Interim Condensed Consolidated Financial Statements
(Unaudited)

For the three months ended March 31, 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 March 31 2014		2013*	
Oil and gas sales	4	$	1,283,453	$	1,258,762
Cost of operations					
Production and operating costs	5		471,171		491,711
Fees paid on suspended pipeline capacity	6		28,910		-
Depletion, depreciation and amortization			375,642		332,523
General and administrative			75,214		71,989
Share-based compensation	22		1,727		35,532
Earnings from operations			330,789		327,007
Finance costs			(61,495)		(47,577)
Share of gain (loss) of equity-accounted investees	15		17,063		(1,632)
Foreign exchange			(1,775)		14,971
Gain (loss) on risk management			3,855		(5,651)
Other (expenses) income			(20,469)		3,722
Net earnings before income tax			267,968		290,840
Income tax expense	7		(149,458)		(164,618)
Net earnings for the period		$	118,510	$	126,222
Attributable to:					
Equity holders of the parent			119,240		127,378
Non-controlling interests			(730)		(1,156)
		$	118,510	$	126,222
Basic earnings per share attributable to equity holders of the parent	8	$	0.38	$	0.40
Diluted earnings per share attributable to equity holders of the parent	8	$	0.37	$	0.39

**Certain amounts have been restated upon the first-time adoption of IFRS 9 (Note 27) and finalization of the purchase price allocation of 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 March 31 2014	2013 *
Net earnings for the period		$ 118,510	$ 126,222
Other comprehensive income (loss) to be reclassified to net earnings in subsequent periods (nil tax effect)			
Foreign currency translation		(16,089)	(14,462)
Fair value adjustments on available-for-sale- financial-assets		795	-
Unrealized loss on cash flow hedges	24c	(4,205)	(13,592)
Unrealized (loss) gain on the time value of cash flow hedges		(1,000)	2,864
Realized gain (loss) on cash flow hedges transferred to earnings	24c	1,788	(4,551)
		(18,711)	(29,741)
Total comprehensive income		$ 99,799	$ 96,481
Attributable to:			
Equity holders of the parent		$ 99,799	$ 98,119
Non-controlling interests		-	(1,638)
		$ 99,799	$ 96,481

**Certain amounts have been restated upon the first-time adoption of IFRS 9 (Note 27) and finalization of the purchase price allocation of 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 March 31 2014	As at December 31 2013*
ASSETS			
Current			
Cash and cash equivalents		$ 306,419	$ 632,503
Restricted cash		16,764	16,980
Accounts receivables	24b	1,053,751	1,038,162
Inventories	10	67,188	59,526
Income tax receivable		173,350	132,226
Prepaid expenses		1,730	2,760
Assets held for sale	17	-	377,544
Risk management assets	24c	5,216	2,148
		1,624,418	2,261,849
Non-current			
Oil and gas properties	11	5,539,228	5,483,011
Exploration and evaluation assets	12	2,049,895	2,014,804
Intangible assets	14	98,187	105,813
Plant and equipment	13	126,056	125,600
Investments in associates	15	676,113	659,111
Other assets	16	180,094	55,990
Goodwill		501,249	501,249
		$ 10,795,240	$ 11,207,427
LIABILITIES			
Current			
Accounts payable and accrued liabilities		$ 1,602,101	$ 1,683,179
Risk management liability	24c	9,965	6,910
Income tax payable		158,794	106,250
Current portion of long-term debt	18	255,302	553,571
Current portion of obligations under finance lease	20	17,463	17,807
		2,043,625	2,367,717
Non-current			
Long-term debt	18	3,824,313	3,818,240
Obligations under finance lease	20	44,626	47,980
Deferred tax liability	7	543,389	544,981
Asset retirement obligation	19	198,660	201,576
		6,654,613	6,980,494
EQUITY			
Common shares	22a	2,592,539	2,667,820
Contributed surplus		98,915	157,810
Other reserves		(41,051)	(22,340)
Retained earnings		1,459,591	1,392,284
Equity attributable to equity holders of the parent		4,109,994	4,195,574
Non-controlling interests		30,633	31,359
Total equity		4,140,627	4,226,933
		$ 10,795,240	$ 11,207,427

**Certain amounts have been restated upon the first-time adoption of IFRS 9 (Note 27).*

See accompanying notes to the interim condensed consolidated financial statements

PACIFIC RUBIALES ENERGY CORP.

Interim condensed consolidated statements of changes in equity

For the three months ended March 31, 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	22	(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

For the three months ended March 31, 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

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 March 31 2014	2013*
OPERATING ACTIVITIES			
Net earnings for the period		$ 118,510	$ 126,222
Items not affecting cash:			
Depletion, depreciation and amortization		375,642	332,523
Accretion expense		3,895	5,866
Unrealized loss on risk management contracts	24c	5,826	5,651
Share-based compensation		4	34,849
Gain (loss) on cash flow hedges included in operating expense	24c	1,788	(4,551)
Deferred income tax	7	(1,592)	3,298
Unrealized foreign exchange (gain) loss		(13,401)	12,941
Share of (gain) loss of equity-accounted investees	15	(17,063)	1,632
Gain on acquisition of control		-	(12,271)
Changes in non-cash working capital	25	(88,922)	116,373
Net cash (used in) provided by operating activities		384,687	622,533
INVESTING ACTIVITIES			
Additions to oil and gas properties and plant and equipment		(310,666)	(326,623)
Additions to exploration and evaluation assets		(162,908)	(107,946)
Additions to intangible assets		-	(3,911)
Investment in associates and other assets		(21,060)	(140,181)
Proceeds from sale of assets held for sale		267,544	-
(Increased) decrease in restricted cash		(180)	2,819
Business acquisitions net cash outflow		-	7,470
Net cash used in investing activities		(227,270)	(568,372)
FINANCING ACTIVITIES			
Advances from debt and Senior Notes		54,739	1,370,771
Repayment of debt		(349,548)	(105,461)
Transaction costs		-	(28,662)
Proceeds from the exercise of warrants and options		-	30,831
Dividends paid	9	(51,933)	(35,458)
Repurchase of common shares	22	(134,176)	-
Net cash provided by financing activities		(480,918)	1,232,021
Effect of exchange rate changes on cash and cash equivalents		(2,583)	2,582
Change in cash and cash equivalents during the period		(326,084)	1,288,764
Cash and cash equivalents, beginning of the period		632,503	243,690
Cash and cash equivalents, end of the period		$ 306,419	$ 1,532,454
Cash		$ 175,679	$ 1,468,013
Short-term money market instruments		130,740	64,441
		$ 306,419	$ 1,532,454

**Certain amounts have been restated upon the first-time adoption of IFRS 9 (Note 27) and finalization of the purchase price allocation of 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 primarily 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), and the Brazilian Depository 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 May 6, 2014.

2. Basis of preparation and significant accounting policies

The interim condensed consolidated financial statements for the three months ended March 31, 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 ended December 31, 2013, as described below; except for the adoption of new standards and interpretations effective as of January 1, 2014.

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 governments under legislation, other than outflows that are within the scope of other standards (e.g., IAS 12 *Income Taxes*) and fines or other penalties for breaches of legislation.

The interpretation clarifies that an entity recognises 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 over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, no liability is recognised 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.

Financial Instruments- IFRS 9

As of January 1, 2014, the Company early adopted IFRS 9 - Financial Instruments ("IFRS 9"). IFRS 9 replaces International Accounting Standard 39 – Financial Instruments: Recognition and Measurement ("IAS 39") and addresses the accounting for financial instruments including hedge accounting. Upon adoption of IFRS 9 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 27.

These are the Company's first interim condensed consolidated financial statements prepared in accordance with IFRS 9, which the Company expects to adopt in its annual consolidated financial statements for the year ending December 31, 2014. The transition to IFRS 9 resulted in changes to some of the Company's previous accounting policies as applied and disclosed in the consolidated financial statements for the year ended December 31, 2013. The revised accounting policies affected by the early adoption of IFRS 9 have been included in Note 27.

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 re-measurement are recognized in earnings and included in the other line item (Note 24) 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 (see Note 24).

Financial Liabilities

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

Financial liabilities at FVTPL are stated at fair value. Any gains or losses arising on re-measurement 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 (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 24.

Hedge Accounting

The Company designates certain hedging instruments, in respect of 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, 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.

The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

3. Business acquisitions

Information on prior year acquisition

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 increased 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 41.4%. 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 increased 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, 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 three months ending March 31, 2014 the fair value of the assets held for sale, being the Ocensa pipeline interest, was finalized. The finalization of the fair value resulted in the following changes to the preliminary purchase price allocation: decrease assets held for sale by $7.1 million, increase to goodwill by $4.6 million, and 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 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.") had 50.1%. On September 1, 2013, the Company entered into an agreement with M&P Colombia whereby it would effectively pay $10 million in cash for the remaining 50.1% interest in the Sabanero block. The transaction was completed in December 2013 upon approval by the Colombian regulator.

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 months ended March 31, 2013 was a decrease of $12.5 million to the previously reported depreciation, depletion, and amortization, and an increase of $4.2 million 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 March 31, 2014: the exploration, development, and production of heavy crude oil and gas in Colombia. The Company's assets in other countries are still in the early stages of development and are not significant and, therefore are not considered a reportable segment as at March 31, 2014. The Company manages its operations to reflect differences in the regulatory environments and risk factors of each country.

As at March 31, 2014, all of the Company's assets are located in Colombia except for $23 million (December 31, 2013: $328 million) in cash and cash equivalents held in Canada and the United States; $828 million (December 31, 2013: $776 million) of non-current assets in Peru; $132 million (December 31, 2013: $127 million) of non-current assets in Papua New Guinea; $42 million (December 31, 2013: $35 million) of non-current assets in Guatemala; $301 million (December 31, 2013: $291 million) of non-current assets in Brazil; and $46 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 March 31	
	2014	2013
Asia	$ 654,660	$ 315,560
North and Central America	426,245	739,127
Europe	147,683	129,762
Colombia	33,656	60,345
Peru	21,209	13,968
	$ 1,283,453	$ 1,258,762

5. Production and operating costs

	Three months ended March 31	
	2014	2013
Oil and gas operating costs	$ 520,031	$ 489,442
(Underlift) overlift	(48,860)	2,269
Total	$ 471,171	$ 491,711

6. Fees paid on suspended pipeline

Beginning in mid-February 2014, the normal transport capacity for the Bicentenario pipeline (Note 15) has been suspended following security-related disruptions. Under the take-or-pay agreement between the Company and Bicentenario, the Company paid $28.9 million in take-or-pay fees to Bicentenario during the period of disrupted pipeline capacity.

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 March 31	
	2014	2013
Net earnings before income taxes	$ 267,968	$ 290,840
Canadian statutory income tax rate	26.50%	26.50%
Income tax expense at statutory rate	71,012	77,073
Increase (decrease) in income tax provision resulting from:		
Other (non-taxable) non-deductible expenses	44,654	35,702
Share-based compensation	457	9,416
Risk management gain (loss)	(852)	604
Differences in tax rates in foreign jurisdictions	20,046	28,323
Losses for which no tax benefit is recorded	14,141	13,500
Income tax expense	$ 149,458	$ 164,618
Current income tax expense	151,050	161,320
Deferred income tax (recovery) expense :		
Relating to origination and reversal of temporary differences	(1,592)	3,298
Income tax expense	$ 149,458	$ 164,618

The Company's deferred tax relates to the following:

	As at March 31 2014	As at December 31 2013
Tax loss carry forwards	$ 19,493	16,477
Oil and gas properties and equipment	(641,903)	(656,678)
Other	79,021	95,220
Deferred tax liability	$ (543,389)	$ (544,981)

The Canadian statutory combined income tax rate was 26.50% as at March 31, 2014 and March 31, 2013. The Peruvian statutory income tax rate was 30% for March 31, 2014 and March 31, 2013. The Peruvian income tax rate for Block Z-1 was 22% as at March 31, 2014 and March 31, 2013.

The Colombian statutory income tax rate for 2014 is 25%. In addition, effective January 1, 2013, the fairness tax ("CREE") is levied at a rate of 9%, for a combined income tax rate of 34%.

The temporary differences associated with investments in subsidiaries and joint ventures, for which a deferred tax liability has not been recognized, amounted to approximately $2 billion as at March 31, 2014 (December 31, 2013 - $2 billion).

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 March 31	
	2014	2013
Net earnings attributable to equity holders of the parent	$ 119,240	$ 127,378
Basic weighted average number of shares	317,835,678	321,344,499
Effects of dilution	1,315,629	6,209,457
Diluted weighted average number of shares	319,151,307	327,553,956
Basic earnings per share attributable to equity holders of the parent	$ 0.38	$ 0.40
Diluted earnings per share attributable to equity holders of the parent	$ 0.37	$ 0.39

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

9. Dividends paid

	Three months ended March 31	
	2014	2013
Declared and paid	$ 51,933	$ 35,458
Dividend per common share	$ 0.16	$ 0.11

10. Inventories

	As at March 31 2014	As at December 31 2013
Crude oil and gas	$ 45,872	$ 42,272
Materials and supplies	21,316	17,254
	$ 67,188	$ 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 (Note 19)	(4,530)
Cost as at March 31, 2014	$ 8,968,086
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
Net book value	
As at December 31, 2013	$ 5,483,011
As at March 31, 2014	5,539,228

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

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
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
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

14. Intangible assets

Cost		Capacity Rights
Cost as at December 31, 2013	$	202,919
Cost as at March 31, 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
Net book value		
As at December 31, 2013	$	105,813
As at March 31, 2014		98,187

Capacity rights comprise 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. 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

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 $167 million from 2014 to 2017.

Oleoducto Bicentenario de Colombia ("Bicentenario")

Bicentenario is a corporation established and owned by a consortium of oil producers operating in Colombia, led by Ecopetrol, with the Company owning 43%. Bicentenario 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 $2.4 billion from 2014 to 2025. The Bicentenario pipeline is not operational as at March 31, 2014 due to security related disruptions. Until such time the pipeline becomes operational, the Company is required to continue to make payments under the take or pay contract in the amount of $14 million per month. At this time, management cannot estimate when the pipeline will be operational.

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 41.43% 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 Company, 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.

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 did not receive any cash dividends from its equity-accounted investments during the three months ended March 31, 2014 (2013: Nil).

16. Other assets

		As at March 31, 2014		As at December 31, 2013
Bicentenario loan and prepayments	$	142,792	$	41,992
Financial assets		24,802		13,998
Farm-in interests		12,500		-
		180,094		55,990

Bicentenario loan and prepayments

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

As of March 31, 2014, the Company has $100.8 million (December 31, 2013: $90 million) in prepayments of transport tariffs to Bicentenario, which 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 reclassified to other assets in the current period upon a change of plan to utilize the prepayment beyond a one-year period.

17. Assets held for sale

On December 23, 2013 the Company reached an agreement to sell 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 a total cash payment of $360 million, dividends from Ocensa totaling approximately $15 million, and a $10 million receivable with annual interest of 15%, to be paid in five years. As of March 31, 2014 the Company has received $260 million of the sale price and $7.5 million of the Ocensa dividends. The remaining $100 million of cash consideration and $7.5 million of dividend are included in accounts receivable as of March 31, 2014, and received by the Company in April 2014, the $10 million long-term receivable is included in other assets on the interim consolidated statement of financial positions.

18. Interest-bearing loans and borrowings

	Maturity	Currency	Interest Rate		As at March 31 2014		As at December 31 2013
Senior Notes - 2011	2021	USD	7.25%	$	964,953	$	963,893
Senior Notes - March 2013	2023	USD	5.125%		990,019		989,730
Senior Notes - November 2013	2019	USD	5.375%		1,282,700		1,281,961
Revolving credit facility - US Dollar [1]	2015	USD	LIBOR + 2.75%		396,226		395,568
BOFA Loan - 2013	2016	USD	LIBOR + 1.5%		108,873		108,865
Working Capital Facilities	2014	USD	LIBOR + 0.95% - 1.4%		255,000		270,000
Bank loans [2]	2024	COP	DTF + 4.2%		81,844		78,794
Petrominerales debentures	2014	USD			-		283,000
				$	4,079,615	$	4,371,811
Current portion				$	255,302	$	553,571
Non-current portion					3,824,313		3,818,240
				$	4,079,615	$	4,371,811

(1) The balance as at March 31, 2014 includes the unamortized deferred financing cost.
(2) Represents bank loans received for the construction of power transmission lines to supply additional electricity to two fields in Colombia. The loan amount is for up to $112 million with an interest rate of 4.2% + DTF (90-day benchmark rate in Colombia).

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.

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

The 2011 Senior Notes are carried at amortized cost using the effective interest rate method with note discount and transaction costs netted against the principal. The principal amount outstanding on the 2011 Senior Notes as at March 31, 2014 was $1,012 million (December 2013: $1,012 million). For the three months ended March 31, 2014, $19.2 million (2013: $13.6 million) in interest expense related to the 2011 Senior Notes has been 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, subordinated obligations with interest payable in arrears at a rate of 5.125% on March 28 and September 28 of each year.

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

The March 2013 Senior Notes are carried at amortized cost using the effective interest rate method with note discount and transaction costs netted against the principal. The principal amount outstanding on the March 2013 Senior Notes as at March 31, 2014 was $1 billion (December 2013: $1 billion). For the three months ended March 31, 2014, $13 million (2013: Nil) in interest expense related to the March 2013 Senior Notes has been recorded in the interim condensed consolidated statement of income.

November 2013 Senior Notes

The November 2013 Senior notes, due November 26, 2019, are direct, unsecured, subordinated obligations with interest payable in arrears at a rate of 5.375% on January 26 and July 26 of each year.

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

The November 2013 Senior Notes are carried at amortized cost using the effective interest rate method with note discount and transaction costs netted against the principal. The principal amount outstanding on the November 2013 Senior Notes as at March 31, 2014 was $1.3 billion (December 2013: 1.3 billion). For the three months ended March 31, 2014, $18 million (2013: Nil) in interest expense related to the November 2013 Senior Notes has been recorded in the interim condensed consolidated statement of income.

Revolving credit facilities

During 2012, the Company closed a $400 million revolving credit facility (the "**US Dollar Facility**") and a Colombian Peso equivalent of $276 million (COP$543,366 million) revolving credit facility (the "**Peso Facility**") with a syndicate of international and Colombian banks.

The US Dollar Facility carries an interest rate of LIBOR plus 2.75% and matures on September 21, 2015, with any unused facility subject to a commitment fee of 0.95%. During 2013 the Company drew down the full $400 million from

the US Dollar facility. As at March 31, 2014 the principal amount outstanding was $400 million (December 31, 2013: $400 million).

The Peso Facility has an interest rate based on the DTF as well as a commitment fee of 0.40% on any unused facility and matures on September 21, 2015. As at March 31, 2014, the Company did not have any borrowings outstanding under this facility.

Both the US Dollar Facility and the Peso Facility are subject to covenants that require the Company to maintain (1) interest coverage ratio of greater than 2.5; and (2) a debt to EBITDA ratio of less than 3.5. The Company was compliant with the covenants during the year.

2013 BOFA Loan

The 2013 BOFA loan carries an interest rate of LIBOR plus 1.5% and matures on November 2016, with interest payments due biannually. At March 31, 2014 the principal amount outstanding was $109 million (December 31, 2013: $109 million)

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

Working capital credit facilities

The Company has several short-term credit facilities which mature in 2014 to fund working capital needs. These working capital facilities are denominated in U.S. dollars with interest rates ranging from LIBOR plus 1% to LIBOR plus 1.25%. The total balance outstanding on these working capital facilities was $255 million as at March 31, 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) totaling $538 million. The Company provided notice to the holders of these convertible debentures for redemption at fair value plus accrued interest, as provided for in the indentures of the two debentures. As of December 31, 2013, the balance of debentures that had not yet been redeemed was $283 million. The outstanding balance was repaid in full in January 2014.

19. 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

The asset retirement obligation represents the present value of decommissioning costs related to oil and gas properties, of which up to $262 million are expected to be incurred (December 31, 2013: $238 million). The future decommissioning costs are discounted using the risk free rate of between 3.57% and 4.38% (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 which will reflect market conditions at the relevant time. Furthermore, the timing of decommissioning is likely to depend on when the fields cease to produce at economically viable rates. This in turn will depend upon future oil and gas prices, which are inherently uncertain.

20. 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:

	As at March 31 2014	As at December 31 2013
Within 1 year	$ 25,435	$ 25,843
Year 2	20,410	20,447
Year 3	11,278	14,657
Year 4	6,778	6,793
Year 5	6,778	6,778
Thereafter	16,416	18,491
Total minimum lease payments	87,095	93,009
Amounts representing interest	(25,006)	(27,222)
Present value of net minimum lease payments	$ 62,089	$ 65,787
Current portion	$ 17,463	$ 17,807
Non-current portion	44,626	47,980
Total obligations under finance lease	$ 62,089	$ 65,787

For the three ended March 31, 2014, interest expense of $2.2 million (2013: $3.1 million) was incurred on these finance leases.

21. Contingencies and commitments

A summary of the Company's commitments, undiscounted, 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	102,074	25,357	-	-	-	-	127,431
ODL Take or Pay Agreement	17,809	29,206	40,604	22,795	22,795	34,193	167,402
Minimum work commitments	148,620	107,221	43,411	10,181	5,536	-	314,969
OBC Take or Pay Agreement	129,513	171,899	172,370	171,899	171,899	1,132,181	1,949,761
Operating leases	525,570	283,503	149,080	16,943	16,688	51,827	1,043,611
Transportation and processing commitments	40,088	52,683	48,983	44,113	35,773	245,874	467,514
Transmission line project	1,651	-	-	-	-	-	1,651
Purchase Genser Power	41,591	38,105	23,750	9,394	9,394	45,405	167,639
Community obligations	19,371	-	-	-	-	-	19,371
	$ 1,085,375	$ 767,062	$ 537,286	$ 334,413	$ 321,173	$ 2,100,357	$ 5,145,666

The Company has various guarantees in place in the normal course of business. As at March 31, 2014, the Company has issued letters of credit and guarantees for exploration and operational commitments for a total of $411 million (December 31, 2013: $368 million).

Association contracts

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

Contingencies

The Company is involved in various claims and litigation arising in the normal course of business. While 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 reassessed value added tax ("**IVA**") for 2009, on the basis that the volume of oil produced and used for internal consumption at certain fields in Colombia should have been subjected to IVA. The amount reassessed, including interest and penalties, is estimated to be $10 million. The Company disagrees with the DIAN's reassessment and as of March 31, 2014, an official appeal has been initiated. Several other taxation periods through to 2012 in respect of IVA on field oil consumption are currently under review by the DIAN, but no reassessments have been issued. For the periods that are under review, if the DIAN's views were to prevail, the Company estimates that the IVA, including interest and penalties, could range between $12 million and $42 million. The Company continues to utilize oil produced for internal consumption, which is an accepted practice for the oil industry in Colombia.

The DIAN is also reviewing certain income tax deductions in respect of the special tax benefit for qualifying petroleum assets, as well as other exploration expenditures. To date, the DIAN has assessed $16 million of tax owing for the years 2008, 2010 and 2011. If the DIAN's views were to prevail, the Company estimates that the income tax, including interest and penalties, could range between $16 million and $59 million.

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

High Price Royalty in Colombia

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

The Company disagrees with the ANH's interpretation, and asserts that in accordance with the exploration contracts, the five million barrel threshold should be applied on each of the exploitation areas within a contracted area. The Company has several contracts that are subject to the ANH high-price participation. One of these contracts is the Corcel Block, which was acquired as part of the Petrominerales acquisition and the only one for which an arbitration process has been initiated. However, the arbitration process for Corcel was under suspension at the time the Company acquired Petrominerales. The amount under arbitration was approximately $183 million plus related interest of $70 million as of March 31, 2014. The Company also disagrees with the interest rate that the ANH has used in calculating the interest cost. The Company asserts that since the high-price participation is denominated in the U.S. dollar, the contract requires the interest rate to be three-month LIBOR plus 4%, whereas the ANH has applied the highest legally authorized interest rate on Colombian Peso liabilities, which was over 20%. The amount under discussion with the ANH for another contract is approximately $78 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.

22. 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

During the three months ended March 31, 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 recorded in the interim condensed consolidated financial statements as a reduction to share capital of $75.3 million and a reduction of $58.9 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

No stock options were granted nor exercised during the three months ended March 31, 2014.

The weighted average share price at the time when the stock options were exercised during the three months ended March 31, 2013: C$22.67.

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	3.3
10,000		10.86	July 30, 2014	0.3
2,147,200		13.09	October 12, 2014	0.5
4,044,500		14.08	February 9, 2015	0.9
3,000		19.00	March 16, 2015	1.0
2,791,375		20.56	April 23, 2015	1.1
10,000		20.09	May 18, 2015	1.1
5,000		24.41	June 23, 2015	1.2
37,000		27.58	September 29, 2015	1.5
250,000		34.43	February 2, 2016	1.8
3,755,250		25.76	March 16, 2016	2.0
53,000		28.01	May 3, 2016	2.1
12,000		25.59	May 26, 2016	2.2
160,000		22.05	September 27, 2016	2.5
21,000		24.68	October 24, 2016	2.6
5,302,700		22.75	January 18, 2017	2.8
69,000		29.10	March 30, 2017	3.0
6,212,000		23.26	January 28, 2018	3.8
760,500		24.32	February 8, 2018	3.9
152,500		19.21	November 15, 2018	4.6
25,912,692	$	21.01		2.3

(c) Deferred share units

The Company established the Deferred Share Unit Plan (the "DSU Plan") for its non-employee directors during 2012. Each DSU represents the right to receive a cash payment on retirement equal to the volume-weighted average market price of the Company's shares at the time of surrender. Cash dividends paid by the Company are credited as additional DSUs. As at March 31, 2014, 395,846 DSUs were outstanding with a fair value of $8 million (December 31, 2013: 340,959 DSUs valued at $6.3 million). The fair value of the DSUs was 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.

23. Related party transactions

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

a) During the three months ended March 31, 2014, the Company paid $2.6 million (March 31, 2013: $ 12.8 million) to Transportadora Del Meta S.A.S. ("Transmeta") in crude oil transportation costs. In addition the Company has accounts receivable of $1.4 million (December 31, 2013: $1.5 million) from Transmeta and accounts payable of $1.5 million (December 31, 2013: $1.7 million) to Transmeta as at March 31, 2014. Transmeta is controlled by a director of the Company.

b) As at March 31, 2014, the Company had trade accounts receivable of $2.9 million (December 31, 2013: $0.2 million) from Proelectrica, in which the Company has a 24.9% indirect interest and which is 31.49% owned by Blue Pacific. The Company's and Blue Pacific's indirect interests are held through Pacific Power. Revenue from Proelectrica in the normal course of the Company's business was $2.5 million for the three months ended March 31, 2014 (March 2013 - $11.2 million).

   In October 2012, the Company and Ecopetrol signed two Build, Own, Manage, and Transfer ("BOMT") agreements with Consorcio Genser Power-Proelectrica and its subsidiaries ("Genser-Proelectrica") to acquire certain power generation assets for the Rubiales field. Genser-Proelectrica is a joint venture between Proelectrica and Genser Power Inc. which is 51% owned by Pacific Power. Total commitment under the BOMT agreements is $229.7 million over ten years. In April 2013 the Company and Ecopetrol entered into another agreement with Genser-Proelectrica to acquire additional assets for a total commitment of $57 million over ten

years. At the end of the Rubiales Association Contract in 2016, the Company's obligations along with the power generation assets will be transferred to Ecopetrol. As at March 31, 2014 those assets were under construction and the Company paid cash advances of $9.3 million (March 2013: $0.5 million). The Company has accounts payable of $0.1 million (December 2013: $0.4 million) due to Genser-Proelectrica.

c) 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.

d) The Company has entered into aircraft transportation agreements with Petroleum Aviation Services S.A.S. ("PAS"), a company controlled by a director of the Company. During the three months ended March 31 2014, the Company paid $2.2 million (March 31, 2013: $4.1 million) in fees as set out under the transportation agreements. As at March 31, 2014, the Company had accounts payable of $2.8 million to Petroleum Aviation Services S.A.S. (December 31, 2013: $2.5 million).

e) During the three months ended March 31, 2014, the Company paid $28.6 million to ODL (March 31, 2013: $32.4 million) for crude oil transport services under the pipeline take or pay agreement, and has accounts payable of $14.9 million to ODL as at March 31, 2014 (December 31, 2013: $7.4 million). The Company received $0.1 million from ODL during the months ended March 31, 2014 (March 31, 2013: $0.3 million) with respect to certain administrative services and rental equipment and machinery. The Company accounts receivable from ODL as at March 31, 2014 $0.6 million (December 31, 2013: $0.1 million).

f) During the three months ended March 31, 2014, the Company paid $55 million to Bicentenario (2013: Nil) for crude oil transport services under the pipeline take-or-pay agreement. As at March 31, 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 $0.65 million was recognized during the three months ended March 31, 2014 (March 31, 2013: $0.5 million). The Company has received $0.5 million during the three months ended March 31, 2014 (March 31, 2013: $0.4 million) with respect to certain administrative services and rental equipment and machinery. The Company has accounts receivable from Bicentenario as at March 31, 2014 of $42 million (December 31, 2013: $42 million) and advanced $100.8 million to March 31, 2014 (December 31, 2013: $90 million) to Bicentenario as a prepayment of transport tariff, which is amortized against the barrels transported.

g) During the three months ended March 31, 2014, the Company paid $0.1 million (March 31, 2013: $0.3 million) to Helicopteros Nacionales de Colombia S.A.S. ("Helicol") with respect to air transportation services. Helicol is controlled by a director of the Company.

h) The Company has established one charitable foundation in Colombia, Pacific Rubiales Foundation, with the objective of advancing social and community development projects in the country. During the three months ended March 31, 2014, the Company contributed $7.0 million to these foundations (March 31, 2013: $10.8 million).

i) As at March 31, 2014, the Company has a loan receivable from PII in the amount of $38 million. The loan is guaranteed by PII's pipeline project and bears interest at 7% per annum.

24. 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, to manage its market risk associated to commodity markets, and notably its exposure to WTI pricing. The Company also enters into supply agreements and purchases goods and services denominated in non-function currencies such as Colombia Pesos for its Colombian based activities. These activities expose the Company to market risk from changes in commodity prices, foreign exchange rates, interest rates, credit and liquidity risks which 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 Corporation'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 COP and the USD 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.

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 detail below summarizes 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) losses impacting pre-tax net earnings as follows:

- A $1 change in the WTI price would have resulted in a $3 million change in revenue as at March 31, 2014 (2013 - $3 million).
- A 10% change in the COP/USD exchange rate would have resulted in a $0.5 million change in foreign exchange (gain) loss as at March 31, 2014 (2013 – $2.5 million).
- A 1% (100 basis points) change in the interest rate would increase or decrease interest expense by $2.1 million (2013 - $2 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 March 31 2014	As December 31 2013
Trade receivable	$ 314,409	$ 444,878
Advances / deposits	60,374	164,348
Recoverable VAT	150,152	140,889
Other receivables	217,059	52,255
Receivable from joint arrangements	312,719	236,761
Allowance for doubtful accounts	(962)	(969)
	$ 1,053,751	$ 1,038,162
Loan to Bicentenario (non-current, Note 16)	142,792	41,992
	$ 1,196,543	$ 1,080,154

The Company actively limits the total exposure to individual client counterparties and holds a trade credit insurance policy for indemnification for losses from non-collection of trade receivables. Three of the Company's customers had accounts receivable that were greater than 10% of total trade accounts receivable. The Company's credit exposure to these customers was $93.4 million, $80.1 million, and $45 million, or 30%, 25% and 14%, of trade accounts receivable, respectively (March 31, 2013: two customers at $95 million and $52 million or 32% and 18% of trade accounts receivable). Revenues from these customers for 2014 were $144 million, $89 million and $314 million or 11%, 7% and 24%, of revenue (March 31, 2013: $200 million and $75 million or 16% and 6% of revenue), respectively.

The entire amount of the recoverable VAT is due from the Colombian tax authority.

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

Included in other receivable is a short-term loan receivable from PII of $38 million. The loan is guaranteed by PII's pipeline project and bears interest at 7% per annum. Also included is the remaining balance of the consideration from the buyer of the Company's Ocensa pipeline interest in the amount of $100 million.

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.

(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 March 31, 2014, the Company had available $276 million of revolving credit. The following are the contractual maturities of non-derivative financial liabilities (undiscounted):

Financial liability due in	2014	2015	2016	2017	2018	Subsequent to 2018	Total
Accounts payable and accrued liabilities	$ 1,602,101	$ -	$ -	$ -	$ -	$ -	1,602,101
Long-term debt and bank indebtedness	255,000	400,000	109,000	-	-	3,394,106	4,158,106
Obligations under finance lease (Note 20)	25,435	20,410	11,278	6,778	6,778	16,416	87,095
Total	$ 1,882,536	$ 420,410	$ 120,278	$ 6,778	$ 6,778	$ 3,410,522	$ 5,847,302

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:

March 31, 2014

Type of Instrument	Term	Notional Amount / Volume (bbl)	Floor/ Ceiling or strike price	Benchmark	Carrying amount Assets	Liabilities
Subject to Hedge Accounting:						
Foreign Currency Risk						
Zero-cost collars	April - December 2014	55,000	1940 - 2075 COP/$	COP/USD	242	-
Zero-cost collars	April - December 2014	260,000	1850 - 2075 COP/$	COP/USD	-	(5,599)
Commodities Price Risk						
Zero-cost collars	April - June 2014	450,000	80 - 110.3 /bbl	WTI	-	(56)
Zero-cost collars	July - September 2014	900,000	80 - 110 /bbl	WTI	-	(251)
Total					**242**	**(5,906)**
Not Subject to Hedge Accounting:						
Foreign Currency Risk						
Forward	April 2014	20,000	1991 COP/$	COP/USD	319	-
Zero-cost collars	April - June 2014	15,000	1990 - 1950 COP/$	COP/USD	-	(177)
Zero-cost collars	April - December 2014	50,000	1925 - 2085 COP/$	COP/USD	-	(60)
Commodities Price Risk						
Zero-cost collars	April 2014 to June 2014	3,600,000	80 - 110 /bbl	WTI	-	(627)
Zero-cost collars	April - September 2014	1,200,000	80 - 108 /bbl	WTI	-	(418)
Zero-cost collars	April - December 2014	182,500	95 - 110 /bbl	Brent	-	(163)
Extendible zero-cost collars (counterparty option)	Jun-Sep Ext Oct-Dec 2014	1,200,000	80 - 109 /bbl	WTI	-	(1,212)
Extendible zero-cost collars (counterparty option)	Jun-Sep Ext Oct-Dec 2014	1,800,000	80 - 109 /bbl	WTI	-	(1,402)
Swap	April 2014	1,900,000 -	8.34 - 9.02	Brent - WTI	4,655	-
Total					**4,974**	**(4,059)**

December 31, 2013

Type of Instrument	Term	Notional Amount/ Volume (bbl)	Floor/ Ceiling or strike price	Benchmark	Carrying amount Assets	Liabilities
Subject to Hedge Accounting:						
Foreign Currency Risk						
Zero-cost collars	January to December 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		**480,000**			**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 CAD/$	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)**

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 relates to differing credit ratings of the counterparties, and duration of the relationship. These sources of ineffectiveness were insignificant for the three months ended March 31, 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 relates to differing credit ratings of the counterparties. The sources of ineffectiveness were insignificant for the three months ended March 31, 2014 and 2013.

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

As at March 31, 2014:

	Hedging Instrument		Hedged Item	
	Line item in the statement of financial position where the hedging instrument is	Changes in fair value used for calculating hedge ineffectiveness for 2014	Changes in fair value used for calculating hedge ineffectiveness for 2014	Cummulative Cash flow hedge reserve
Cash flow hedges:				
Foreign Currency Risk				
- Zero-cost collars	Risk Management Assets	194	195	169
- Zero-cost collars	Risk Management Liabilities	(1,679)	(1,686)	(1,487)
		(1,485)	(1,491)	(1,318)
Commodities Price Risk				
- Zero-cost collars (April-June)	Risk Management Liabilities	-	-	-
- Zero-cost collars (July - September	Risk Management Liabilities	-	-	-
		-	-	-

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 period ending March 31, 2014:

	Change in the value of the hedging instrument recognized in OCI	Hedge ineffectiveness recognized in profit or loss	Line item in profit or loss (that includes hedge ineffectiveness)	Amount reclassified from the cash flow hedge reserve to profit or loss	Line item affected in profit or loss because of the reclassification
Foreign exchange risk					
- Zero-cost collars	(4,205)	1,362	Foreign exchange gain (loss)	(1,788)	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 months ended March 31, 2014, the Company recorded an unrealized foreign exchange gain of $1.4 million (2013: $4 million unrealized loss) representing the change in the fair value of the forward currency price risk management contracts, and an unrealized gain on risk management of $3.9 million (2013: $5.7 million) unrealized loss representing the change in the fair value of the commodity price risk management contracts in net earnings.

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.

	March 31, 2014		December 31, 2013	
	Carrying value	Fair value	Carrying value	Fair value
Financial Assets				
Financial assets measured at amortized cost				
Cash and cash equivalents	306,419	306,419	632,503	632,503
Restricted cash	16,764	16,764	16,980	16,980
Accounts receivable	1,053,751	1,053,751	1,038,162	1,038,162
Income tax receivable	173,350	173,350	132,226	132,226
Loan to Bicentenario	41,992	41,992	41,992	41,992
Ocensa Receivable	10,000	10,000	-	-
	1,602,276	1,602,276	1,861,863	1,861,863
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 24)	4,974	4,974	328	328
	4,974	4,974	328	328
Financial assets designated as measured at fair value through other comprehensive income (FVTOCI)				
Investments in equity instruments (Note 16)	14,802	14,802	13,890	13,890
	14,802	14,802	13,890	13,890
Derivative instruments in designated hedge accounting relationships (see Note 24)	242	242	1,820	1,820
	242	242	1,820	1,820
	1,622,294	1,622,294	1,877,901	1,877,901
Financial Liabilities				
Financial liabilities measured at amortized cost				
Accounts payable and accrued liabilities	(1,602,101)	(1,612,900)	(1,683,179)	(1,683,179)
Income tax payable	(158,794)	(158,805)	(106,250)	(106,250)
Long term debt	(841,943)	(842,535)	(1,136,227)	(1,140,535)
Senior Notes [(1)]	(3,237,672)	(3,196,907)	(3,235,584)	(3,323,242)
Obligations under finance lease	(62,089)	(80,899)	(65,787)	(80,899)
	(5,902,599)	(5,892,046)	(6,227,027)	(6,334,105)
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 24)	(4,059)	(4,059)	(3,010)	(3,010)
	(4,059)	(4,059)	(3,010)	(3,010)
Derivative instruments in designated hedge accounting relationships (see Note 24)	(5,906)	(5,906)	(3,900)	(3,900)
	(5,906)	(5,906)	(3,900)	(3,900)
	(5,912,564)	(5,902,011)	(6,233,937)	(6,341,015)

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

When drawn, bank debt bears interest at a floating rate and accordingly the fair value approximates the carrying value. Due to the short term nature of cash and cash equivalents, accounts receivable and other current assets, accounts payable and accrued liabilities, their carrying values approximate their fair values.

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

March 31, 2014

	Quoted prices in active markets Level 1	Significant Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total
Financial assets at Fair Value				
Held for trading derivatives that are not designated in hedge accounting relationships		4,974		4,974
Derivative instruments in designated hedge accounting relationships		242		242
Financial assets at FVTOCI				
Investments in equity instruments	1,966		12,836	14,802
Other Assets				
Loan to Bicentenario		41,992		41,992
Ocensa receivable		10,000		10,000
Financial liabilities at Fair Value				
Held for trading derivatives that are not designated in hedge accounting relationships		(4,059)		(4,059)
Derivative instruments in designated hedge accounting relationships		(5,906)		(5,906)
Other Liabilities				
Long term debt		(842,535)		(842,535)
Senior notes	(3,196,907)			(3,196,907)
Obligations under finance lease		(80,899)		(80,899)

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 which have no observable market data are valued at cost.

25. Supplemental disclosure on cash flows

Changes in non-cash working capital are as follows:

	Three months ended March 31	
	2014	2013
(Increase) decrease in accounts receivable	$ (16,776)	$ 88,631
(Increase) decrease in income taxes receivable	(38,655)	9,651
(Decrease) increase in accounts payable and accruals	(82,296)	28,967
(Increase) decrease in inventories	(7,341)	8,898
Increase (decrease) in income taxes payable	55,116	(16,892)
Decrease (increase) in prepaid expenses	1,030	(2,882)
	$ (88,922)	$ 116,373

	Three months ended March 31	
	2014	2013
Cash income taxes paid	$ 48,450	$ 133,592
Cash interest paid	31,107	$ 29,320
Cash interest received	896	$ 738

26. Subsequent Events

During April 2014 the Company repaid the entire balance of $400 million outstanding on the US Dollar Facility. In addition, the Company closed a new syndicated US dollar credit facility for up to $1 billion. The US Dollar Facility was subsequently cancelled.

27. Adoption of IFRS 9

Effective January 1, 2014 the Company has early adopted IFRS 9 as described in Note 2. As a result, for all comparative periods up to and including the year ended December 31, 2013, the Company prepared its financial statements in accordance with IAS 39. The interim consolidated financial statements for the interim period March 31, 2014, are the first financial statements presented under IFRS 9. IAS 8 requires that comparative financial information be provided. The adoption of IFRS 9 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

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

Effect of Adoption

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

Comprehensive Income Line Item Impact	Year ended December 31, 2013	Effect of IFRS 9 Adoption	After Adoption As at December 31, 2013	Three months ended March 31, 2013	Effect of IFRS 9 Adoption	After Adoption As at March 31, 2013
Statements of Income						
Foreign exchange (loss) gain	$ 6,325	$ (4,323)	$ 2,002	$ 17,835	$ (2,864)	$ 14,971
Statements of other comprehensive income						
Unrealized gain (loss) on the time value of cash flow hedges	-	(4,323)	(4,323)	-	(2,864)	(2,864)
EPS -Basic			1.32			0.40
EPS -Diluted			1.31			0.39

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.