Pacific Rubiales Energy

Interim Condensed Consolidated Financial Statements
(Unaudited)

For the three and nine months ending September 30, 2014 and 2013

PACIFIC RUBIALES ENERGY CORP.

Interim Condensed Consolidated Statements of Income

(In thousands of U.S. Dollars, except per share information; unaudited)	Notes	Three months ended September 30 2014	Three months ended September 30 2013*	Nine months ended September 30 2014	Nine months ended September 30 2013*
Oil and gas sales	4	$ 1,330,395	$ 1,109,973	$ 3,958,514	$ 3,424,308
Cost of operations					
Production and operating costs	5	576,355	422,340	1,555,736	1,288,914
Fees paid on suspended pipeline capacity	6	21,921	-	75,625	-
Depletion, depreciation and amortization		407,280	369,778	1,165,625	1,034,787
General and administrative		97,040	75,500	262,344	223,764
Share-based compensation	23c	27,180	5,184	30,271	41,121
Earnings from operations		200,619	237,171	868,913	835,722
Finance costs		(61,412)	(34,451)	(187,562)	(119,104)
Share of gain (loss) of equity-accounted investees	16	284	(12,101)	15,687	(13,920)
Foreign exchange gain (loss)		(22,841)	767	(10,972)	9,203
Gain (loss) on risk management	25d	8,005	(6,143)	9,330	(12,331)
Other income (expenses)	3,24h	57,983	(14,817)	22,833	(35,377)
Net earnings before income tax		182,638	170,426	718,229	664,193
Current income tax	7	(7,898)	(109,116)	(268,133)	(371,779)
Deferred income tax	7	(171,580)	20,983	(100,200)	(13,968)
Net earnings for the period		$ 3,160	$ 82,293	$ 349,896	$ 278,446
Attributable to:					
Equity holders of the parent		3,484	84,013	351,251	285,670
Non-controlling interests		(324)	(1,720)	(1,355)	(7,224)
		$ 3,160	$ 82,293	$ 349,896	$ 278,446
Basic earnings per share attributable to equity holders of the parent	8	$ 0.01	$ 0.26	$ 1.11	$ 0.89
Diluted earnings per share attributable to equity holders of the parent	8	$ 0.01	$ 0.26	$ 1.11	$ 0.88

**Certain amounts have been restated upon the first-time adoption of IFRS 9 (Note 28) and finalization of the purchase price allocation of the C&C acquisition (Note 3).*

See accompanying notes to the Interim Condensed Consolidated Financial Statements

PACIFIC RUBIALES ENERGY CORP.

Interim Condensed Consolidated Statements of Comprehensive Income

(In thousands of U.S. Dollars; unaudited)	Notes	Three months ended September 30 2014	Three months ended September 30 2013 *	Nine months ended September 30 2014	Nine months ended September 30 2013*
Net earnings for the period		$ 3,160	$ 82,293	$ 349,896	$ 278,446
Other comprehensive income (loss) to be reclassified to net earnings in subsequent periods (nil tax effect)					
Foreign currency translation		(41,817)	2,849	(32,695)	(33,985)
Fair value adjustments on available-for-sale financial assets		-	-	301	-
Unrealized gain (loss) on cash flow hedges	25d	(3,849)	2,234	(2,434)	(22,480)
Unrealized gain (loss) on the time value of cash flow hedges		7,144	7,460	5,186	1,777
Realized (gain) loss on cash flow hedges transferred to earnings	25d	(344)	1,083	331	(3,867)
		(38,866)	13,626	(29,311)	(58,555)
Total comprehensive income for the period		$ (35,706)	$ 95,919	$ 320,585	$ 219,891
Attributable to:					
Equity holders of the parent		$ (35,382)	$ 97,639	$ 321,940	$ 227,115
Non-controlling interests		(324)	(1,720)	(1,355)	(7,224)
		$ (35,706)	$ 95,919	$ 320,585	$ 219,891

**Certain amounts have been restated upon the first-time adoption of IFRS 9 (Note 28) and finalization of the purchase price allocation of the C&C acquisition (Note 3).*

See accompanying notes to the Interim Condensed Consolidated Financial Statements

PACIFIC RUBIALES ENERGY CORP.

Interim Condensed Consolidated Statements of Financial Position

(In thousands of U.S. Dollars; unaudited)	Notes	As at September 30 2014	As at December 31 2013*
ASSETS			
Current			
Cash and cash equivalents		$ 478,321	$ 632,503
Restricted cash		1,237	1,630
Accounts receivables	25b	1,021,316	1,038,162
Inventories	10	83,290	59,526
Income tax receivable		98,415	132,226
Prepaid expenses		1,347	2,760
Assets held for sale	18	-	377,544
Risk management assets	25d	15,544	2,148
		1,699,470	2,246,499
Non-current			
Oil and gas properties	11	6,118,170	5,483,011
Exploration and evaluation assets	12	2,337,534	2,014,804
Plant and equipment	13	138,469	125,600
Intangible assets	14	82,758	105,813
Investments in associates	16	658,342	659,111
Other assets	17	173,994	55,990
Goodwill	15	487,478	501,249
Restricted cash		18,667	15,350
		$ 11,714,882	$ 11,207,427
LIABILITIES			
Current			
Accounts payable and accrued liabilities		$ 1,894,873	$ 1,683,179
Risk management liability	25d	8,080	6,910
Income tax payable		29,675	106,250
Current portion of long-term debt	19	157,661	553,571
Current portion of obligations under finance lease	21	16,887	17,807
		2,107,176	2,367,717
Non-current			
Long-term debt	19	4,364,892	3,818,240
Obligations under finance lease	21	37,444	47,980
Deferred tax liability	7	650,384	544,981
Asset retirement obligation	20	263,615	201,576
		7,423,511	6,980,494
EQUITY			
Common shares	23a	2,633,405	2,667,820
Contributed surplus		84,933	157,810
Other reserves		(51,651)	(22,340)
Retained earnings		1,587,669	1,392,284
Equity attributable to equity holders of the parent		4,254,356	4,195,574
Non-controlling interests		37,015	31,359
Total equity		4,291,371	4,226,933
		$ 11,714,882	$ 11,207,427

**Certain amounts have been restated upon the first-time adoption of IFRS 9 (Note 28) and finalization of the purchase price allocation of the C&C acquisition (Note 3).*

See accompanying notes to the Interim Condensed Consolidated Financial Statements

PACIFIC RUBIALES ENERGY CORP.

Interim Condensed Consolidated Statements of Changes in Equity

For the nine months ended September 30, 2014

(In thousands of U.S. Dollars; unaudited)	Note	Attributable to equity holders of parent: Common Shares	Contributed Surplus	Retained Earnings	Cash flow hedge	Time Value Reserves	Foreign currency translation	Fair value Investment	Total	Non-controlling interests	Total Equity
As at December 31, 2013		$ 2,667,820	$ 157,810	$ 1,392,284	$ 1,093	$ (3,092)	$ (17,083)	$ (3,258)	$ 4,195,574	$ 31,359	$ 4,226,933
Net earnings for the period		-	-	119,240	-	-	-	-	119,240	(730)	118,510
Other comprehensive income		-	-	-	(2,417)	(1,000)	(16,089)	795	(18,711)	-	(18,711)
Total comprehensive income		-	-	119,240	(2,417)	(1,000)	(16,089)	795	100,529	(730)	99,799
Share-based compensation		-	-	-	-	-	-	-	-	4	4
Dividends paid	9	-	-	(51,933)	-	-	-	-	(51,933)	-	(51,933)
Repurchase of shares	23	(75,281)	(58,895)	-	-	-	-	-	(134,176)	-	(134,176)
As at March 31, 2014		$ 2,592,539	$ 98,915	$ 1,459,591	$ (1,324)	$ (4,092)	$ (33,172)	$ (2,463)	$ 4,109,994	$ 30,633	$ 4,140,627
Net earnings for the period		-	-	228,527	-	-	-	-	228,527	-	228,527
Other comprehensive income		-	-	-	4,507	(958)	25,211	(494)	28,266	(301)	27,965
Total comprehensive income		-	-	228,527	4,507	(958)	25,211	(494)	256,793	(301)	256,492
Exercise of options	23	16,763	(5,684)	-	-	-	-	-	11,079	-	11,079
Share-based compensation		-	-	-	-	-	-	-	-	3	3
Dividends paid	9	-	-	(51,858)	-	-	-	-	(51,858)	-	(51,858)
As at June 30, 2014		$ 2,609,302	$ 93,231	$ 1,636,260	$ 3,183	$ (5,050)	$ (7,961)	$ (2,957)	$ 4,326,008	$ 30,335	$ 4,356,343
Net earnings for the period		-	-	3,484	-	-	-	-	3,484	-	3,484
Other comprehensive income		-	-	-	(4,193)	7,144	(41,817)	-	(38,866)	(324)	(39,190)
Total comprehensive income		-	-	3,484	(4,193)	7,144	(41,817)	-	(35,382)	(324)	(35,706)
Exercise of options	23	24,103	(8,298)	-	-	-	-	-	15,805	-	15,805
Share-based compensation		-	-	-	-	-	-	-	-	3	3
Dividends paid	9	-	-	(52,075)	-	-	-	-	(52,075)	-	(52,075)
Share-based issuance by subsidiary		-	-	-	-	-	-	-	-	7,001	7,001
As at September 30, 2014		$ 2,633,405	$ 84,933	$ 1,587,669	$ (1,010)	$ 2,094	$ (49,778)	$ (2,957)	$ 4,254,356	$ 37,015	$ 4,291,371

PACIFIC RUBIALES ENERGY CORP.

Interim Condensed Consolidated Statements of Changes in Equity (Continued)

For the nine months ended September 30, 2013

(In thousands of U.S. Dollars; unaudited)	Note	Attributable to equity holders of parent: Common Shares	Contributed Surplus	Retained Earnings	Cash flow hedge	Time Value Reserves	Foreign currency translation	Total	Non-controlling interests	Total Equity
As at December 31, 2012		$ 2,623,993	$ 157,159	$ 1,161,962	$ 27,505	$ (7,415)	$ 10,394	$ 3,973,598	$ -	$ 3,973,598
Net earnings for the period		-	-	127,378	-	-	-	127,378	(1,156)	126,222
Other comprehensive income		-	-	-	(18,143)	2,864	(12,824)	(28,103)	(1,638)	(29,741)
Total comprehensive income		-	-	127,378	(18,143)	2,864	(12,824)	99,275	(2,794)	96,481
Issued on exercise of options		43,576	(12,752)	-	-	-	-	30,824	-	30,824
Issued on conversion of convertible debentures		7	-	-	-	-	-	7	-	7
Share-based compensation		-	34,849	-	-	-	-	34,849	-	34,849
Dividends paid	9	-	-	(35,458)	-	-	-	(35,458)	-	(35,458)
Acquisition of subsidiary	3	-	-	-	-	-	-	-	135,592	135,592
As at March 31, 2013		$ 2,667,576	$ 179,256	$ 1,253,882	$ 9,362	$ (4,551)	$ (2,430)	$ 4,103,095	$ 132,798	$ 4,235,893
Net earnings for the period		-	-	74,279	-	-	-	74,279	(4,348)	69,931
Other comprehensive income		-	-	-	(11,521)	(8,547)	(19,289)	(39,357)	(3,083)	(42,440)
Total comprehensive income		-	-	74,279	(11,521)	(8,547)	(19,289)	34,922	(7,431)	27,491
Issued on exercise of options		7,110	(1,894)	-	-	-	-	5,216	-	5,216
Share-based compensation		-	6	-	-	-	-	6	-	6
Dividends paid	9	-	-	(53,363)	-	-	-	(53,363)	-	(53,363)
Acquisition of subsidiary		-	-	-	-	-	-	-	32,400	32,400
Transaction with non-controlling interest		-	-	-	-	-	-	-	(2,361)	(2,361)
As at June 30, 2013		$ 2,674,686	$ 177,368	$ 1,274,798	$ (2,159)	$ (13,098)	$ (21,719)	$ 4,089,876	$ 155,406	$ 4,245,282
Net earnings for the period		-	-	84,013	-	-	-	84,013	(1,720)	82,293
Other comprehensive income		-	-	-	3,317	7,460	2,385	13,162	464	13,626
Total comprehensive income		-	-	84,013	3,317	7,460	2,385	97,175	(1,256)	95,919
Issued on exercise of options		323	(111)	-	-	-	-	212	-	212
Issued on conversion of convertible debentures		3,688	-	-	-	-	-	3,688	-	3,688
Share-based compensation		-	-	-	-	-	-	-	3,830	3,830
Dividends paid	9	-	-	(53,394)	-	-	-	(53,394)	-	(53,394)
Transaction with non-controlling interest		-	-	-	-	-	-	-	(279)	(279)
As at September 30, 2013		$ 2,678,697	$ 177,257	$ 1,305,417	$ 1,158	$ (5,638)	$ (19,334)	$ 4,137,557	$ 157,701	$ 4,295,258

*Certain amounts have been restated upon the first-time adoption of IFRS 9 (Note 28) and finalization of the purchase price allocation of the C&C acquisition (Note 3).

See accompanying notes to the Interim Condensed Consolidated Financial Statements

PACIFIC RUBIALES ENERGY CORP.

Interim Condensed Consolidated Statements of Cash Flows

(In thousands of U.S. Dollars; unaudited)	Notes	Three months ended September 30 2014	Three months ended September 30 2013*	Nine months ended September 30 2014	Nine months ended September 30 2013*
OPERATING ACTIVITIES					
Net earnings for the period		$ 3,160	$ 82,293	$ 349,896	$ 278,446
Items not affecting cash:					
Depletion, depreciation and amortization		407,280	369,778	1,165,625	1,034,787
Accretion expense		5,000	2,225	19,983	13,062
Unrealized (gain) loss on risk management contracts	25d	(8,392)	6,089	756	12,277
Share-based compensation		27,504	3,830	28,872	38,685
(Gain) loss on cash flow hedges included in operating expense	25d	(344)	1,083	331	(3,867)
Deferred income tax (recovery) expense	7	171,580	(20,983)	100,200	13,968
Unrealized foreign exchange (gain) loss		30,507	(2,743)	(8,707)	43,882
Share of (gain) loss of equity-accounted investees	16	(284)	12,101	(15,687)	13,920
Gain on acquisition of control		(61,891)	-	(61,891)	(10,325)
Cash distributions from associate	16	38,076	-	38,076	-
Other		(5,982)	1,427	(5,982)	1,427
Changes in non-cash working capital	26	(7,147)	(23,395)	(116,832)	(272,843)
Net cash provided by operating activities		599,067	431,705	1,494,640	1,163,419
INVESTING ACTIVITIES					
Additions to oil and gas properties and plant and equipment		(462,681)	(473,733)	(1,131,911)	(1,179,689)
Additions to exploration and evaluation assets		(196,537)	(112,966)	(516,100)	(299,033)
Additions to intangible assets		-	-	-	(3,911)
Investment in associates and other assets		(27,238)	(19,447)	(54,865)	(282,526)
Proceeds from sale of assets held for sale		-	-	267,544	-
(Increase) decrease in restricted cash		10,270	7,244	(3,739)	449
Business acquisitions net cash outflow	3	(68,000)	-	(68,000)	9,108
Net cash used in investing activities		(744,186)	(598,902)	(1,507,071)	(1,755,602)
FINANCING ACTIVITIES					
Advances from debt and Senior Notes	19	1,220,000	170,000	1,880,750	1,654,343
Repayment of debt		(941,683)	(8,917)	(1,747,130)	(786,523)
Transaction costs		(12,727)	(16,285)	(12,727)	(44,947)
Proceeds from the exercise of warrants and options	23	15,805	212	26,884	36,259
Dividends paid	9	(52,075)	(53,394)	(155,866)	(142,215)
Repurchase of common shares	23	-	-	(134,176)	-
Net cash provided (used) by financing activities		229,320	91,616	(142,265)	716,917
Effect of exchange rate changes on cash and cash equivalents		(2,293)	(7,542)	514	(12,773)
Change in cash and cash equivalents during the period		81,908	(83,123)	(154,182)	111,961
Cash and cash equivalents, beginning of the period		396,413	438,774	632,503	243,690
Cash and cash equivalents, end of the period		$ 478,321	$ 355,651	$ 478,321	$ 355,651
Cash		$ 412,781	$ 308,448	$ 412,781	$ 308,448
Short-term money market instruments		65,540	47,203	65,540	47,203
		$ 478,321	$ 355,651	$ 478,321	$ 355,651

**Certain amounts have been restated upon the first-time adoption of IFRS 9 (Note 28) and finalization of the purchase price allocation of the C&C acquisition (Note 3).*

See accompanying notes to the Interim Condensed Consolidated Financial Statements

1. Corporate Information

Pacific Rubiales Energy Corp. (the "**Company**") is an oil and gas company incorporated in Canada and engaged in the exploration, development and production of crude oil and natural gas in Colombia, Peru, Brazil, Guatemala, Papua New Guinea, Guyana and Belize. The Company's common shares are listed and publicly traded on the Toronto Stock Exchange and the Bolsa de Valores de Colombia (or the Colombian Stock Exchange). The Brazilian Depositary Receipts representing the Company's common shares ("**BDRs**") are traded on Bolsa de Valores Mercadorias e Futuros (or the Brazilian Stock Exchange). The Company's registered office is located at Suite 650 – 1188 West Georgia Street, Vancouver, British Columbia, V6E 4A2, Canada and it also has corporate offices in Toronto, Canada and Bogota, Colombia.

These Interim Condensed Consolidated Financial Statements of the Company were authorized for issuance by the Audit Committee of the Board of Directors on November 4, 2014.

2. Basis of Preparation and Significant Accounting Policies

The Interim Condensed Consolidated Financial Statements for the three and nine months ending September 30, 2014 have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

The Interim Condensed Consolidated Financial Statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company's annual financial statements as at December 31, 2013.

New Standards, Interpretations and Amendments Adopted by the Company

The accounting policies used in the preparation of the Interim Condensed Consolidated Financial Statements are consistent with those followed in the preparation of the Company's Annual Consolidated Financial Statements for the year that ended December 31, 2013, except for the adoption of new standards and interpretations effective as of January 1, 2014, as described below.

IFRIC 21 Levies

IFRIC 21 is effective for annual periods beginning on or after January 1, 2014 and is applied retrospectively. It is applicable for all levies imposed by governmental under legislation, other than outflows that are within the scope of other standards (e.g., IAS 12 *Income Taxes*), as well as fines or other penalties for breaches of legislation.

The interpretation clarifies that an entity recognizes a liability for a levy no earlier than when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, no liability is recognized before the specified minimum threshold is reached. The interpretation requires these same principles to be applied in the interim financial statements. The adoption of IFRIC 21 did not have any material impact on the Company's Interim Condensed Consolidated Financial Statements.

IFRS 9 Financial Instruments

As of January 1, 2014, the Company early adopted IFRS 9 (2013) - Financial Instruments ("**IFRS 9 (2013)**"), which was issued by the International Accounting Standards Board ("**IASB**") in November 2013. IFRS 9 (2013) replaces International Accounting Standard 39 – Financial Instruments: Recognition and Measurement ("**IAS 39**") and addresses accounting for financial instruments including hedge accounting. Upon adoption of IFRS 9 (2013) certain comparative figures were restated and the impact of such restatement on the financial position of the Company and results of operations are disclosed in Note 28.

These are the Company's third Interim Condensed Consolidated Financial Statements prepared in accordance with IFRS 9 (2013), which the Company expects to adopt in its annual consolidated financial statements for the year ending December 31, 2014. The transition to IFRS 9 (2013) resulted in changes to some of the Company's previous accounting policies as applied and disclosed in the consolidated financial statements for the year that ended December 31, 2013. The revised accounting policies affected by the early adoption of IFRS 9 (2013) have been included in Note 28.

Financial Instruments

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

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

Financial Assets

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

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

- The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows.

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

- The asset was not acquired principally for the purpose of selling in the near term or management for short-term profit taking (held for trading).

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

On the day of acquisition of an equity instrument, the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at fair value through other comprehensive income ("**FVTOCI**"). Designation at FVTOCI is not permitted if the equity investment is held for trading. Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently they are measured at fair value, with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in the fair value instrument. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the investments. The Company has designated all investments in equity instruments as FVTOCI on initial application of IFRS 9 (2013) (see Note 25).

Financial Liabilities

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

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

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

Derivative Financial Instruments

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

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

Embedded Derivatives

Derivatives embedded in non-derivative host contracts that are not financial assets within the scope of IFRS 9 (2013) (e.g. financial liabilities) are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL. Fair value is determined in the manner described in Note 25.

Hedge Accounting

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

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

Cash Flow Hedges

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

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

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

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

Standards Issued but Not Yet Effective

IFRS 15 Revenue from Contracts with Customers

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

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

IFRS 9 (2014)

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

3. Business Acquisitions

Information on Current-Year Acquisitions

Cubiro and Arrendajo Blocks

During the three months ending September 30, 2014, the Company completed the acquisition of the remaining interests in the Cubiro Block and the Arrendajo Block in Colombia that it did not already own, from LAEFM Colombia Ltda ("**LAEFM**"). The transactions were completed upon the signing of the definitive agreements for Cubiro and Arrendajo on August 12 and September 15 of 2014, respectively, which are deemed under IFRS 3 to be the dates on which the business combination occurred. Notwithstanding the above, the signed agreements specify that revenues and costs corresponding to LAEFM's interests were legally transferred to the Company effective April 1, 2014 for Cubiro and July 1, 2014 for Arrendajo. Prior to the completion of this acquisition, Cubiro and Arrendajo were recognized as joint operations pursuant to certain private participation agreements previously entered into by the Company with LAEFM. The consideration for the two transactions consisted of $250 million in cash, as well as contingent consideration of $21.93 per barrel of proven and probable oil reserves upon the certification of certain areas on the Cubiro Block as at December 31, 2014.

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

	Arrendajo	Cubiro	Total
Purchase price			
Fair value of previously held joint operations	$ 49,620	$ 371,227	$ 420,847
Cash consideration paid	-	68,000	68,000
Consideration payable (current)	22,000	160,000	182,000
Contingent payment (current)	-	27,000	27,000
Total purchase price	$ 71,620	$ 626,227	$ 697,847
Fair value of assets acquired and liabilities assumed			
Oil and gas properties (Note 11)	72,457	706,904	779,361
Asset retirement obligation	(837)	(40,177)	(41,014)
Net non-cash working capital	-	(40,500)	(40,500)
Total net assets acquired	$ 71,620	$ 626,227	$ 697,847
	$ 71,620	$ 626,227	$ 697,847

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

If the acquisition of Cubiro and Arrendajo had been completed on January 1, 2014, the consolidated statements of income for the nine months that ended September 30, 2014, would have included total Revenue, Operating Costs and Net Income of $4,003 million, $890 million and $365 million respectively.

In accordance with IFRS 3 Business Combinations, a business combination is defined as a transaction in which an acquirer obtains control of a business, which is described as an integrated set of activities and assets that is capable of being conducted and managed to provide a return to investors. The identifiable assets acquired and the liabilities assumed are recorded at fair values as at the acquisition date.

As of the date of these Consolidated Interim Financial Statements, the allocation of the purchase consideration is based on preliminary estimates in regards to the fair value of the assets acquired and the contingency consideration and has not been finalized. The actual fair value of the contingent consideration may differ from the amount disclosed in the preliminary purchase price allocation and is subject to change.

Information on Prior-Year Acquisitions

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

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

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

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

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

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

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

On November 28, 2013 the Company completed the acquisition of Petrominerales Ltd ("**PMG**") by acquiring all of its issued and outstanding shares for approximately $1,000 million, the assumption of net debt of approximately $753 million and the transfer of approximately $86 million of seed capital to a newly formed exploration and production company consisting of PMG's Brazilian assets. PMG was an international oil and gas company involved in the exploration, development and production of crude oil in Colombia, Peru and Brazil.

During the nine months ending September 30, 2014, the fair value of the assets held for sale (the OCENSA pipeline interest) was finalized. The finalization of the fair value resulted in the following changes to the preliminary purchase price allocation: a decrease in assets held for sale by $7.1 million, an increase to goodwill by $4.6 million, and a decrease to deferred tax liabilities by $2.5 million. The Company is still in the process of finalizing the fair value of the oil and gas assets and property and the equipment acquired.

*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.**"), who had the remaining 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 was completed in December 2013 upon approval by the Colombian regulator and the Company expects to finalize the purchase price during the fourth quarter of 2014.

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

On December 31, 2012 the Company completed the acquisition of C&C, an oil and gas company engaged in the exploration and development of oil resources in Colombia. On December 31, 2013 the Company finalized the fair values of the assets acquired, resulting in an adjustment to the preliminary purchase price allocation. The effect of the adjustment for the three and nine months ending September 30, 2013 was a decrease of $14.4 million and $39.3 million respectively to the previously reported depreciation, depletion, and amortization, and an increase of $4.8 million and $13.3 million respectively to deferred income tax expense.

4. Segmented Information

The Company is organized into business units based on the main types of activities and has one reportable segment as at September 30, 2014: the exploration, development, and production of heavy crude oil and gas in Colombia. The

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Company's assets in other countries are still in the early stages of development and are not significant: therefore, they are not considered a reportable segment as at September 30, 2014. The Company manages its operations to reflect differences in the regulatory environments and risk factors of each country.

As at September 30, 2014, all of the Company's assets are located in Colombia except for $68.4 million (December 31, 2013: $328 million) in cash and cash equivalents held in Canada and the United States; $957 million (December 31, 2013: $776 million) of non-current assets in Peru; $150 million (December 31, 2013: $127 million) of non-current assets in Papua New Guinea; $49 million (December 31, 2013: $35 million) of non-current assets in Guatemala; $328 million (December 31, 2013: $291 million) of non-current assets in Brazil; $12 million (December 31, 2013: $12.4 million) of non-current assets in Belize and $54 million of non-current assets in Guyana (December 31, 2013: $44 million).

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

	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Asia	$ 1,048,834	$ 90,635	$ 2,515,047	$ 690,782
North and Central America	98,608	565,851	745,648	1,897,020
Europe	126,736	398,134	519,976	643,399
Colombia	35,764	42,704	111,611	154,077
Peru	20,453	12,649	66,232	39,030
	$ 1,330,395	$ 1,109,973	$ 3,958,514	$ 3,424,308

5. Production and Operating Costs

	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Oil and gas operating costs	$ 577,148	$ 436,025	$ 1,618,054	$ 1,336,951
Overlift	(793)	(13,685)	(62,318)	(48,037)
Total	$ 576,355	$ 422,340	$ 1,555,736	$ 1,288,914

6. Fees Paid on Suspended Pipeline

Beginning in mid-February 2014, the Bicentenario pipeline (Note 16) has experienced periodic suspensions following security related disruptions. Under the take-or-pay agreement between the Company and Bicentenario, the Company has recognized a net expense of $21.9 million and $75.6 million in take-or-pay fees to Bicentenario during the three and nine months ending September 30, 2014 for the disrupted pipeline capacity. As of September 30, 2014, the pipeline had resumed regular operations.

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

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:

	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Net earnings before income taxes	$ 182,638	$ 170,426	$ 718,229	664,193
Canadian statutory income tax rate	26.50%	26.50%	26.50%	26.50%
Income tax expense at statutory rate	48,399	45,163	190,331	176,011
Increase (decrease) in income tax provision resulting from:				
Other (non-taxable) non-deductible expenses	(10,946)	4,360	(13,137)	12,142
Foreign exchange impact on deferred income tax	82,189	(1,746)	68,129	78,602
Share-based compensation	7,861	360	8,678	9,882
Risk management gain (loss)	(4,052)	1,397	(4,200)	1,101
Differences in tax rates in foreign jurisdictions	14,603	20,558	63,546	67,245
Losses for which no tax benefit is recorded	41,424	18,041	54,986	40,764
Income tax expense	$ 179,478	$ 88,133	$ 368,333	$ 385,747
Current income tax expense	7,898	109,116	268,133	371,779
Deferred income tax (recovery) expense :				
Relating to origination and reversal of temporary differences	171,580	(20,983)	100,200	13,968
Income tax expense	$ 179,478	$ 88,133	$ 368,333	$ 385,747

The Company’s deferred tax relates to the following:

	As at September 30 2014	As at December 31 2013
Tax loss carry forwards	$ 28,997	16,477
Oil and gas properties and equipment	(674,851)	(656,678)
Other	(4,530)	95,220
Deferred tax liability	$ (650,384)	$ (544,981)

The Canadian statutory combined income tax rate was 26.5% as at September 30, 2014 and for 2013. The Peruvian statutory income tax rate was 30% as at September 30, 2014 and for 2013. The Peruvian income tax rate for Block Z-1 was 22% as at September 30, 2014 and for 2013.

The Colombian statutory tax rate as at September 30, 2014 was 34%, which includes the general income tax rate of 25% and the fairness tax (“**CREE**”) rate of 9%.

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.

	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Net earnings attributable to equity holders of the parent	$ 3,484	$ 84,013	$ 351,251	$ 285,670
Basic weighted average number of shares	314,707,053	323,404,942	315,363,296	322,590,968
Effects of dilution	1,499,548	2,688,182	1,257,604	3,097,829
Diluted weighted average number of shares	316,206,601	326,093,124	316,620,900	325,688,797
Basic earnings per share attributable to equity holders of the parent	$ 0.01	$ 0.26	$ 1.11	$ 0.89
Diluted earnings per share attributable to equity holders of the parent	$ 0.01	$ 0.26	$ 1.11	$ 0.88

The Company excludes all options that are anti-dilutive from the diluted weighted average number of common shares, when applicable.

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

9. Dividends Paid

	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Declared and paid	$ 52,075	$ 53,394	$ 155,866	$ 142,215
Dividend per common share	$ 0.17	$ 0.17	$ 0.49	$ 0.44

10. Inventories

	As at September 30 2014	As at December 31 2013
Crude oil and gas	$ 55,715	$ 42,272
Materials and supplies	27,575	17,254
	$ 83,290	$ 59,526

11. Oil and Gas Properties

Cost	
Cost as at December 31, 2013	$ 8,553,964
Additions	327,807
Transfer from exploration and evaluation assets (Note 12)	127,817
Disposals	(27,861)
Currency translation adjustment	(9,111)
Change in asset retirement obligation	(4,530)
Cost as at March 31, 2014	$ 8,968,086
Additions	340,473
Transfer from exploration and evaluation assets (Note 12)	9,661
Currency translation adjustment	6,775
Change in asset retirement obligation	24,675
Cost as at June 30, 2014	$ 9,349,670
Additions	470,364
Transfer from exploration and evaluation assets (Note 12)	61,882
Net acquisition of Cubiro and Arrendajo (Note 3)	263,174
Currency translation adjustment	(13,320)
Change in asset retirement obligation	34,014
Cost as at September 30, 2014	$ 10,165,784

Accumulated depletion	
Accumulated depletion as at December 31, 2013	$ 3,070,953
Disposals	(1,890)
Charge for the period	359,795
Accumulated depletion as at March 31, 2014	$ 3,428,858
Charge for the period	369,176
Accumulated depletion as at June 30, 2014	$ 3,798,034
Charge for the period	379,565
Deemed disposition of Cubiro and Arrendajo	(129,985)
Accumulated depletion as at September 30, 2014	$ 4,047,614

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

Net book value		
As at December 31, 2013	$	5,483,011
As at March 31, 2014		5,539,228
As at June 30, 2014		5,551,636
As at September 30, 2014		6,118,170

12. Exploration and Evaluation Assets

As at December 31, 2013	$	2,014,804
Additions		169,478
Disposal		(6,570)
Transfer to oil and gas properties (Note 11)		(127,817)
As at March 31, 2014	$	2,049,895
Additions		156,655
Impairment		(2,063)
Transfer to oil and gas properties (Note 11)		(9,661)
As at June 30, 2014	$	2,194,826
Additions		205,702
Impairment		(1,112)
Transfer to oil and gas properties (Note 11)		(61,882)
As at September 30, 2014	$	2,337,534

13. Plant and Equipment

Cost	Land & buildings	Assets under construction	Other plant & equipment	Total
Cost as at December 31, 2013	$ 57,991	$ 6,977	$ 134,346	$ 199,314
Additions	-	88	7,910	7,998
Cost as at March 31, 2014	$ 57,991	$ 7,065	$ 142,256	$ 207,312
Additions	-	-	18,520	18,520
Cost as at June 30, 2014	$ 57,991	$ 7,065	$ 160,776	$ 225,832
Additions	-	-	10,162	10,162
Cost as at September 30, 2014	$ 57,991	$ 7,065	$ 170,938	$ 235,994
Accumulated depreciation				
Accumulated depreciation as at December 31, 2013	$ 25,814	$ -	$ 47,900	$ 73,714
Charge for the period	3,062	-	4,480	7,542
Accumulated depreciation as at March 31, 2014	$ 28,876	$ -	$ 52,380	$ 81,256
Charge for the period	1,833	-	6,662	8,495
Accumulated depreciation as at June 30, 2014	$ 30,709	$ -	$ 59,042	$ 89,751
Charge for the period	2,286		5,488	7,774
Accumulated depreciation as at September 30, 2014	$ 32,995	$ -	$ 64,530	$ 97,525
Net book value				
As at December 31, 2013	$ 32,177	$ 6,977	$ 86,446	$ 125,600
As at March 31, 2014	29,115	7,065	89,876	126,056
As at June 30, 2014	27,282	7,065	101,734	136,081
As at September 30, 2014	24,996	7,065	106,408	138,469

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

14. Intangible Assets

Cost		Capacity Rights
Cost as at December 31, 2013, March 31 and June 30, 2014	$	202,919
Accumulated amortization		
Accumulated amortization as at December 31, 2013	$	97,106
Charge for the period		7,626
Accumulated amortization as at March 31, 2014	$	104,732
Charge for the period		7,746
Accumulated amortization as at June 30, 2014	$	112,478
Charge for the period		7,683
Accumulated amortization as at September 30, 2014	$	120,161
Net book value		
As at December 31, 2013	$	105,813
As at March 31, 2014		98,187
As at June 30, 2014		90,441
As at September 30, 2014		82,758

Capacity rights are comprised of 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

Cost		
Cost as at December 31, 2013, March 31 and June 30, 2014	$	501,249
Derecognition on Cubiro and Arrendajo transaction (Note 3)		(13,771)
Cost as at September 30, 2014	$	487,478

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

16. Investments in Associates

	ODL	Bicentenario	PII	Pacific Power	Pacific Coal	Total
As at December 31, 2013	$ 191,413	$ 216,598	$ 219,417	$ 22,228	$ 9,455	$ 659,111
Investment	-	8,550	-	-	-	8,550
Income (loss) from equity investments	14,572	3,960	(1,431)	50	(88)	17,063
Foreign currency translation	(4,022)	(2,555)	(2,034)	-	-	(8,611)
As at March 31, 2014	$ 201,963	$ 226,553	$ 215,952	$ 22,278	$ 9,367	$ 676,113
Investment	-	8,636	-	-	-	8,636
Income (loss) from equity investments	5,306	(7,213)	134	(50)	163	(1,660)
Foreign currency translation	9,493	7,186	4,953	-	-	21,632
As at June 30, 2014	$ 216,762	$ 235,162	$ 221,039	$ 22,228	$ 9,530	$ 704,721
Investment	18,023	9,215	-	-	-	27,238
Income (loss) from equity investments	155	1,018	(2,380)	3,451	(1,960)	284
Foreign currency translation	(13,618)	(12,412)	(9,795)	-	-	(35,825)
Dividends	(38,076)	-	-	-	-	(38,076)
As at September 30, 2014	$ 183,246	$ 232,983	$ 208,864	$ 25,679	$ 7,570	$ 658,342

Set out below are the investments in associates. Investments in associates are accounted for using the equity method, with the Company's proportionate share of the associates' net income or loss recognized in the Interim Condensed 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.ODL'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 Company has take-or-pay contracts with ODL for the transportation of crude oil from the Rubiales field to Colombia's oil transportation system for a total commitment of $145 million from 2014 to 2020.

*Oleoducto Bicentenario de Colombia ("**Bicentenario**")*

Bicentenario is a corporation established and owned by a consortium of oil producers operating in Colombia led by Ecopetrol; the Company owns 43%. Bicentenario operates a private-use oil pipeline in Colombia between Casanare and Coveñas. 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 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 $1.7 billion from 2014 to 2025. The Bicentenario pipeline has experienced ongoing periods of security-related disruptions since February 2014. During the three and nine months ending September 30, 2014, the Company paid $44 million and $132.5 million respectively under the take-or pay contract for which no transport service was received. During the three months ending September 30, 2014, Bicentenario paid the Company $20 million, which represents the Company's share of the amount distributed to all shareholders of Bicentenario to compensate for the disrupted pipeline service.

*Pacific Infrastructure Ventures Inc. ("**PII**")*

PII is a Panamanian company established for the purpose of developing an export terminal, an industrial park, and a free trade zone in Cartagena. The Company's interest in PII is 41.65% and it holds two board seats in PII. The functional currency of PII is the U.S. dollar.

*Pacific Power Generation Corp ("**Pacific Power**")*

The investment in Pacific Power represents a 24.9% indirect interest in Promotora de Energia Electrica de Cartagena & Cia, S.C.A. ESP ("**Proelectrica**"). Proelectrica is a private, Cartagena, Colombia-based 90-megawatt electrical utility peak demand supplier to the local Cartagena utility. The functional currency of Pacific Power is the U.S. dollar.

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

*Pacific Coal Resources Ltd. (“**Pacific Coal**”)*

Pacific Coal is engaged in the acquisition and development of coal mining assets and related businesses in Colombia. The Company’s interest is 14.35% and the functional currency of Pacific Power 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 received cash dividends of $38 million from its equity-accounted investments during the three and nine months that ended September 30, 2014 (2013: Nil).

17. Other Assets

	As at September 30 2014		As at December 31 2013	
Bicentenario loan and prepayments	$	126,987	$	41,992
Financial assets		34,507		13,998
Farm-in interests		12,500		-
	$	173,994	$	55,990

Bicentenario Loan and Prepayments

During 2011 the Company, along with the other shareholders of Bicentenario, entered into certain subordinated loan agreements with Bicentenario. As at September 30, 2014, Bicentenario has the option to draw down an additional $97.3 million (December 31, 2013: $97.3 million) pursuant to these agreements. The principal of the subordinated loan will be repaid in 10 equal semi-annual installments starting in 2025 or earlier, after Bicentenario has repaid its bank loans in full. The loans carry an annual interest rate of 7.32%. As at September 30, 2014 the balance of loans outstanding to the Company under the agreement is $42 million (December 31, 2013: $42 million), representing the amounts advanced less repayments. Interest income of $0.7 million and $2.1 million was recognized during the three and nine months ending September 30, 2014 (2013: $0.5 million and $1.5 million respectively).

As of September 30, 2014, the Company has $97.4 million (December 31, 2013: $90 million) in prepayments of transport tariffs to Bicentenario that will be used to offset against future volumes of crude oil transported. The amount was previously included in accounts receivable as of December 31, 2013, and was reclassified to other assets in the current period upon a change of plan to utilize the prepayment beyond a one-year period.

18. Assets Held for Sale

On December 23, 2013 the Company sold its 5% interest and the associated transportation rights in Oleoducto Central S.A. (“**OCENSA**”), an oil pipeline in Colombia. The OCENSA equity and transportation rights were acquired by the Company as part of the Petrominerales acquisition in November 2013. The consideration consisted of cash of consideration of $360 million, dividends from OCENSA totalling approximately $15 million, and a $10 million receivable with annual interest of 15% to be paid in five years. As of September 30, 2014, the $10 million long-term receivable is included in other assets on the Interim Consolidated Statement of Financial Position.

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

19. Interest-Bearing Loans and Borrowings

	Maturity	Currency	Interest Rate	As at September 30 2014	As at December 31 2013
Senior Notes - 2011	2021	USD	7.25%	$ 967,260	$ 963,893
Senior Notes - March 2013	2023	USD	5.125%	990,646	989,730
Senior Notes - November 2013	2019	USD	5.375%	1,284,434	1,281,961
Senior Notes - September 2014	2025	USD	5.625%	735,769	-
Revolving credit facilities - US Dollar (1)	2017	USD	LIBOR + 2.25%	(6,989)	395,568
BOFA Loan - 2013	2016	USD	LIBOR + 1.5%	108,891	108,865
Bank loans (2)	2024	COP	DTF + 4.2%	-	78,794
Petrominerales debentures	2014	USD		-	283,000
Long-term debt	2017	USD	LIBOR+2.70% - 2.75%	284,881	-
Short-term working capital loans and facilities	2015	USD	LIBOR+0.95% - 1.5%	157,661	270,000
				$ 4,522,553	$ 4,371,811

	As at September 30 2014	As at December 31 2013
Current portion	$ 157,661	$ 553,571
Non-current portion	4,364,892	3,818,240
	$ 4,522,553	$ 4,371,811

(1) Although the credit facility has been paid the balance as at September 30, 2014 includes the unamortized deferred financing cost, which is being amortized over the life of the facility.

(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% + DTF (90-day benchmark rate in Colombia). These loans have been repaid this quarter and are no longer available.

2011 Senior Notes

The 2011 Senior Notes, due December 12, 2021, are direct, unsecured, unsubordinated 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 period.

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 September 30, 2014 was $1,012 million (December 2013: $1,012 million). For the three and nine months ending September 30, 2014, $19.4 million and $56.5 million respectively (2013: $14.1 million and $41.9 million) in interest expense related to the 2011 Senior Notes was recorded in the Interim Condensed Consolidated Statements of Income.

March 2013 Senior Notes

The March 2013 Senior Notes, due March 28, 2023, are direct, unsecured, unsubordinated 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 September 30, 2014 was $1 billion (December 2013: $1 billion). For the three and nine months ending September 30, 2014, $13.2 million and $39 million respectively (2013: $13.2 million and $26.1 million) in interest expense related to the March 2013 Senior Notes was recorded in the Interim Condensed Consolidated Statements of Income.

November 2013 Senior Notes

The November 2013 Senior notes, due November 26, 2019, are direct, unsecured, unsubordinated 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 as at September 30, 2014 was $1.3 billion (December 2013: $1.3 billion). For the three and nine months ending September 30, 2014, $18.4 million and $54.8 million respectively (2013: Nil) in interest expense related to the November 2013 Senior Notes was recorded in the Interim Condensed Consolidated Statement of Income.

September 2014 Senior Notes

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

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

The September 2014 Senior Notes are carried at amortized cost using the effective interest rate method with note discount and transaction costs netted against the principal. The principal amount outstanding on the September 2014 Senior Notes was $750 million (December 2013: Nil). For the three and nine months ending September 30, 2014, $1.2 million and $1.2 million respectively in interest expense related to the September 2014 Senior Notes has been recorded in the consolidated statement of income.

Revolving Credit Facilities

During April 2014, the Company entered into a new revolving credit facility of $1 billion denominated in U.S. dollars with a syndicate of international and Colombian banks, which is fully committed to its maturity in 2017. The $400 million U.S. dollar credit facility and the $300 million Colombian peso facility that the Company had previously were duly cancelled. The new U.S. dollar revolving credit facility has an interest rate determined in accordance with the ratings assigned to the Company's senior notes; based on the credit rating as of September 30, 2014, the interest rate was LIBOR + 2.25%. In addition, the Company is required to pay commitment fees of 0.95% on the unutilized portion under the revolving credit facility. As of September 30, 2014 the Company has drawn down Nil on the revolving credit facility.

Long-Term Debt

In 2013, the Company borrowed $109 million from Bank of America ("**2013 BOFA Loan**") which carries an interest rate of LIBOR + 1.5% and matures in November 2016, with interest payments due biannually. As at September 30, 2014, the principal outstanding was $109 million (December 31, 2013 $109 million). The 2013 BOFA loan is subject to covenants that require the Company to maintain: (1) an interest coverage ratio of greater than 2.5; and (2) a debt-to-EBITDA ratio of less than 3.5. The Company was compliant with the covenants during the period.

On April 4, 2014, the Company borrowed $75 million from Banco Latinoamericano de Comercio Exterior ("**Bladex Facility**"). The Bladex Facility carries an interest rate of LIBOR + 2.70% and matures on April 4, 2018, with interest payments due biannually. As at September 30, 2014, the principal outstanding was $75 million. The Bladex Facility is subject to covenants that require the Company to maintain (1) interest coverage ratio of greater than 2.5; and (2) a debt- to-EBITDA ratio of less than 3.5, and (3) a net worth of greater than $1,000 million. The Company was compliant with these covenants in 2014.

On April 8, 2014 the Company borrowed $250 million from HSBC bank USA ("**HSBC Facility**"). The HSBC Facility carries an interest rate of LIBOR plus 2.75%; 15% of the loan is to be repaid in 2015 and the rest matures on April 8, 2017, with interest payments due quarterly. At September 30, 2014 the principal amount outstanding was $250 million; $37.5 million to be repaid in 2015 and $212.5 million to be repaid in 2017. The HSBC facility is subject to covenants that require the Company to maintain (1) interest coverage ratio of greater than 2.5; and (2) a debt to EBITDA ratio of less than 3.5. and (3) net worth of greater than $1,000 million. The Company was compliant with these covenants in 2014.

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

Short-term Working Capital Loans and Facilities

Working capital facilities are denominated in U.S. dollars with interest rates ranging from LIBOR +0.95% to LIBOR + 2.0%. The total balance outstanding on these working capital facilities was $158 million as at September 30, 2014 (December 31, 2013: $270 million).

Petrominerales Debentures

As part of the acquisition of Petrominerales, the Company assumed two convertible debentures (the 2016 and 2017 debentures) totalling $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 on the installation of those facilities.

As at December 31, 2013	$	201,576
Arising during the period		(4,362)
Accretion expense		1,446
As at March 31, 2014	$	198,660
Arising during the period		25,719
Accretion expense		1,528
As at June 30, 2014	$	225,907
Arising during the period		35,415
Accretion expense		2,293
As at September 30, 2014	$	263,615

The asset retirement obligation represents the present value of decommissioning costs related to oil and gas properties, of which up to $333 million are expected to be incurred (December 31, 2013: $238 million). The future decommissioning costs are discounted using the risk-free rate of between 3.32% and 3.84% (December 31, 2013: 3.57% and 4.38%) 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 and 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 Leases

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, IT equipment and a gas facility that are accounted for as finance leases. These finance leases have an average effective interest rate of 12.85%. The Company's minimum lease payments are as follows:

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

	As at September 30 2014	As at December 31 2013
Within 1 year	$ 23,593	$ 25,843
Year 2	17,443	20,447
Year 3	7,375	14,657
Year 4	6,778	6,793
Year 5	6,778	6,778
Thereafter	13,019	18,491
Total minimum lease payments	74,986	93,009
Amounts representing interest	(20,655)	(27,222)
Present value of net minimum lease payments	$ 54,331	$ 65,787
Current portion	$ 16,887	$ 17,807
Non-current portion	37,444	47,980
Total obligations under finance lease	$ 54,331	$ 65,787

For the three and nine months ending September 30, 2014, interest expense of $2.1 million and $6.5 million respectively (2013: $2.8 million and $8.9 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
LNG Project	$ 59,088	$ 59,088	$ 59,088	$ 59,088	$ 59,088	$ 590,877	$ 886,317
Investment Acquisitions	20,965	82,657	3,500	-	-	-	107,122
ODL Take or Pay Agreement	-	28,297	39,340	22,086	22,086	33,128	144,937
Minimum work commitments	76,134	132,575	47,254	10,181	5,536	-	271,680
OBC Take or Pay Agreement	39,842	159,806	160,244	159,806	159,806	1,052,530	1,732,034
Operating leases	382,285	618,525	262,746	127,536	105,485	955,821	2,452,398
Transportation and processing commitments	13,346	48,183	48,183	48,182	39,842	212,274	410,010
Transmission line project	1,623	-	-	-	-	-	1,623
Purchase Genser Power	40,698	38,105	23,750	9,394	9,394	45,405	166,746
Community obligations	18,506	-	-	-	-	-	18,506
	$ 652,487	$ 1,167,236	$ 644,105	$ 436,273	$ 401,237	$ 2,890,035	$ 6,191,373

The Company has various guarantees in place in the normal course of business. As at September 30, 2014, the Company has issued letters of credit and guarantees for exploration and operational commitments for a total of $471 million (December 31, 2013: $368 million).

Association Contracts

Certain association contracts signed before 2003 with Ecopetrol include clauses in which Ecopetrol may commence participating in the operation of new discoveries made by the Company at any time, without prejudice to the Company's right to be reimbursed for the investments made on their sole account and risk (back-in right). The contract provides that if Ecopetrol decides to declare the commerciality of a 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 September 30, 2014.

Contingencies

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

Tax Review in Colombia

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

The DIAN has officially reassessed several value-added tax ("**IVA**") tax declarations 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. As at September 2014, the new amount reassessed, including interest and penalties, is estimated at $55.5 million. The Company disagrees with the DIAN's reassessment and official appeals have been initiated. Several other taxation periods back as far back as 2011 in respect of IVA on field oil consumption are also currently under review by the DIAN. For the periods that are under review, if the DIAN's views were to prevail, the Company estimates that the IVA including interest and penalties could range between $31.9 million and $60.9 million. The Company continues to utilize oil produced for internal consumption, which is an accepted practice for the oil industry in Colombia.

The DIAN is also reviewing certain income tax deductions with respect to the special tax benefit for qualifying petroleum assets as well as other exploration expenditures. As at September 31, 2014, the DIAN has reassessed $74 million of tax owing, including estimated interest and penalties, with respect to the denied deductions.

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

High-Price Royalty in Colombia

The Company has certain exploration contracts acquired through business acquisitions with 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 ANH high-price participation. One of these contracts is the Corcel Block, which was acquired as part of the Petrominerales acquisition and which is the only one for which an arbitration process has been initiated. However, the arbitration process for Corcel was under suspension at the time the Company acquired Petrominerales. The amount under arbitration was approximately $150 million plus related interest of $70 million as of September 30, 2014. The Company also disagrees with the interest rate that the ANH has used in calculating the interest cost. The Company asserts that since the high-price participation is denominated in the U.S. dollar, the contract requires the interest rate to be three-month LIBOR +4%, whereas the ANH has applied the highest legally authorized interest rate on Colombian Peso liabilities, which is over 20%. The amount under discussion with the ANH for another contract is approximately $90 million plus interest.

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

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

23. Issued Capital

(a) Authorized, Issued and Fully Paid Common Shares

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

The continuity schedule of share capital is as follows:

	Number of Shares		Amount
As at December 31, 2013	322,503,758	$	2,667,820
Repurchase of shares	(9,056,800)		(75,281)
As at March 31, 2014	313,446,958	$	2,592,539
Issued on exercise of options	843,300		16,763
As at June 30, 2014	314,290,258	$	2,609,302
Issued on exercise of options	1,314,200		24,103
As at September 30, 2014	315,604,458	$	2,633,405

During the nine months ending September 30, 2014, the Company repurchased from the open market approximately 9 million common shares under the previously announced share repurchase program. The total amount paid for the shares repurchased during the period was $134.2 million, and this was recorded in the Interim Condensed Consolidated Financial Statements as a reduction to share capital of $75.2 million and a reduction of $59 million to contributed surplus.

(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$)
Balance, December 31, 2013	25,917,692	$	21.01
Cancelled during the period	(5,000)		25.01
Balance, March 31, 2014	25,912,692	$	21.01
Exercised during the period	(843,300)		14.29
Cancelled during the period	(26,500)		26.69
Balance, June 30, 2014	25,042,892	$	21.23
Exercised during the period	(1,314,200)		13.07
Balance, September 30, 2014	23,728,692	$	21.68

The weighted average share price at the time when the stock options were exercised during the three and nine months ending September 30, 2014 was C$21.76 and C$21.90 respectively (2013: C$21.07 and C$22.47).

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

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

Outstanding & exercisable		Exercise price (C$)	Expiry date	Remaining contractual life (years)
116,667	$	6.30	July 10, 2017	2.8
473,400		13.09	October 12, 2014	0.0
3,655,300		14.08	February 9, 2015	0.4
3,000		19.00	March 16, 2015	0.5
2,708,875		20.56	April 23, 2015	0.6
10,000		20.09	May 18, 2015	0.6
5,000		24.41	June 23, 2015	0.7
37,000		27.58	September 29, 2015	1.0
250,000		34.43	February 2, 2016	1.3
3,755,250		25.76	March 16, 2016	1.5
53,000		28.01	May 3, 2016	1.6
12,000		25.59	May 26, 2016	1.7
160,000		22.05	September 27, 2016	2.0
11,000		24.68	October 24, 2016	2.1
5,289,700		22.75	January 18, 2017	2.3
69,000		29.10	March 30, 2017	2.5
6,212,000		23.26	January 28, 2018	3.3
757,000		24.32	February 8, 2018	3.4
150,500		19.21	November 15, 2018	4.1
23,728,692	$	21.69		1.9

(c) Deferred Share Units

The Company established the Deferred Share Unit Plan (the "**DSU Plan**") for its non-employee directors during 2012 and for its employees in July, 2014. Each DSU represents the right to receive a cash payment on retirement or termination equal to the volume-weighted average market price of the Company's shares at the time of surrender. Cash dividends paid by the Company are credited as additional DSUs. As at September 30, 2014, 2,233,655 DSUs were outstanding with a fair value of $16.78 per DSU approximating the Company's closing share price in $U.S., or $37.45 million in aggregate (December 31, 2013: 340,959 DSUs valued at $6.3 million). The fair value of the DSUs granted and the changes in their fair value during the period were recognized as share-based compensation on the Interim Condensed Consolidated Statement of Income with a corresponding amount recorded in accounts payable and accrued liabilities on the Interim Consolidated Statement of Financial Position.

For the three and nine months ending September 30, 2014, $27.2 million and $30.3 million were recorded as share-based compensation expense in respect to DSUs granted during the period and the change in fair value.

24. Related-Party Transactions

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

a) During the three and nine months ending September 30, 2014, the Company paid $2.1 million and $6.8 million (2013: $4.9 million and $27.7 million) to Transportadora Del Meta S.A.S. ("**Transmeta**") in crude oil transportation costs. In addition the Company has accounts receivable of $1.3 million (December 31, 2013: $1.5 million) from Transmeta and accounts payable of $0.9 million (December 31, 2013: $1.7 million) to Transmeta as at September 30, 2014. Transmeta is controlled by a director of the Company.

b) As at September 30, 2014, the Company had trade accounts receivable of $7.4 million (December 31, 2013: $0.2 million) from Promotora de Energia Electrica de Cartagena & Cia S.C.A.E.S.P ("**Proelectrica**"), in which the Company has a 24.9% indirect interest and which is 31.49% owned by Blue Pacific Assets Corp. ("**Blue Pacific**"). The Company'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 $4.2 million and $11.2 million for the three and nine months that ended September 30, 2014 (2013: $4.9 and 26.8 million respectively).

c) In October 2012, the Company and Ecopetrol signed two Build, Own, Manage, and Transfer ("**BOMT**") agreements with Consorcio Genser Power-Proelectrica and its subsidiaries ("**Genser-Proelectrica**") to acquire certain power generation assets for the Rubiales field. Genser-Proelectrica is a joint venture between Promotora de Energia Electrica de Cartagena & Cia S.C.A.E.S.P ("**Proelectrica**") and Genser Power Inc. which is 51% owned by Pacific Power. Total commitment under the BOMT agreements is $229.7 million over ten years. In April 2013 the Company and Ecopetrol entered into another agreement with Genser-Proelectrica to acquire additional assets for a total commitment of $57 million over ten years. At the end of the Rubiales Association Contract in 2016, the Company's obligations along with the power generation assets will be transferred to Ecopetrol. During the three and nine months ending September 30, 2014 those assets were under construction and the Company paid cash advances of $9.0 million and $9.0 million, which were recorded in other assets (2013: $0.6 million and $10.5 million). The Company has accounts payable of $3.0 million (December 2013: $0.4 million) due to Genser-Proelectrica. In addition, on May 5, 2014, a subsidiary of the Company provided a guarantee in favour of XM Compania de Expertos en Mercados S.A. on behalf of Proelectrica guaranteeing obligations pursuant to an energy supply agreement in the aggregate amount of approximately $16.7 million. The Company has a 24.9% indirect interest in Proelectrica.

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

e) The Company has entered into aircraft transportation agreements with Helicopteros Nacionales de Colombia S.A.S. ("**Helicol**"), a company controlled by a director of the Company. During the three and nine months that ended September 30 2014, the Company paid $5.5 million and $11.5 million (2013: $4.4 million and $11.3 million) in fees as set out under the transportation agreements. As at September 30, 2014, the Company had accounts payable of $3.1 million to Helicol. (December 31, 2013: $2.5 million).

f) During the three and nine months ending September 30, 2014, the Company paid $57.9 million and $121.1 million to ODL (2013: $38.9 million and $99.4 million) for crude oil transport services under the pipeline take or-pay agreement, and has accounts payable of $7.0 million to ODL as at September 30, 2014 (December 31, 2013: $7.4 million). The Company received $0.7 million and $1.7 million from ODL during the three and nine months that ended September 30, 2014 (2013: $0.2 million and $0.7 million) with respect to certain administrative services and rental equipment and machinery. The Company has accounts receivable from ODL as at September 30, 2014 for $0.4 million (December 31, 2013: $0.1 million).

g) During the three and nine months ending September 30, 2014, the Company paid $44.9 million and $132.5 million to Bicentenario (2013: Nil and $38.5 million), a pipeline Company in which the Company has a 43% interest, for crude oil transport services under the pipeline take-or-pay agreement. As at September 30, 2014 the balance of loans outstanding to Bicentenario under the agreement in Note 16 (other assets), is $42 million (December 31, 2013: $42 million). Interest income of $0.7 million and $2.1 million was recognized during the three and nine months ending September 30, 2014 (2013: $0.5 million and $1.5 million). Interest of $5.9 million was paid on the loans during the three months that ended September 30, 2014. The Company has received Nil and $0.5 million during the three and nine months ending September 30, 2014 (2013: $Nil and $0.7 million) with respect to certain administrative services and rental equipment and machinery. The Company has accounts receivable from Bicentenario as at September 30, 2014 of $42 million (December 31, 2013: $42 million) and has advanced $97.4 million as at September 30, 2014 (December 31, 2013: $90 million) to Bicentenario as a prepayment of transport tariff, which is amortized against the barrels transported. As of September 30, 2014, the Company has accounts received from Bicentenario of $20 million representing the return of a portion of the tariffs paid during the period of disrupted pipeline service.

h) The Company has established a charitable foundation in Colombia, the Pacific Rubiales Foundation, with the objective of advancing social and community development projects in the country. During the three and nine months ending September 30, 2014, the Company contributed $7.7 million and $28.6 million respectively to this foundation, (2013: $9.7 million and $28.8 million). The Company has advances of $10.4 million as at September 30, 2014 (December 31, 2013: $0.4 million).

i) As at September 30, 2014, the Company has demand loans receivable from PII in the amount of $71 million (December 30, 2013: Nil). The loans are guaranteed by PII's pipeline project and bear interest that ranges from LIBOR + 2% to 7% per annum. The Company owns 41.65% of PII.

25. Financial Assets and Liabilities

Overview of Risk Management

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

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

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

Risks Associated with Financial Assets and Liabilities

(a) Market Risks

Commodity Price Risk

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

Foreign Currency Risk

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

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

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

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

Interest Rate Risk

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

Sensitivity Analysis on Market Risks

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

- A $1 change in the WTI price would have resulted in a $38 million change in revenue as at September 30, 2014 (2013: $3 million).
- A 10% change in the COP/USD exchange rate would have resulted in a $1.1 million change in foreign exchange gain/loss as at September 30, 2014 (2013: $0.9 million).
- A 1% (100 basis points) change in the interest rate would increase or decrease interest expense by $2.5 million (2013: $3.6 million).

(b) Credit Risk

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

	As at September 30 2014	As December 31 2013
Trade receivable	$ 364,931	$ 444,878
Advances / deposits	96,941	164,348
Recoverable VAT and Withholding Tax	156,927	140,889
Other receivables	157,204	52,255
Receivable from joint arrangements	246,340	236,761
Allowance for doubtful accounts	(1,027)	(969)
	$ 1,021,316	$ 1,038,162
Loan and advance to Bicentenario (non-current, Note 17)	126,987	41,992
	$ 1,148,303	$ 1,080,154

As at September 30, 2014 four 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 $84 million, $87 million, $61 million and $45 million, or 23%, 24%, 17% and 13% of trade accounts receivable respectively (September 30, 2013: two customers at $91 million and $41 million or 39% and 18% of trade accounts receivable). Revenues from these customers for 2014 were $169 million, $338 million, $163 million and $124 million or 4%, 9%, 4% and 3% of revenue (September 30, 2013: $392 million and $784 million or 35% and 23% of revenue), respectively.

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

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

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

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

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

(c) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's process for managing liquidity risk includes ensuring, to the extent possible, that it will have sufficient liquidity to meet its liabilities when they become due. The Company prepares annual capital expenditure budgets which are monitored and updated as required. In addition, the Company requires authorizations for expenditures on projects to assist with the management of capital. As at September 30, 2014, the Company had available $1 billion of revolving credit. The following are the contractual maturities of non-derivative financial liabilities (undiscounted):

Financial liability due in	2014	2015	2016	2017	2018	Subsequent to 2018	Total
Accounts payable and accrued liabilities	$ 1,894,873	$ -	$ -	$ -	$ -	$ -	$ 1,894,873
Long-term debt and bank indebtedness	36,333	193,833	117,584	187,500	18,750	4,062,199	4,616,199
Obligations under finance lease (Note 21)	23,593	17,443	7,375	6,778	6,778	13,019	74,986
Total	$ 1,954,799	$ 211,276	$ 124,959	$ 194,278	$ 25,528	$ 4,075,218	$ 6,586,058

d) Hedge Accounting and Risk Management Contracts

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

September 30, 2014

Type of Instrument	Term	Notional Amount / Volume (bbl)	Floor/ Ceiling or strike price	Benchmark	Carrying amount Assets	Carrying amount Liabilities
Subject to Hedge Accounting:						
Foreign Currency Risk						
Zero-cost collars	October 2014 to December 2014	100,000	1975-2075 COP/$	COP/USD	$ -	$ (1,981)
Commodities Price Risk						
Zero-cost collars	October - December 2014	3,450,000	80 / 108-114.50	WTI	763	-
Zero-cost collars	January - March 2015	600,000	80 / 112	WTI	650	-
Zero-cost collars	January - June 2015	900,000	80 / 111.50	WTI	1,258	-
Total					**$ 2,671**	**$ (1,981)**
Not Subject to Hedge Accounting:						
Foreign Currency Risk						
Zero - Cost Collar	October 2014 to December 2014	25,000	1925-2085 COP/$	COP/USD		$ (68)
Zero - Cost Collar	October 2014 to December 2015	230,000	1900-2050 COP/$	COP/USD	-	(5,898)
Forward	October 2014	40,000	2022 COP/$	COP/USD	-	(133)
Commodities Price Risk						
Zero-cost collars	July 2014 - December 2014	45,000	95 / 110	BRENT	84	-
Extendible zero-cost collars (counterparty option)	January 2014 - December 2014	900,000	80 / 109	WTI	47	-
Swap	October 2014	2,850,000	8.38/ 9	BRENT-WTI	12,742	-
Total					**$ 12,873**	**$ (6,099)**
Total September 30, 2014					**$ 15,544**	**$ (8,080)**

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

December 31, 2013

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

Instruments Subject to Hedge Accounting

Hedging Relationship

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

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

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

  The sources of ineffectiveness identified in the current foreign exchange hedging strategy relate to differing credit ratings of the counterparties and the duration of the relationship. These sources of ineffectiveness were insignificant for the nine months ending September 30, 2014.

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

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

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

  The sources of ineffectiveness identified in the current commodities hedging strategy relate to differing credit ratings of the counterparties. The sources of ineffectiveness were insignificant for the nine months ending September 30, 2014 and 2013.

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

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

As at September 30, 2014:

	Hedging Instrument		Hedged Item		
	Line item in the statement of financial position where the hedging instrument is located	Changes in fair value used for calculating hedge ineffectiveness for 2014	Changes in fair value used for calculating hedge ineffectiveness for 2014	Cumulative Cash flow hedge reserve for continuing hedges gain/(loss)	Cumulative Cash flow hedge reserve for discontinued hedges gain/(loss)
Cash flow hedges:					
Foreign Currency Risk					
- Zero-cost collars	Risk Management Assets	-	-	-	-
- Zero-cost collars	Risk Management Liabilities	(1,314)	(1,314)	(873)	(63)
Commodities Price Risk					
- Zero-cost collars	Risk Management Assets	-	-	-	-
- Zero-cost collars	Risk Management Liabilities	-	-	-	-
		(1,314)	(1,314)	(873)	(63)

Impact of Hedging Relationship

The Company excludes changes in fair value relating to the option time value from ineffectiveness assessments and records these amounts in other comprehensive income, as a cost of hedging.

For the three months ending September 30, 2014:

	Change in the value of the hedging instrument recognized in OCI gain/(loss)	Hedge ineffectiveness recognized in profit or loss gain/(loss)	Line item in profit or loss (that includes hedge ineffectiveness)	Amount reclassified from the cash flow hedge reserve to profit or loss gain/(loss)	Line item affected in profit or loss because of the reclassification
Foreign exchange risk					
- Zero-cost collars	$ (3,849)	$ (1,749)	Foreign exchange gain (loss)	$ 344	Production and operating costs
Commodities Price Risk					
- Zero-cost collars	-	-	Risk management gain (loss)	-	Revenue

For the nine months ending September 30, 2014:

	Change in the value of the hedging instrument recognized in OCI gain/(loss)	Hedge ineffectiveness recognized in profit or loss gain/(loss)	Line item in profit or loss (that includes hedge ineffectiveness)	Amount reclassified from the cash flow hedge reserve to profit or loss gain/(loss)	Line item affected in profit or loss because of the reclassification
Foreign exchange risk					
- Zero-cost collars	$ (2,434)	$ (1,290)	Foreign exchange gain (loss)	$ (331)	Production and operating costs
Commodities Price Risk					
- Zero-cost collars	-	-	Risk management gain (loss)	-	Revenue

Instruments Not Subject to Hedge Accounting:

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

As these instruments have not been designated as hedges, the change in fair value is recorded in profit or loss. For the three and nine months ending September 30, 2014, the Company recorded gains of $19 million and $25 million respectively on commodity price risk management contracts in net earnings (2013: losses of $8.3 million and $10.5 million). Included in these amounts were $15.2 million and $15.8 million in unrealized gain respectively (2013: $8.2

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

million and $10.5 million unrealized loss) representing the change in the fair value of the derivatives, and realized gains of $3.8 million and $9.2 million (2013: $53 thousand) respectively.

For the three and nine months ending September 30, 2014, the Company recorded a foreign exchange gain of $6.1 million and loss of $5.8 million respectively in net earnings on foreign currency risk management contracts. These amounts are unrealized and represent the change in the fair value of the derivatives.

e) Fair Value

The Company's financial instruments are cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities, risk management assets and liabilities, bank debt, finance lease obligation, debentures and 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.

	As at September 30, 2014		As at December 31, 2013	
	Carrying value	Fair value	Carrying value	Fair value
Financial Assets				
Financial assets measured at amortized cost				
Cash and cash equivalents	$ 478,321	$ 478,321	$ 632,503	$ 632,503
Restricted cash	19,904	19,904	16,980	16,980
Accounts receivable	1,021,316	1,021,316	1,038,162	1,038,162
Bicentenario Loan and prepayments (Note 17)	126,987	126,987	41,992	41,992
Farm-in interests (Note 17)	12,500	12,500	-	-
Ocensa Receivable	10,375	10,375	-	-
	1,669,403	1,669,403	1,729,637	1,729,637
Financial assets mandatorily measured at fair value through profit or loss (FVTPL)				
Held-for-trading derivatives that are not designated in hedge accounting relationships (see Note 25)	12,873	12,873	328	328
	12,873	12,873	328	328
Financial assets designated as measured at fair value through other comprehensive income (FVTOCI)				
Investments in equity instruments	14,765	14,765	13,890	13,890
	14,765	14,765	13,890	13,890
Derivative instruments in designated hedge accounting relationships (see Note 25)	2,671	2,671	1,820	1,820
	2,671	2,671	1,820	1,820
	$ 1,699,712	$ 1,699,712	$ 1,745,675	$ 1,745,675
Financial Liabilities				
Financial liabilities measured at amortized cost				
Accounts payable and accrued liabilities	$ (1,894,873)	$ (1,894,873)	$ (1,683,179)	$ (1,683,179)
Long-term debt	(544,444)	(544,444)	(1,136,227)	(1,140,535)
Senior Notes (1)	(3,978,109)	(4,026,074)	(3,235,584)	(3,323,242)
Obligations under finance lease	(54,331)	(80,899)	(65,787)	(80,899)
	(6,471,757)	(6,546,290)	(6,120,777)	(6,227,855)
Financial liabilities measured at fair value through profit or loss (FVTPL)				
Held-for-trading derivatives that are not designated in hedge accounting relationships (see Note 25)	(6,099)	(6,099)	(3,010)	(3,010)
	(6,099)	(6,099)	(3,010)	(3,010)
Derivative instruments in designated hedge accounting relationships (see Note 25)	(1,981)	(1,981)	(3,900)	(3,900)
	(1,981)	(1,981)	(3,900)	(3,900)
	$ (6,479,837)	$ (6,554,370)	$ (6,127,687)	$ (6,234,765)

(1) Total fair value of the various Senior Notes is estimated using their last traded prices as at September 30, 2014.

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

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

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

September 30, 2014	**Quoted prices in active markets**	**Significant Observable Inputs**	**Significant Unobservable Inputs**	
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at Fair Value				
Held for trading derivatives that are not designated in hedge accounting relationships	-	12,873	-	12,873
Derivative instruments in designated hedge accounting relationships	-	2,671	-	2,671
Financial assets at FVTOCI				
Investments in equity instruments	9,165	-	5,600	14,765
Other Assets				
Loan to Bicentenario	-	126,987	-	126,987
OCENSA receivable	-	10,375	-	10,375
Financial liabilities at Fair Value				
Held for trading derivatives that are not designated in hedge accounting relationships	-	(6,099)	-	(6,099)
Derivative instruments in designated hedge accounting relationships	-	(1,981)	-	(1,981)
Other liabilities				
Long-term debt	-	(544,444)	-	(544,444)
Senior notes	(4,026,074)	-	-	(4,026,074)
Obligations under finance lease	-	(80,899)	-	(80,899)

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

December 31, 2013

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

The Company uses Level 1 inputs, being the last quoted price of the traded investments, to measure the fair value of its financial assets at FVTOCI.

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

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

Valuation Techniques

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

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

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

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

26. Supplemental Disclosure on Cash Flows

Changes in non-cash working capital are as follows:

	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
(Increase) decrease in accounts receivable	$ 79,202	$ (137,470)	$ 27,749	$ (19,003)
(Increase) decrease in income taxes receivable	(28,505)	32,082	17,105	(50,834)
(Decrease) increase in accounts payable and accruals	(19,627)	29,361	(55,105)	6,704
(Increase) decrease in inventories	(16,775)	28,293	(29,801)	21,026
Increase (decrease) in income taxes payable	(21,528)	23,751	(78,182)	(229,817)
Decrease (increase) in prepaid expenses	86	588	1,402	(919)
	$ (7,147)	$ (23,395)	$ (116,832)	$ (272,843)

	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Cash income taxes paid	$ 55,554	$ 53,261	$ 150,842	$ 624,015
Cash interest paid	81,134	5,120	206,972	72,504
Cash interest received	879	1,285	2,563	2,792

27. Subsequent Events

Long-Term Debt Exchange

On October 2 and 23, 2014 the $321.65 million aggregate principal amount of the existing 2011 Senior Notes, which have a 2021 maturity and a coupon of 7.25%, were tendered in exchange for new 2014 Senior Notes with a 2025 maturity and a coupon of 5.625%. The existing notes were tendered for a $363.6 million aggregate principal amount of 2014 Senior Notes.

28. Adoption of IFRS 9

Effective January 1, 2014 the Company has early adopted IFRS 9 (2013) as described in Note 2. As a result, for all comparative periods up to and including the year that ended December 31, 2013, the Company prepared its financial statements in accordance with IAS 39. The interim consolidated financial statements for the interim period ending September 30, 2014, are the first financial statements presented under IFRS 9 (2013). IAS 8 requires that comparative financial information be provided. The adoption of IFRS 9 (2013) includes full retrospective application, with the exception of hedge accounting and other sections identified for prospective application within the standard.

Classification Effect:

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

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

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

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

Effect of Adoption

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

Comprehensive Income Line Item Impact	Three months ended September 30, 2013	Effect of IFRS 9 Adoption	After Adoption Three months ended September 30, 2013	Nine months ended September 30, 2013	Effect of IFRS 9 Adoption	After Adoption Nine months ended September 30, 2013
Statements of Income						
Foreign exchange (loss) gain	$ 8,227	$ (7,461)	$ 766	$ 10,980	$ (1,778)	$ 9,202
Statements of other comprehensive income						
Unrealized gain (loss) on the time value of cash flow hedges	-	(7,461)	(7,461)	-	(1,778)	(1,778)
EPS-Basic	0.25	0.02	0.26	0.81	0.01	0.89
EPS-Diluted	0.25	0.02	0.26	0.80	0.01	0.88

Explanation of IFRS 9 Adoption Adjustments

Time Value Reserve

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

29. Comparative Financial Statements

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