Foreign currency derivatives		(3,176)	
Other Liabilities			
Long-term debt			
Senior Notes	(931,400)		
Other debt		(451,944)	
Obligations under finance lease		(101,734)	

The Company uses Level 1 inputs, being the last quoted price of the traded investments, to measure the fair value of its available-for-sale financial assets.

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.

(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.

The Company defines its capital as follows:

	As at December 31	
	2013	2012
Equity	$ 4,195,574	$ 3,973,598
Long-term debt	4,371,811	1,191,956
Convertible debentures	-	2,450
Working capital (surplus) deficit	(454,792)	278,680
	$ 8,112,593	$ 5,446,684

26. Supplemental Disclosure on Cash Flows

Changes in non-cash working capital are as follows:

	Year ended December 31	
	2013	2012
(Increase) decrease in accounts receivable	$ (192,700)	$ 170,595
Decrease (increase) in income taxes receivable	(65,410)	(14,358)
Increase in accounts payable and accruals	88,037	299,606
Decrease (increase) in inventories	50,943	62,807
Increase (decrease) in income taxes payable	(158,424)	(104,032)
Decrease (increase) in prepaid expenses	1,543	573
	$ (276,011)	$ 415,191

Other cash flow information is as follows:

	Year ended December 31	
	2013	2012
Cash income taxes paid	$ 704,106	$ 618,168
Cash interest paid	127,632	95,748
Cash interest received	2,719	3,778

27. Subsequent Events

a) Subsequent to December 31, 2013, the Company repurchased approximately 8.4 million of the Company's common shares at an average share price of C$16.31, for a total of $124 million.

28. 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.