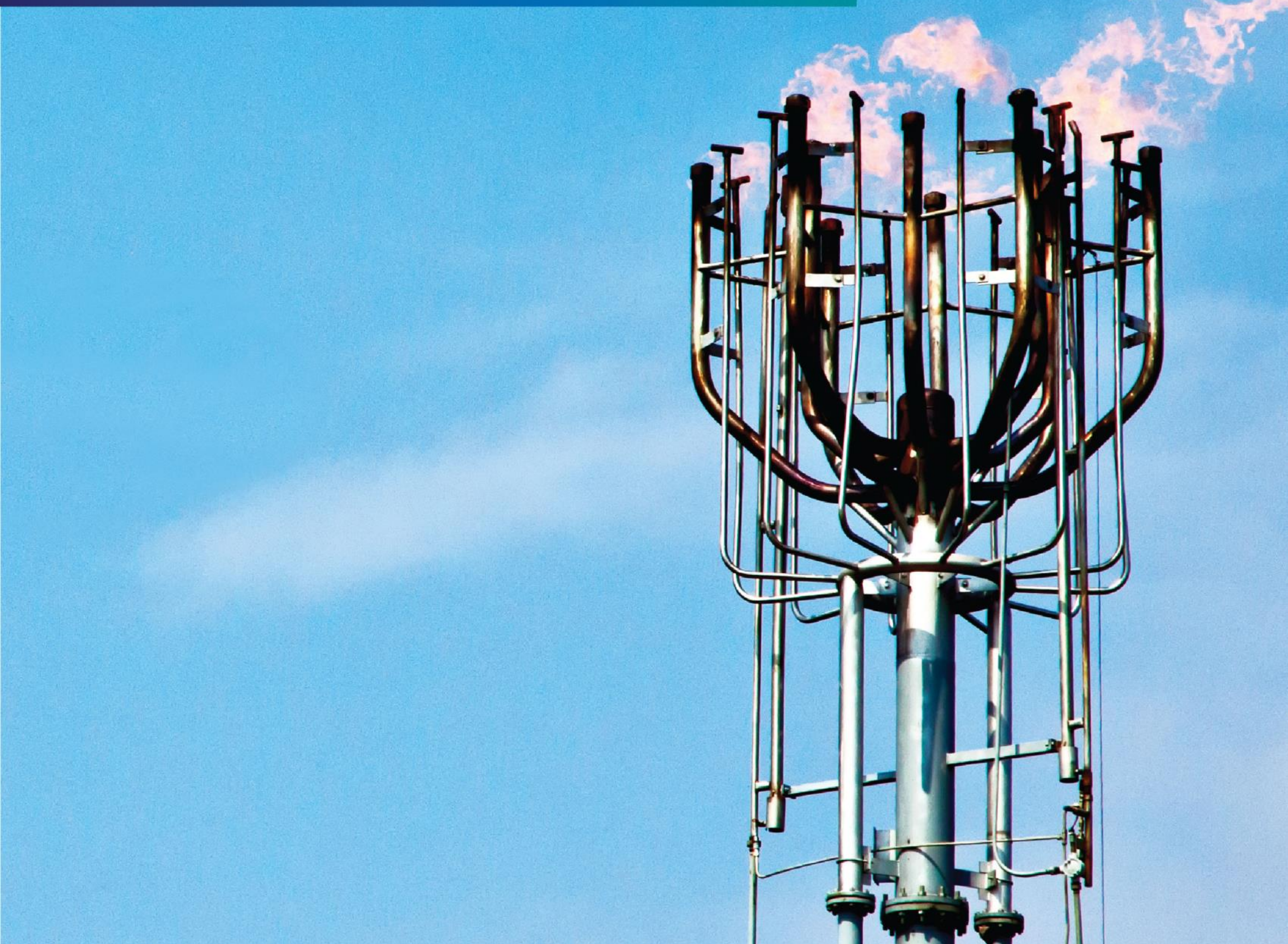
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Pacific
Exploration & Production

For the three and six months ended
June 30, 2016 and 2015



Interim Condensed Consolidated Statements of Loss

(In thousands of U.S. Dollars, except per share information; unaudited)	Notes	Three months ended June 30 2016	Three months ended June 30 2015	Six months ended June 30 2016	Six months ended June 30 2015
Sales					
Oil and gas sales		$ 375,438	$ 647,367	$ 831,354	$ 1,379,679
Trading sales		965	55,366	1,880	122,902
Total sales	3	376,403	702,733	833,234	1,502,581
Cost of operations					
Oil & gas operating cost	4	219,784	311,643	487,547	659,407
Purchase of oil for trading		665	52,747	1,506	116,763
(Underlift) overlift		(145)	(47,518)	(34,835)	13,287
Fees paid on suspended pipeline capacity	5	18,058	27,492	43,449	30,277
Gross earnings		138,041	358,369	335,567	682,847
Depletion, depreciation and amortization		145,891	397,739	376,483	804,158
General and administrative		37,685	51,104	71,499	106,009
Impairment and exploration expenses	17	22,788	-	689,686	448,967
Share-based compensation	22c	(5,297)	11,475	(8,503)	13,561
Restructuring costs	2	47,940	-	64,720	-
Loss from operations		(110,966)	(101,949)	(858,318)	(689,848)
Finance costs	18	(32,891)	(78,117)	(101,805)	(156,975)
Share of gain of equity-accounted investees	15	29,526	13,901	56,373	31,354
Equity tax	6	-	-	(26,901)	(39,149)
Foreign exchange gain (loss)		8,518	(5,414)	5,179	(41,194)
Unrealized gain (loss) on risk management		6,073	(68,470)	(107,472)	(68,637)
Other income (expense)		2,210	(25,414)	44,420	(46,984)
Net loss before income tax		(97,530)	(265,463)	(988,524)	(1,011,433)
Current income tax	7	(8,594)	(12,000)	(20,088)	(30,193)
Deferred income tax	7	(30)	64,158	1,516	103,845
Total income tax (expense) recovery		(8,624)	52,158	(18,572)	73,652
Net loss for the period		$ (106,154)	$ (213,305)	$ (1,007,096)	$ (937,781)
Attributable to:					
Equity holders of the parent		(118,654)	(226,377)	(1,019,603)	(948,633)
Non-controlling interests		12,500	13,072	12,507	10,852
		$ (106,154)	$ (213,305)	$ (1,007,096)	$ (937,781)
Basic and diluted loss per share attributable to equity holders of the parent	8	(0.38)	(0.72)	(3.24)	(3.03)

See accompanying notes to the Interim Condensed Consolidated Financial Statements and Going Concern Note

Interim Condensed Consolidated Statements Comprehensive Loss

(In thousands of U.S. Dollars; unaudited)	Notes	Three months ended June 30 2016	Three months ended June 30 2015	Six months ended June 30 2016	Six months ended June 30 2015
Net loss for the period		$ (106,154)	$ (213,305)	$ (1,007,096)	$ (937,781)
Other comprehensive (loss) income not to be reclassified to net earnings in subsequent periods (nil tax effect)					
Fair value adjustments		190	245	190	(2,221)
Other comprehensive income (loss) to be reclassified to net earnings in subsequent periods (nil tax effect)					
Foreign currency translation		16,460	(32,159)	42,490	(65,255)
Unrealized gain on cash flow hedges	24d	-	(40,222)	-	(29,831)
Unrealized loss on the time value of cash flow hedges		-	(24,684)	(99)	(6,934)
Realized loss (gain) on cash flow hedges transferred to earnings	24d	(6,073)	37,632	(12,146)	370
		10,577	(59,188)	30,435	(103,871)
Total comprehensive loss for the period		$ (95,577)	$ (272,493)	$ (976,661)	$ (1,041,652)
Attributable to:					
Equity holders of the parent		$ (111,800)	$ (285,565)	$ (999,179)	$ (1,052,504)
Non-controlling interests		16,223	13,072	22,518	10,852
		$ (95,577)	$ (272,493)	$ (976,661)	$ (1,041,652)

See accompanying notes to the Interim Condensed Consolidated Financial Statements and Going Concern Note

Interim Condensed Consolidated Statement Financial Position

(In thousands of U.S. Dollars; unaudited)	Notes		As at June 30 2016		As at December 31 2015
ASSETS					
Current					
Cash and cash equivalents		$	599,410	$	342,660
Restricted cash	2		89,777		18,181
Accounts receivables	24b		307,104		517,997
Inventories	10		71,953		27,411
Income tax receivable			122,531		200,813
Prepaid expenses			2,456		5,424
Risk management assets	24d		-		172,783
			1,193,231		1,285,269
Non-current					
Oil and gas properties	11		971,424		1,818,719
Plant and equipment	13		65,494		118,230
Intangible assets	14		27,910		40,877
Investments in associates	15		494,641		448,266
Other assets	16		215,147		257,019
Restricted cash			22,852		17,741
		$	2,990,699	$	3,986,121
LIABILITIES					
Current					
Accounts payable and accrued liabilities	24c	$	861,529	$	1,216,891
Deferred revenue	9		-		74,795
Risk management liability	24d		-		53,066
Income tax payable			405		838
Loans and borrowings	18		5,802,840		5,377,346
Current portion of obligations under finance lease	19		4,503		13,559
Asset retirement obligation	20		3,172		3,449
			6,672,449		6,739,944
Non-current					
Obligations under finance lease	19		21,180		22,952
Deferred tax liability	7		4,791		6,308
Asset retirement obligation	20		254,356		207,148
		$	6,952,776	$	6,976,352
DEFICIT					
Common shares	22a	$	2,615,788	$	2,615,788
Contributed surplus			124,150		124,150
Other reserves			(232,137)		(252,561)
Retained deficit			(6,606,356)		(5,586,753)
Deficit attributable to equity holders of the parent			(4,098,555)		(3,099,376)
Non-controlling interests			136,478		109,145
Total deficit		$	(3,962,077)	$	(2,990,231)
		$	2,990,699	$	3,986,121

See accompanying notes to the Interim Condensed Consolidated Financial Statements and Going Concern Note

Interim Condensed Consolidated Statement of Changes in Equity (Deficit)

For the six months ended June 30, 2016

(In thousands of U.S. Dollars; unaudited)	Note	Common Shares	Contributed Surplus	Retained Deficit	Cash flow hedge	Time Value Reserves	Foreign currency translation	Fair value Investment	Total	Non-controlling interests	Total Deficit
		Attributable to equity holders of parent									
As at December 31, 2015		$ 2,615,788	$ 124,150	$ (5,586,753)	$ 12,146	$ 99	$ (259,414)	$ (5,392)	$ (3,099,376)	$ 109,145	$ (2,990,231)
Net loss for the period		-	-	(900,949)	-	-	-	-	(900,949)	7	(900,942)
Other comprehensive income		-	-	-	(6,073)	(99)	19,742	-	13,570	6,288	19,858
Total comprehensive income		-	-	(900,949)	(6,073)	(99)	19,742	-	(887,379)	6,295	(881,084)
Dividends paid to non-controlling interest	15	-	-	-	-	-	-	-	-	(14,618)	(14,618)
Effect of deconsolidation of subsidiary	15	-	-	-	-	-	-	-	-	19,433	19,433
As at March 31, 2016		$ 2,615,788	$ 124,150	$ (6,487,702)	$ 6,073	$ -	$ (239,672)	$ (5,392)	$ (3,986,755)	$ 120,255	$ (3,866,500)
Net loss for the period		-	-	(118,654)	-	-	-	-	(118,654)	12,500	(106,154)
Other comprehensive income		-	-	-	(6,073)	-	12,737	190	6,854	3,723	10,577
Total comprehensive income		-	-	(118,654)	(6,073)	-	12,737	190	(111,800)	16,223	(95,577)
As at June 30, 2016		$ 2,615,788	$ 124,150	$ (6,606,356)	$ -	$ -	$ (226,935)	$ (5,202)	$ (4,098,555)	$ 136,478	$ (3,962,077)

For the six months ended June 30, 2015

(In thousands of U.S. Dollars; unaudited)	Note	Common Shares	Contributed Surplus	Retained Deficit	Cash flow hedge	Time Value Reserves	Foreign currency translation	Fair value Investment	Total	Non-controlling interests	Total Equity
		Attributable to equity holders of parent									
As at December 31, 2014		$ 2,610,485	$ 129,029	$ (124,894)	$ 5,100	$ (7,806)	$ (141,320)	$ (2,957)	$ 2,467,637	$ 187,011	$ 2,654,648
Net loss for the period		-	-	(722,256)	-	-	-	-	(722,256)	(2,220)	(724,476)
Other comprehensive income		-	-	-	(26,871)	17,750	(33,096)	(2,466)	(44,683)	-	(44,683)
Total comprehensive income		-	-	(722,256)	(26,871)	17,750	(33,096)	(2,466)	(766,939)	(2,220)	(769,159)
Dividends paid to non-controlling interest	15	-	-	-	-	-	-	-	-	(13,164)	(13,164)
Transaction with non-controlling interest		-	(4,822)	-	-	-	-	-	(4,822)	2,679	(2,143)
As at March 31, 2015		$ 2,610,485	$ 124,207	$ (847,150)	$ (21,771)	$ 9,944	$ (174,416)	$ (5,423)	$ 1,695,876	$ 174,306	$ 1,870,182
Net loss for the period		-	-	(226,377)	-	-	-	-	(226,377)	13,072	(213,305)
Other comprehensive income		-	-	-	(2,590)	(24,684)	(32,159)	245	(59,188)	-	(59,188)
Total comprehensive income		-	-	(226,377)	(2,590)	(24,684)	(32,159)	245	(285,565)	13,072	(272,493)
Transaction with non-controlling interest		-	(84)	-	-	-	-	-	(84)	63	(21)
As at June 30, 2015		$ 2,610,485	$ 124,123	$ (1,073,527)	$ (24,361)	$ (14,740)	$ (206,575)	$ (5,178)	$ 1,410,227	$ 187,441	$ 1,597,668

See accompanying notes to the Interim Condensed Consolidated Financial Statements and Going Concern Note

Interim Condensed Consolidated Statement of Cash Flow

(In thousands of U.S. Dollars; unaudited)	Notes	Three months ended June 30 2016	Three months ended June 30 2015	Six months ended June 30 2016	Six months ended June 30 2015
OPERATING ACTIVITIES					
Net loss for the period		$ (106,154)	$ (213,305)	$ (1,007,096)	$ (937,781)
Items not affecting cash:					
Depletion, depreciation and amortization		145,891	397,739	376,483	804,158
Impairment and exploration expenses	17	22,788	-	689,686	448,967
Accretion expense		5,870	8,282	5,592	22,427
Unrealized (gain) loss on risk management contracts		(6,073)	68,470	107,472	68,637
Share-based compensation	22c	(5,297)	11,475	(8,503)	13,561
Loss on cash flow hedges included in operating expense	24d	-	12,767	-	26,250
Deferred income tax expense (recovery)	7	30	(64,158)	(1,516)	(103,845)
Unrealized foreign exchange (gain) loss		(13,225)	(26,621)	754	(36,274)
Share of gain of equity-accounted investees	15	(29,526)	(13,901)	(56,373)	(31,354)
Gain on loss of control		-	-	(15,597)	-
Dividends from associates	15	-	-	40,839	25,666
Equity tax	6	(12,840)	(20,508)	14,061	18,641
Other		(8,411)	8,306	(9,647)	19,967
Deferred revenue (non- cash settlement) proceeds	9	-	(320)	(75,000)	199,155
Changes in non-cash working capital	25	(1,363)	(70,915)	(105,191)	(341,918)
Net cash provided (used) by operating activities		$ (8,310)	$ 97,311	$ (44,036)	$ 196,257
INVESTING ACTIVITIES					
Additions to oil and gas properties and plant and equipment		(24,268)	(172,773)	(44,339)	(308,734)
Additions to exploration and evaluation assets		(279)	(55,606)	(9,490)	(106,508)
Investment in associates and other assets		169	-	(8,753)	-
Increase in restricted cash and others		(50,133)	594	(71,525)	(65)
Finance loan repayment from Bicentenario		-	-	-	17,216
Net cash used in investing activities		$ (74,511)	$ (227,785)	$ (134,107)	$ (398,091)
FINANCING ACTIVITIES					
Payment of debt and leases		(5,009)	(5,113)	(34,321)	(512,025)
Transaction costs		-	(57)	-	(5,475)
Drawdown of revolving credit facility		-	-	-	1,000,000
DIP Notes and Warrants	18	480,000	-	480,000	-
Advances from short-term debt		-	-	-	125,000
Dividends paid to non-controlling interest	15	-	-	(14,618)	(13,164)
Proceeds on option exercise		-	36	-	36
Net cash provided (used) by financing activities		$ 474,991	$ (5,134)	$ 431,061	$ 594,372
Effect of exchange rate changes on cash and cash equivalents		1,366	(299)	3,832	(1,748)
Change in cash and cash equivalents during the period		393,536	(135,907)	256,750	390,790
Cash and cash equivalents, beginning of the period		205,874	860,451	342,660	333,754
Cash and cash equivalents, end of the period		$ 599,410	$ 724,544	$ 599,410	$ 724,544
Cash		$ 568,898	$ 341,426	$ 568,898	$ 341,426
Cash equivalents		30,512	383,118	30,512	383,118
		$ 599,410	$ 724,544	$ 599,410	$ 724,544

See accompanying notes to the Interim Condensed Consolidated Financial Statements and Going Concern Note

1. Corporate Information

Pacific Exploration & Production Corporation (the "**Company**") is an oil and gas company incorporated and domiciled in Canada and engaged in the exploration, development and production of crude oil and natural gas in Colombia, Peru, Brazil, Guatemala, Guyana and Belize. Prior to April 19, 2016, the Company's common shares were listed and publicly traded on the Toronto Stock Exchange ("**TSX**") and Bolsa de Valores de Colombia (the Colombian Stock Exchange). On April 19, 2016, as a result of the Company entering into a comprehensive restructuring plan (Note 2 – "Comprehensive Restructuring Agreement"), the Company's common shares were suspended from trading on the TSX and the Colombian Stock Exchange and on May 25 the Company's common shares were delisted from the TSX. 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 August 11, 2016.

2. Basis of Preparation and Significant Accounting Policies

The Interim Condensed Consolidated Financial Statements for the three and six months ended June 30, 2016 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, 2015.

Going Concern Assumption

These Interim Condensed Consolidated Financial Statements were prepared on a going concern basis that contemplated the realization of assets and the settlement of liabilities in the normal course of business as they become due, except for the revaluation to fair value of certain financial assets and financial liabilities in accordance with the Company's accounting policies.

For the three months and six months ended June 30, 2016, the Company incurred a net loss of $106 million and $1,007 million respectively, and has a deficit of $3,962 million as of June 30, 2016 (December 31, 2015: $2,990 million).

On January 14, 2016, the Company announced it had elected to utilize the 30-day grace period under the applicable note indentures and not make interest payments of $66.2 million in the aggregate on its September 2014 Senior Notes and November 2013 Senior Notes (Note 18) as they became due on January 19, 2016 and January 26, 2016, respectively. The failure to pay such interest constituted an event of default under the applicable note indentures on February 25, 2016 in respect of the September 2014 Senior Notes and February 18, 2016 in respect of the November 2013 Senior Notes.

On March 28, 2016, the Company announced it had elected to utilize the 30-day grace period under the applicable note indentures and not make interest payments of $25.6 million in the aggregate on its March 2013 Senior (Note 18) as they became due on March 28, 2016. The failure to pay such interest on April 27, 2016 did constitute an event of default under the applicable note indentures.

The Company has also breached several minimum credit rating covenants in respect to certain operational agreements it has entered into, as a result of downgrades of the Company's credit rating during 2015. Consequently, the counterparties of these operational agreements have the option to demand a range of remedies including letters of credit and penalties. Waivers related to these credit rating covenants have been granted, refer to Note 21 for more details. There is no assurance that the Company will be able to successfully negotiate amendments to the minimum credit rating requirements or obtain future extensions of these waivers.

Although the Company has initiated comprehensive plan to restructure its long-term debts (further explained below in "**Comprehensive Restructuring Agreement**"), there can be no certainty as to the ability of the Company to complete the restructuring, amend the relevant operating agreements to eliminate credit rating covenants should low crude prices persist, successfully negotiate the sale of its non-core assets or generate a positive cash flow under the persistent low oil price conditions and accordingly, there is a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. These financial statements do not include adjustments to the recoverability and classification of recorded assets and liabilities and related expenses that might be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business at amounts different from those in the accompanying consolidated financial statements. Such adjustments could be material.

Comprehensive Restructuring Agreement

On April 19, 2016, the Company with the support of certain holders of its Senior notes and lenders under its credit facilities, entered into an agreement with The Catalyst Capital Group Inc. ("**Catalyst**") in respect of a comprehensive financial restructuring ("**Restructuring Transaction**"). Under the terms of the agreement, the entire principal of the Company's existing long-term debt will be exchanged for common shares issued from treasury. In addition, Catalyst and certain Senior noteholders will provide new cash financing to recapitalize the Company.

On April 27, 2016, the Company, including certain of its direct and indirect subsidiaries, obtained an Initial Order from the Superior Court of Justice in Ontario under the Companies' Creditors Arrangement Act ("**CCAA**"), in respect of the Restructuring Plan.

The Restructuring Transaction includes the following key features to be implemented by way of arrangement pursuant to the CCAA in Canada, together with appropriate proceedings in Colombia and in the United States:

- The operations of the Company will continue as normal and all obligations to the Company's suppliers, trade partners and contractors will continue to be met.
- The Company's existing outstanding common shares will be subject to extensive dilution as a result of the common shares that will be issued.
- Claims by the Company's creditors in respect of the $4.1 billion Senior Notes and $1.2 billion of credit facilities ("**Affected Creditors**") will be fully extinguished and exchanged for 58.2% of the common shares of the reorganized company.
- A debtor-in-possession financing of $500 million in principal ("**DIP Financing**") secured by assets of the Company (Note 18).
- Upon implementation of the Restructuring Transaction, the Affected Creditors will have the right to receive cash in lieu of up to 25% of the fully diluted common shares of the reorganized company they would otherwise be entitled to receive ("**Cash Out Offer**"), and Catalyst is obligated to subscribe for the same number of common shares as elected under the Cash Out Offer, for a total subscription price of at least $200 million or such larger amount as Catalyst may agree in cash.

DIP Cash Collateral Account

On June 22, 2016 in accordance with the Comprehensive Restructuring Agreement the funds related to the DIP Financing were deposited into a Canadian bank account in the name of the Company and are subject to number of conditions including the following;

- The Company shall maintain at all times prior to the completion of Restructuring Transaction a minimum unrestricted operating cash balance of $200 million.
- All unrestricted operating cash in excess of $100 million remaining in the Company's cash accounts excluding that which is in the DIP Cash Collateral Account at the end of each week shall be deposited into the DIP Cash Collateral account.

- If at the end of each week the unrestricted operating cash balance in the Company's cash accounts excluding that which is in the DIP Cash Collateral account is below $100 million, a withdrawal will be made from the DIP Cash Collateral Account in the amount required to return the balance to $100 million.

Colombian Affected Creditors Security

On June 10, 2016 the Superintendencia de Sociedades of Colombia (the "**Superintendencia**") granted an order under Ley 1116 recognizing the CCAA proceedings as the foreign main proceedings for the Restructuring Transaction. The Superintendencia also authorized the granting of security over the Colombian branches in connection with the DIP Financing and resolved that $50 million should be held in trust until the Restructuring Transaction is complete and as security for the Colombian Affected Creditors ("**Colombian Affected Creditors Security**"). The Company has recognized the $50 million as restricted cash.

The Restructuring Transaction is intended to ensure the long-term viability of the Company. There is no assurance that the Restructuring Transaction will be successful and that all relevant and required regulatory, creditor and court approvals will be attained.

During the three and six months ended June 30, 2016, the Company incurred $47.9 million and $64.7 million in costs related to the signing of the Forbearance Agreement and Comprehensive Restructuring Agreement. These restructuring costs were predominantly the appointment of independent financial advisors to assist with the ongoing negotiations and counsel all counterparties involved.

Included in restructuring costs is an accrued amount relating to retention bonuses for certain employees of the Company as part of the CCAA Initial Order.

Critical Judgments in Applying Accounting Policies

Sponsor and Investor DIP Notes

The $500 million DIP Notes were issued on June 22, 2016. These DIP Notes include various features including conversion into new common shares, exchanged for a new set of notes and also for additional equity purchase warrants exercisable for new common shares (Note 18). The Company was required to assess whether the various features including the warrants and the conversion feature were to be recognized as a financial liability under IFRS 9 (2013) or as equity in accordance with IAS 32. The Company was required to apply judgement to determine whether the concept of 'fixed for fixed' criterion was applicable in concluding on the classification of the conversion feature and the warrants. In applying this concept the Company determined that no value was allocated to an equity component.

CGX

The Company was required to apply judgement to assess whether it retained control over CGX Energy Inc. ("**CGX**") after its interest was reduced to below 50% during the first quarter of 2016 and it no longer held a majority of the voting rights. In determining control, the Company analyzed whether it held additional rights which are sufficient enough to give it the practical ability to direct the relevant activities of CGX, including potential voting rights or rights arising from any contractual agreements. Based on this analysis, it was determined that any additional rights held by the Company were not substantive and as a result the Company no longer held control over CGX and CGX was deconsolidated.

Estimation Uncertainty and Assumptions

Oil and gas properties

Oil and gas properties are depreciated using the unit-of-production method. During 2016, in applying the unit-of-production method, oil and gas properties are depleted over proved reserves, compared to 2015 when they were depleted over proved and probable. The calculation of the unit-of-production rate of amortization could be impacted to the extent that actual production in the future is different from current forecasted production based on proved reserves. This would generally result from significant changes in any of the following:

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

Termination of the Rubiales and Pirri Contacts

On June 30, 2016, the joint operating agreements for the Rubiales and Piriri fields expired and the fields were returned to Ecopetrol S.A. ("**Ecopetrol**") and all associated contracts were terminated. In accordance with the termination rules contained in the agreements, Ecopetrol shall assume direct operations and retain 100% of the rights over the fields. In prior years, the Company, in anticipation of the relinquishment of the fields has been recording a provision for its termination obligation. As a result of the termination of the contracts, the Company has recorded additional $9.4 million in obligations relating to the relinquishment of the fields. The additional obligations relate mainly to the Company's share of environmental commitments, abandonment costs and other operating activities. The Company has determined that this additional obligation represents a change in estimate resulting from new information obtained during the quarter. The Company has identified various contingent liabilities and have determined that it is not probable that an outflow of resources will be required to settle these potential liabilities. In order to recognize these obligations certain assumptions were used such as the expected timing of expenses and future supplier and contractor charges, such assumptions could be impacted by the following outcomes:

- Changes in foreign exchange rates
- Changes in the timing of future activities or cash flows
- Unforeseen political or legislative changes

New Standards, Interpretations and Amendments Adopted by the Company

The accounting policies adopted 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, 2015, except for the adoption of new standards and interpretations effective as of 1 January 2016, which have or may reasonably have an impact on the Company as described below.

Amendments to IFRS 11 *Joint Arrangements: Accounting for Acquisitions of Interests*

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 *Business Combinations* principles for business combination accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation if joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments do not have any impact on the Company as there has been no interest acquired in a joint operation during the period.

IAS 34 *Interim Financial Reporting*

The amendment clarifies that the required interim disclosures must be either in the interim condensed financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report.

The other information within the interim condensed financial statements must be available to users on the same terms as the interim condensed financial statements and at the same time. The amendment must be applied retrospectively and did not have any impact on the Company.

Standards Issued but Not Yet Effective

IFRS 9 *Financial Instruments*

Classification and measurement of financial assets

All financial assets are measured at fair value on initial recognition, adjusted for transaction costs, if the instrument is not accounted for at fair value through profit or loss ("**FVTPL**"). Debt instruments are subsequently measured at FVTPL, amortised cost, or fair value through other comprehensive income ("**FVOCI**"), on the basis of their contractual cash flows and the business model under which the debt instruments are held. There is a fair value option ("**FVO**") that allows financial assets on initial recognition to be designated as FVTPL if that eliminates or significantly reduces an accounting mismatch. Equity instruments are generally measured at FVTPL. However, entities have an irrevocable option on an instrument-by-instrument basis to present changes in the fair value of non-trading instruments in other comprehensive income ("**OCI**") without subsequent reclassification to profit or loss.

Classification and measurement of financial liabilities

For financial liabilities designated as FVTPL using the FVO, the amount of change in the fair value of such financial liabilities that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation in OCI of the fair value change in respect of the liability's credit risk would create or enlarge an accounting mismatch in profit or loss. All other IAS 39 *Financial Instruments*: *Recognition and Measurement* classification and measurement requirements for financial liabilities have been carried forward into IFRS 9, including the embedded derivative separation rules and the criteria for using the FVO.

Impairment

The impairment requirements are based on an expected credit loss ("**ECL**") model that replaces the IAS 39 incurred loss model. The ECL model applies to debt instruments accounted for at amortised cost or at FVOCI, most loan commitments, financial guarantee contracts, contract assets under IFRS 15 *Revenue from Contracts with Customers* and lease receivables under IAS 17 *Leases*. Entities are generally required to recognise 12-month ECL on initial recognition (or when the commitment or guarantee was entered into) and thereafter as long as there is no significant deterioration in credit risk. However, if there has been a significant increase in credit risk on an individual or collective basis, then entities are required to recognise lifetime ECL. For trade receivables, a simplified approach may be applied whereby the lifetime ECL are always recognised.

The Company previously adopted IFRS 9 (2013) and plans to adopt the amendments to IFRS 9 (2014) at the effective date and is in the process of assessing the impact on its consolidated financial statements. The amendments are effective for annual periods beginning on or after January 1, 2018.

Early application is permitted for reporting periods beginning after the issue of IFRS 9 on 24 July 2014 by applying all of the requirements in this standard at the same time. Alternatively, entities may elect to early apply only the requirements for the presentation of gains and losses on financial liabilities designated as FVTPL without applying the other requirements in the standard.

IFRS 15 *Revenue from Contracts with Customer*

IFRS 15 replaces all existing revenue requirements in IFRS (IAS 11 *Construction Contracts*, IAS *18 Revenue*, 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*) and applies to all revenue rising from contracts with customers, unless the contracts are in the scope of other standards, such as IAS 17.

Its requirements also provide a model for the recognition and measurement of gains and losses on disposal of certain non-financial assets, including property, equipment and intangible assets. The standard outlines the principles an entity must apply to measure and recognise revenue. The core principle is that an entity will recognise revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer.

The principles in IFRS 15 will be applied using a five-step model:

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognise revenue when (or as) the entity satisfies a performance obligation

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. Application guidance is provided in IFRS 15 to assist entities in applying its requirements to certain common arrangements, including licences of intellectual property, warranties, rights of return, principal-versus-agent considerations, options for additional goods or services and breakage. The new standard will apply for annual periods beginning on or after January 1, 2018. Entities can choose to apply the standard using either a full retrospective approach, with some limited relief provided, or a modified retrospective approach. Early application is permitted and must be disclosed.

The Company plans to adopt the new standard at the effective date and is in the process of assessing the impact on its consolidated financial statements.

IFRS 16 *Leases*

The scope of IFRS 16 includes leases of all assets, with certain exceptions. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. IFRS 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of ’low-value’ assets (i.e., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be required to remeasure the lease liability upon the occurrence of certain events (i.e., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting is substantially unchanged from today’s accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases. The new standard will apply for annual periods beginning on or after January 1, 2019. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective transition approach. The standard’s transition provisions permit certain reliefs. Early application is permitted, but not before an entity applies IFRS 15.

The Company plans to adopt the new standard at the effective date and is in the process of assessing the impact on its consolidated financial statements.

IAS 7 *Statement of Cash Flows*

The amendments to IAS 7 *Statement of Cash Flows* are part of the IASB’s Disclosure Initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments are effective for annual periods beginning on or after January 1, 2017, with early application permitted.

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

The Company plans to adopt the new standard at the effective date and is in the process of assessing the impact on its consolidated financial statements.

IAS 12 *Income taxes*

The IASB issued the amendments to IAS 12 *Income Taxes* to clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value. The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explains in which circumstances taxable profit may include the recovery of some assets for more than their carrying amount. The amendments are effective for annual periods beginning on or after January 1, 2017. Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. Early application is permitted. If an entity applies the amendments for an earlier period, it must disclose that fact.

The Company plans to adopt the new standard at the effective date and is in the process of assessing the impact on its consolidated financial statements.

3. Segmented Information

The Company is organized into business units based on the main types of activities and has two reportable segments as at June 30, 2016: the exploration, development, and production of crude oil and gas in Colombia and Peru. The Company's assets and operations in other countries are still in the early stages of development and are not significant and therefore are not considered a reportable segment as at June 30, 2016. The Company manages its operations to reflect differences in the regulatory environments and risk factors for each country.

As at June 30, 2016	Canada	Colombia	Peru	Papua New Guinea	Guatemala	Belize	Others	Total
Cash and cash equivalents	$ 489,854	$ 103,370	$ 3,989	$ -	$ 464	$ 382	$ 1,351	$ 599,410
Non-current assets	28,657	1,564,995	140,409	53,012	-	-	10,395	1,797,468

As at December 31, 2015	Canada	Colombia	Peru	Papua New Guinea	Guatemala	Belize	Others	Total
Cash and cash equivalents	$ 157,505	$ 154,296	$ 9,563	$ -	$ 490	$ 1,064	$ 19,742	$ 342,660
Non-current assets	20,014	2,414,168	200,795	50,094	-	-	15,781	2,700,852

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

Three months ended June 30, 2016	Colombia	Peru	Corporate	Other Non-Reportable Segments	Total
Oil and gas sales	$ 368,295	$ 7,143	$ -	$ -	$ 375,438
Trading sales	965	-	-	-	965
Oil & gas operating cost	207,573	12,211	-	-	219,784
Purchase of oil for trading	665	-	-	-	665
Underlift	(145)	-	-	-	(145)
Fees paid on suspended pipeline capacity	18,058	-	-	-	18,058
General and administrative	23,093	2,007	6,924	5,661	37,685
Restructuring costs	437	85	46,414	1,004	47,940
Depletion, depreciation, amortization	141,916	1,777	61	2,137	145,891
Impairment and exploration expenses	4,149	664	-	17,975	22,788
Finance costs (income)	2,752	679	30,909	(1,449)	32,891
Share of (gain) loss of equity-accounted investees	(29,710)	-	184	-	(29,526)
Income tax expense	8,335	-	205	84	8,624
Net gain (loss)	$ 13,156	$ (8,150)	$ (79,988)	$ (31,172)	$ (106,154)

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

Six months ended June 30, 2016	Colombia	Peru	Corporate	Other Non-Reportable Segments	Total
Oil and gas sales	$ 814,733	$ 16,621	$ -	$ -	$ 831,354
Trading sales	1,880	-	-	-	1,880
Oil & gas operating cost	451,820	35,727	-	-	487,547
Purchase of oil for trading	1,506	-	-	-	1,506
Underlift	(34,199)	(636)	-	-	(34,835)
Fees paid on suspended pipeline capacity	43,449	-	-	-	43,449
General and administrative	43,736	4,295	13,148	10,320	71,499
Restructuring costs	437	85	63,194	1,004	64,720
Depletion, depreciation, amortization	328,341	45,435	140	2,567	376,483
Impairment and exploration expenses	591,160	79,427	-	19,099	689,686
Finance costs (income)	4,355	(1,346)	101,691	(2,895)	101,805
Share of (gain) loss of equity-accounted investees	(56,519)	-	146	-	(56,373)
Income tax expense	17,502	-	423	647	18,572
Net loss	$ (670,881)	$ (143,708)	$ (155,948)	$ (36,559)	$ (1,007,096)

Three months ended June 30, 2015	Colombia	Peru	Corporate	Other Non-Reportable Segments	Total
Oil and gas sales	$ 640,595	$ 6,772	$ -	$ -	$ 647,367
Trading sales	55,366	-	-	-	55,366
Oil & gas operating cost	307,731	3,912	-	-	311,643
Purchase of oil for trading	52,747	-	-	-	52,747
Underlift	(47,518)	-	-	-	(47,518)
Fees paid on suspended pipeline capacity	27,492	-	-	-	27,492
General and administrative	33,864	2,902	7,886	6,452	51,104
Depletion, depreciation, amortization	394,266	2,866	255	352	397,739
Finance costs (income)	2,000	(153)	76,262	8	78,117
Share of (gain) loss of equity-accounted investees	(13,514)	-	(387)	-	(13,901)
Income tax (recovery) expense	(52,306)	(74)	-	222	(52,158)
Net loss	$ (59,678)	$ (5,040)	$ (99,690)	$ (48,897)	$ (213,305)

Six months ended June 30, 2015	Colombia	Peru	Corporate	Other Non-Reportable Segments	Total
Oil and gas sales	$ 1,361,855	$ 17,824	$ -	$ -	$ 1,379,679
Trading sales	122,902	-	-	-	122,902
Oil & gas operating cost	647,865	11,542	-	-	659,407
Purchase of oil for trading	116,763	-	-	-	116,763
Overlift	13,287	-	-	-	13,287
Fees paid on suspended pipeline capacity	30,277	-	-	-	30,277
General and administrative	71,742	5,294	16,297	12,676	106,009
Depletion, depreciation, amortization	795,326	7,773	447	612	804,158
Impairment and exploration expenses	349,009	33,225	-	66,733	448,967
Finance costs	3,457	5,932	147,503	83	156,975
Share of (gain) loss of equity-accounted investees	(31,458)	-	104	-	(31,354)
Income tax recovery	(72,638)	(968)	-	(46)	(73,652)
Net loss	$ (611,403)	(51,095)	$ (195,054)	$ (80,229)	$ (937,781)

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

	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
United States	$ 253,795	$ 444,532	$ 581,260	$ 1,109,147
China	93,001	168,372	187,706	218,828
Colombia	22,464	26,608	47,647	64,238
Peru	7,143	6,772	16,621	17,824
Malaysia	-	52,559	-	52,559
Ivory Coast	-	-	-	36,095
Other countries	-	3,890	-	3,890
Total sales	$ 376,403	$ 702,733	$ 833,234	$ 1,502,581

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

4. Oil & Gas Operating Costs

	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
Oil and gas production costs	$ 87,069	$ 115,055	$ 184,022	$ 245,780
Transportation costs	129,360	166,425	280,147	345,230
Dilution costs	19,954	22,466	45,953	47,709
Other costs	(16,599)	7,697	(22,575)	20,688
Total cost	$ 219,784	$ 311,643	$ 487,547	$ 659,407

5. Fees Paid on Suspended Pipeline

The Bicentenario pipeline (Note 15) has experienced periodic suspensions following security-related disruptions. For the three and six months ended June 30, 2016, the net fees paid relating to the periods of disrupted pipeline capacity were $18.1 million and $43.4 million respectively (2015: $27.5 million and $30.3 million).

6. Equity Tax

Effective January 1, 2015, the Colombian Congress introduced a new wealth tax that is calculated on a taxable base (net equity) in excess of COP$1 billion ($0.4 million) as at January 1 of the applicable taxation year (2015). The applicable rates for January 1, 2015, 2016, and 2017 are 1.15%, 1.00% and 0.40%, respectively. Based on the Company's taxable base, the Company has accrued a liability for the 2016 fiscal year. Pursuant to IAS 37 and IFRIC 21, in the current year the Company has not made an accrual for future years. The 2016 wealth tax was estimated at $26.9 million, and recorded as an expense in the statement of loss (2015: $39.1 million). In May 2016, the Company made the first payment of $12.8 million (2015: $20.5 million) and in September 2016 will make the second instalment for the remaining $14.1 million (2015: $18.6 million).

7. Income Tax

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 June 30		Six months ended June 30	
	2016	2015	2016	2015
Net loss before income tax	$ (97,530)	$ (265,463)	$ (988,524)	$ (1,011,433)
Colombian statutory income tax rate	40%	39%	40%	39%
Income tax recovery at statutory rate	$ (39,012)	$ (103,531)	$ (395,410)	$ (394,459)
Increase in income tax provision resulting from:				
Other non-deductible expenses	$ 18,478	$ (40,715)	$ 67,954	$ (31,103)
Foreign exchange impact on deferred income tax	-	19,067	-	136,734
Share-based compensation	(1,404)	3,120	(2,305)	3,399
Risk management loss	-	(3,516)	-	-
Differences in tax rates in foreign jurisdictions	15,115	(124,201)	29,373	(125,357)
Others and losses for which no tax benefit is recorded	(206,695)	197,618	26,891	337,134
Additional presumptive taxable income	83,815	-	157,614	-
Movements in deferred tax not recognized	138,327	-	134,455	-
Income tax expense (recovery)	$ 8,624	$ (52,158)	$ 18,572	$ (73,652)
Current income tax expense	$ 8,594	$ 12,000	$ 20,088	$ 30,193
Deferred income tax recovery:				
Relating to origination and reversal of temporary differences	30	(64,158)	(1,516)	(103,845)
Income tax expense (recovery)	$ 8,624	$ (52,158)	$ 18,572	$ (73,652)

The Company's deferred tax relates to the following:

	As at June 30 2016	As at December 31 2015
Oil and gas properties and equipment	$ (865)	$ (10,120)
Other	(3,926)	3,812
Deferred tax liability	$ (4,791)	$ (6,308)

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

	As at June 30 2016	As at December 31 2015
Beginning of period	$ (6,308)	$ (523,634)
Recognized in deferred income tax (recovery) expense		
Tax loss carry-forwards	-	(35,199)
Oil and gas properties and equipment	9,255	473,040
Other	(7,738)	79,485
End of the period	$ (4,791)	$ (6,308)

The Canadian statutory combined income tax rate was 26.5% as at June 30, 2016 and for 2015.

The Colombian statutory tax rate as at June 30, 2016 was 40% (2015: 39%), which includes the general income tax rate of 25% (2015: 25%), and the fairness tax ("**CREE**") rate of 15% (2015: 14%).

The Peruvian statutory income tax rate was 28% as at June 30, 2016 (2015: 28%). The Peruvian income tax rate for Block Z-1 was 22% as at June 30, 2016 (2015: 22%).

The Company's cumulative effective tax rate (income tax expenses as a percentage of net earnings before income tax) was negative 1.88% for the six months ending June 30, 2016 (2015: 7.2%).

As at June 30, 2016, non-capital losses totalled $730 million (December 31, 2015: $708 million) in Canada and expire between 2025 and 2036. Capital losses totalled $8 million as at June 30, 2016 (December 31, 2015: $5 million). No deferred tax assets have been recognized with respect to the non-capital and capital losses as at June 30, 2016 (December 31, 2015: $Nil). Pursuant to the CCAA procedure, The Company expects to utilize all the Canadian tax attributes, including the non-capital and capital loss carryforward amounts, through the debt extinguishment process if the restructuring is successful.

In Colombia, non-capital losses totalled $638 million (December 31, 2015: $200 million). No deferred tax assets have been recognized in respect of these losses. In Peru, non-capital losses totaled $177 million (December 31, 2015: $162.7 million) and expire between 2016 and 2019. No deferred tax assets have been recognized in respect of these losses.

8. Loss per Share

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

	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
Net loss attributable to shareholders of the Company	$ (118,654)	$ (226,377)	$ (1,019,603)	$ (948,633)
Basic weighted average number of shares	315,021,198	313,255,053	315,021,198	313,255,053
Diluted weighted average number of shares	315,021,198	313,255,053	315,021,198	313,255,053
Basic and diluted loss per share attributable to shareholders of the Company	(0.38)	(0.72)	(3.24)	(3.03)

All options are anti-dilutive and have been excluded from the diluted weighted average number of common shares. 12,245,867 options (2015: 16,713,617) are excluded from the calculation of dilution.

9. Deferred Revenue

In 2015, the Company received an advance of $350 million (less $0.85 million in fees) in exchange for the delivery of twelve million barrels of crude oil between April 2015 and March 2016. The advance was recognized as a deferred revenue liability and was amortized and recognized as revenue upon the monthly delivery of the crude oil. The deferred revenue balance as at June 30, 2016 was $Nil (December 31, 2015: $74.8 million).

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

10. Inventories

	As at June 30 2016	As at December 31 2015
Crude oil and gas	$ 43,401	$ 3,077
Materials and supplies	28,552	24,334
	$ 71,953	$ 27,411

11. Oil and Gas Properties

Cost	Amount
Cost as at December 31, 2015	$ 11,065,566
Additions	19,407
Currency translation adjustment	10,114
Change in asset retirement obligation	19,026
Cost as at March 31, 2016	$ 11,114,113
Additions	21,261
Relinquishment of properties and disposals	(3,617,421)
Currency translation adjustment	9,111
Change in asset retirement obligation	11,204
Cost as at June 30, 2016	$ 7,538,268

Accumulated depletion and impairment	Note	Amount
Accumulated depreciation and impairment as at December 31, 2015		$ 9,246,847
Charge for the period		216,754
Currency translation adjustment		1,476
Impairment	17	573,004
Accumulated depletion and impairment as at March 31, 2016		$ 10,038,081
Charge for the period		144,896
Relinquishment of properties and disposals		(3,617,421)
Currency translation adjustment		1,288
Accumulated depletion and impairment as at June 30, 2016		$ 6,566,844

Net book value	Amount
As at December 31, 2015	$ 1,818,719
As at March 31, 2016	1,076,032
As at June 30, 2016	971,424

On June 30, 2016, the joint operating agreements for the Rubiales and Piriri fields expired and the fields were returned to Ecopetrol and all associated contracts were terminated. All net book values associated with these fields have been fully depleted and the Company has recorded all obligations related to the termination.

During the three and six months ended June 30, 2016, oil and gas assets were depleted over the Company's proved reserves (2015: Proved and probable reserves) to align with the Company's ability to fund the oil and gas productions.

12. Exploration and Evaluation Assets

	Note	Amount
Cost net of impairment as at December 31, 2015		$ -
Additions		9,211
Effect of deconsolidation of subsidiary		(245)
Impairment and exploration expenses	17	(10,053)
Change in asset retirement obligation		1,087
Cost net of impairment as at March 31, 2016		$ -
Additions		18,068
Impairment and exploration expenses	17	(22,773)
Change in asset retirement obligation		4,705
Cost net of impairment as at June 30, 2016		$ -

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

13. Plant and Equipment

Cost	Note	Land & buildings	Assets under construction	Other plant & equipment	Total
Cost as at December 31, 2015		$ 63,235	$ 7,251	$ 197,157	$ 267,643
Additions		110	-	464	574
Effect of deconsolidation of subsidiary		-	(7,251)	-	(7,251)
Currency translation adjustment		-	-	94	94
Cost as at March 31, 2016		$ 63,345	$ -	$ 197,715	$ 261,060
Additions		-	-	101	101
Relinquishment of properties	11	-	-	(2,813)	(2,813)
Currency translation adjustment		-	-	65	65
Cost as at June 30, 2016		$ 63,345	$ -	$ 195,068	$ 258,413

	Note	Land & buildings	Assets under construction	Other plant & equipment	Total
Accumulated depreciation and impairment as at December 31, 2015		$ 48,050	$ 4,200	$ 97,163	$ 149,413
Charge for the period		1,929	-	7,431	9,360
Impairment	17	-	-	30,994	30,994
Currency translation adjustment		-	-	28	28
Effect of deconsolidation of subsidiary		-	(4,200)	-	(4,200)
Accumulated depreciation and impairment as at March 31, 2016		$ 49,979	$ -	$ 135,616	$ 185,595
Charge for the period		2,877	-	7,235	10,112
Relinquishment of properties	11	-	-	(2,813)	(2,813)
Currency translation adjustment		-	-	25	25
Accumulated depreciation and impairment as at June 30, 2016		$ 52,856	$ -	$ 140,063	$ 192,919

Net book value	Land & buildings	Assets under construction	Other plant & equipment	Total
As at December 31, 2015	$ 15,185	$ 3,051	$ 99,994	$ 118,230
As at March 31, 2016	13,366	-	62,099	75,465
As at June 30, 2016	10,489	-	55,005	65,494

14. Intangible Assets

Cost	Capacity Rights
Cost as at December 31, 2015, March 31, 2016 and June 30, 2016	$ 190,000

Accumulated amortization	Amount
Accumulated amortization as at December 31, 2015	$ 149,123
Charge for the period	4,827
Accumulated amortization as at March 31, 2016	$ 153,950
Charge for the period	8,140
Accumulated amortization as at June 30, 2016	$ 162,090

Net book value	Amount
As at December 31, 2015	$ 40,877
As at March 31, 2016	36,050
As at June 30, 2016	27,910

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 usage over the term of the agreement, which is the earlier of 160 million barrels transported or January 31, 2020.

15. Investments in Associates

Set out below are the investments in associates as of June 30, 2016. Investments in associates are accounted for using the equity method, with the Company’s share of the associates’ net income or loss recognized in the Interim Condensed Consolidated Statement of Loss.

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

	ODL	Bicentenario	PII	Pacific Power	CRC	CGX	Total
As at December 31, 2015	$ 135,072	$ 198,287	$ 93,905	$ 20,952	$ 50	$ -	$ 448,266
Investment	-	-	-	843	-	6,348	7,191
Income (loss) from equity investments	9,593	15,156	2,060	333	-	(295)	26,847
Dividends	(25,598)	(15,241)	-	-	-	-	(40,839)
Foreign currency translation	4,905	5,008	922	-	-	-	10,835
As at March 31, 2016	$ 123,972	$ 203,210	$ 96,887	$ 22,128	$ 50	$ 6,053	$ 452,300
Investment	-	-	25	1,688	-	-	1,713
Income (loss) from equity investments	11,103	15,939	2,669	333	-	(518)	29,526
Foreign currency translation	4,814	5,312	976	-	-	-	11,102
As at June 30, 2016	$ 139,889	$ 224,461	$ 100,557	$ 24,149	$ 50	$ 5,535	$ 494,641

ODL Finance S.A. ("ODL")

The Company's 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 Company's fields. The remaining 65% interest is owned by 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.

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.

Pacific Infrastructure Ventures Inc. ("PII")

PII is a BVI 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 41.77% (December 31, 2015: 41.79%); it holds two board seats in PII. The functional currency of PII is the U.S. dollar.

Pacific Power Generation Corp ("Pacific Power")

The Company's investment in Pacific Power represents a 21.09% indirect interest in Promotora de Energia Electrica de Cartagena & Cia, S.C.A. E.S.P. ("**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.

Caribbean Resources Corporation (formerly Pacific Coal Resources Ltd.) ("CRC")

CRC is engaged in the acquisition and development of coal mining assets and related businesses in Colombia. The Company's interest in CRC is 9.78% (December 31, 2015: 8.49%). The functional currency of Pacific Coal is the U.S. dollar.

The Company has determined that it holds significant influence but not control over Pacific Coal as a result of the Company's equity interests and the right to nominate a director.

CGX Energy Inc.

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. Prior to January 21, 2016, the Company had control of CGX by way of a 53.7% interest and accounted for it as a fully consolidated subsidiary. The functional currency of CGX is the U.S. dollar.

On January 21, 2016, pursuant to a contract settlement agreement, CGX issued 16,522,500 common shares to an independent third party. As a result of the share issue, the Company's interest was reduced to 45.61% and the Company determined it no longer held control over CGX.

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

Upon loss of control, the Company de-recognized the assets and liabilities of CGX from the statement of financial position. Following the deconsolidation, CGX has been accounted for as an equity investment. As such, an investment in an associate was recognized at fair value and a gain of approximately $15.6 million was recognized in other (expense) income in the Interim Condensed Consolidated Statement of Loss.

As at June 30, 2016 the investment in CGX, estimated using the last traded price of C$0.20 (December 31, 2015: C$0.23) per common share, was $10 million (December 31, 2015: $11.6 million).

Dividends

During the three months and six months ended June 30, 2016, the Company received cash dividends of $Nil and $40.8 million respectively from its equity-accounted investments (2015: $Nil and $25.7 million). The Company holds a 63.64% interest in Pacific Midstream Ltd. ("**PM**") which is the holding company for a number of the Company's pipeline and power transmission assets, including a 35% interest in the ODL pipeline, a 41.5% interest in the Bicentenario pipeline and a 100% interest in Petroelectrica. During the three months and six months ended June 30, 2016, the Company distributed $Nil and $14.6 million respectively (2015: $Nil and $13.2 million) in dividends to the minority interests of PM.

16. Other Assets

	As at June 30 2016	As at December 31 2015
Bicentenario prepayments	$ 46,997	$ 87,971
Long-term receivables	63,387	60,469
Long-term recoverable VAT	75,813	64,958
Advances	27,768	42,496
Investments	1,182	1,125
	$ 215,147	$ 257,019

Bicentenario Prepayments

Prepayments include advances for the usage of the Bicentenario pipeline, which will be amortized against the barrels transported at the earlier 2025 or when certain contracted capacity limits are met.

Long term receivables, Investments and Advances

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

During the year ending December 31, 2015, the Company decided to withdraw from its participation in the exploratory blocks in Papua New Guinea. Per the terms of the withdrawal, the Company agreed to accept a receivable of $96 million (present value of $53.0 million and $50.1 million as at June 30, 2016 and December 31, 2015, respectively), payable in six years from its partner in the blocks.

Long-Term Recoverable VAT

This amount includes recoverable VAT that the Company expects to receive one year after the end of the reported period.

17. Impairment

The Company assesses at the end of each reporting period whether there is any indication, from external and internal sources of information, that an asset or cash generating unit ("**CGU**") may be impaired. Information the Company considers include changes in the market, economic and legal environment in which the Company operates that are not within its control and affect the recoverable amount of the oil & gas, exploration and evaluation properties.

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

The Company's impairment tests of oil and gas and exploration and evaluation assets are performed at the CGU level. The recoverable amount is calculated based on the higher of value-in-use and fair value less cost to sell. For the three and six months ended June 30, 2016 the recoverable amount was determined based on the fair value less cost to sell (2015: value-in-use).

As at June 30, 2016, as a result of indicators of impairment the Company recorded an impairment charge on their exploration and evaluation assets in the amount of $22.8 million. The impairment recognized during the period relates to the Company's current limited ability to fund future exploration and evaluation assets. For the six months ended June 30, 2016, the Company recorded a total impairment charge of $689.7 million as detailed below:

During the first quarter 2016 and as a result of the Restructuring Transaction entered into on April 19, 2016 (Note 2 – "Comprehensive Restructuring Agreement"), the Company believed there was an indication of impairment as of March 31, 2016. The Company performed a test of impairment of the carry amounts of its long-term assets against the higher of their value-in-use and the fair value less cost to sell.

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

- After-tax discount rate of 11% (19% before tax) (2015: 18% and 23% before tax) as determined by the weighted average cost of capital taking into consideration the expected return on investment by the Company's investors, the cost of debt based on the interest-bearing borrowings of the Company and segment-specific risk based on publicly available market data.
- Long-term WTI benchmark oil price of $46, $49, $50, $52 and $53 per barrel for 2016-2020 (2015: of $41, $50, $58, $66 and $71 per barrel for 2016-2020) respectively and inflated by approximately 2% (2015: 2%) subsequent to that period. Prices are based on futures strip prices (2015: compilation of independent industry analyst forecasts), published indices and management's own assumptions.
- Future production is based on proved developed producing and proved developed non-producing reserves (2015: proved developed producing, proved developed non-producing and probable reserves).
- Production costs have remained the same from the year end December 31, 2015 model.

	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
Oil and gas properties				
Central Colombia CGU	$ -	$ -	$ 503,004	$ -
Peru	-	-	70,000	-
Oil and gas properties	$ -	$ -	$ 573,004	$ -
Plant and equipment				
Colombia	$ -	$ -	$ 30,994	$ -
Exploration and evaluation assets				
Colombia	$ 4,134	$ -	$ 4,300	$ 112,000
Belize	186	-	368	-
Peru	664	-	9,427	33,000
Brazil	17,789	-	18,713	35,000
Papua New Guinea	-	-	-	13,000
Other	-	-	18	8,000
Exploration and evaluation assets	$ 22,773	$ -	$ 32,826	$ 201,000
Impairment of other assets				
Colombia	-	-	52,595	-
Goodwill allocated to Colombia	-	-	-	237,009
Total impairment	$ 22,773	$ -	$ 689,419	$ 438,009

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

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

Total impairment is summarized below:

	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
Impairment	$ 22,773	$ -	$ 689,419	$ 438,009
Impairment of financial assets	15	-	267	10,958
Total impairment	$ 22,788	$ -	$ 689,686	$ 448,967

18. Loans and Borrowings

	Maturity	Principal	Currency	Interest Rate	As at June 30 2016	As at December 31 2015
Senior Notes - 2011	December 12, 2021	$ 690,549	USD	7.25%	$ 690,549	$ 690,549
Senior Notes - March 2013	March 28, 2023	1,000,000	USD	5.13%	1,000,000	1,000,000
Senior Notes - November 2013	November 26, 2019	1,300,000	USD	5.38%	1,300,000	1,300,000
Senior Notes - September 2014	January 16, 2025	1,113,651	USD	5.63%	1,113,651	1,113,651
Other debt	Various 2016 to 2018	215,440	USD	Various	215,440	273,146
Revolving credit facility	2017	1,000,000	USD	LIBOR + 3.5%	1,000,000	1,000,000
DIP Notes and Warrants	2016	500,000	USD	12%	483,200	-
		$ 5,819,640			$ 5,802,840	$ 5,377,346
Current portion					$ 5,802,840	$ 5,377,346
					$ 5,802,840	$ 5,377,346

Sponsor DIP Notes, and Investor DIP Notes and Warrants

On June 22, 2016 the Company closed the $500 million DIP Financing which bears an interest rate of 12% per annum with interest payments due monthly and matures on the earlier of the date which the Restructuring Transaction is completed or December 22, 2016.

- $250 million of which were purchased by Catalyst, the sponsor of the Comprehensive Restructuring Agreement and will upon implementation of the plan of arrangement set out by the Comprehensive Restructuring Agreement be converted into shares of the reorganized common stock (Note 2) (“**Sponsor DIP Note**”). The Sponsor DIP Note was issued at a 4% discount ($10 million) for $240 million in cash.

- $250 million of the DIP Notes were purchased by certain holders of the Company’s existing Senior Notes, which will upon implementation of the plan of arrangement set out by the Comprehensive Restructuring agreement be exchanged for a new set of notes (Note 2) (“**Investor DIP Notes**”). In addition, the Company issued 6,250,000 warrants (“**Warrants**”) to the holders of the Investor DIP Notes, which will automatically exercise (unless holders provide notice in writing, at which time they expire) into 12.5% (625 billion) of the reorganized common shares upon implementation of the plan of arrangement set out by the Comprehensive Restructuring Agreement (Note 2). The excise price of each warrant is $0.0001 and each warrant is exercisable into 100,000 common shares. The Investor DIP Notes and the Warrants were issued for $240 million in cash.

Senior Notes and Other Debts

In accordance with the Comprehensive Restructuring Agreement (Note 2), the following interest-bearing loans and borrowings will be fully extinguished and exchanged for 58.2% of the common shares of the reorganized company upon completion of the Restructuring Transaction (Note 2):

- The Senior Notes which 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 certain covenants, including: (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. These financial covenants are incurrence covenants which, if breached, would restrict the Company from incurring additional indebtedness, but would not result in an event of default or acceleration of repayment. The Company was in breach of the interest coverage covenant and the debt-to-EBITDA covenant during the period.

- The 2013 BOFA Loan which carries an interest rate of LIBOR + 1.5% and matures in November 2016, with interest payments due biannually.

- The HSBC Facility which carries an interest rate of LIBOR + 2.75% and matures 2016 ($62.5 million) and 2017 ($150 million).

- The Revolving Credit Facility which is subject to certain financial covenants that require the Company to maintain: (1) an interest coverage ratio of greater than 2.5; (2) a debt-to-EBITDA ratio of less than 4.5; and (3) a net worth greater than $1 billion. Net worth is calculated as total assets less total liabilities, excluding those of the excluded subsidiaries, which are Pacific Midstream Ltd. and Pacific Infrastructure Ventures Inc. The Company was in breach of the interest coverage covenant, the debt-to-EBITDA covenant and the net worth covenant during the period.

As a result of the Company entering into the Restructuring Transaction and in accordance with the Initial Order under the CCAA (Note 2), the Senior Notes and Other Debts ceased to accrue interest as of April 27, 2016.

Letter of Credit Facility

On June 22, 2016 the Company entered into a new $115.5 million letter of credit facility with certain lenders under the Company's pre-existing credit facilities and supporting noteholders as part of the Comprehensive Restructuring Agreement (Note 2) ("**Letter of Credit Facility**").

The Letter of Credit Facility has an interest rate of 8% and the Company is required to pay a commitment fee of 5% on the unutilized portion. The maturity date of the Letter of Credit Facility is 6 months following the completion of the restructuring process or a later date agreed by the Letter of Credit Facility issuers. As at June 30, 2016 the Company had drawn down $Nil on the Letter of Credit Facility.

Forbearance Agreements and Grace Period election

On January 14, 2016, the Company announced it had elected to utilize the 30-day grace period under the applicable note indentures and not make interest payments on its September 2014 Senior Notes and November 2013 Senior Notes of $66.2 million in the aggregate as they became due on January 19, 2016 and January 26, 2016, respectively. The failure to pay such interest constituted an event of default under the applicable note indentures on February 25, 2016 in respect of the September 2014 Senior Notes and February 18, 2016 in respect of the November 2013 Senior Notes. On February 18, 2016, the Company entered into the Noteholder Extension Agreement with certain holders of these Senior Notes. Under the terms of the Noteholder Extension Agreement, holders of approximately 34% of the aggregate principal amount of outstanding November 2013 Senior Notes and 42% of the aggregate principal amount of outstanding September 2014 Senior Notes have agreed, subject to certain terms and conditions, to forbear from declaring the principal amounts of the Notes (and certain additional amounts) due and payable as a result of certain specified defaults until March 31, 2016.

Furthermore, on February 19, 2016, the Company entered into the Lender Forbearance Agreements in respect of the Revolving Credit Facility and the Bank of America, Bladex, and HSBC credit facilities. Under the terms of the Lender Forbearance Agreements, the lenders pursuant to the credit agreements have also agreed, subject to certain terms and conditions, to forbear from declaring the principal amounts of such credit agreements due and payable as a result of certain specified defaults until March 31, 2016.

On March 24, 2016, the Company announced it had extended these forbearance agreements to April 29, 2016.

On March 21, 2016, the Company announced it had elected to utilize the 30-day grace period under the applicable note indentures and not make interest payments on its March 2013 Senior notes of $25.6 million in aggregate as they became due on March 28, 2016. The failure to pay such interest did not constitute an event of default under the applicable note indentures.

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

On April 19, 2016, the Company entered into a comprehensive restructuring plan (Note 2 – "Comprehensive Restructuring Agreement") under which the entire principal outstanding on the Senior notes, the Revolving Credit Facility, and the other credit facilities will be exchanged for new common shares of the reorganized company.

The following table summarizes the main components of finance cost for the period:

	Three months ended June 30		Six months ended June 30	
	2016	**2015**	**2016**	**2015**
Interest on Senior Notes	$ 18,141	$ 63,680	$ 76,599	$ 127,148
Interest on other debt	8,667	14,348	21,486	24,718
Interest on DIP Notes	1,333	-	1,333	-
Accretion of asset retirement obligations	2,781	2,509	5,383	5,224
Interest income	(2,972)	(5,149)	(6,071)	(10,373)
Other	4,941	2,729	3,075	10,258
	$ 32,891	$ 78,117	$ 101,805	$ 156,975

19. Finance Leases

The Company has entered into two power generation arrangements to supply electricity for three of its oil fields in Colombia until 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 14.00% (2015: 14.52%). The Company's minimum lease payments are as follows:

	As at June 30	As at December 31
	2016	**2015**
Within 1 year	$ 7,840	$ 17,473
Year 2	6,778	6,787
Year 3	6,778	6,778
Year 4	6,797	6,778
Year 5	6,778	6,797
Thereafter	1,155	4,514
Total minimum lease payments	$ 36,126	$ 49,127
Amounts representing interest	(10,443)	(12,616)
Present value of net minimum lease payments	$ 25,683	$ 36,511
Current portion	$ 4,503	$ 13,559
Non-current portion	21,180	22,952
Total obligations under finance lease	$ 25,683	$ 36,511

For the three and six months ended June 30, 2016, interest expense of $1.0 million and $2.2 million respectively (2015: $1.6 million and $3.3 million) was incurred on these finance leases.

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.

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

		Amount
As at December 31, 2015	$	210,597
Accretion expense		2,602
Uses		(523)
Changes during the period		12,172
Foreign exchange		7,941
As at March 31, 2016	$	232,789
Accretion expense		2,781
Uses		(1,283)
Changes during the period		16,646
Foreign exchange		6,595
As at June 30, 2016	$	257,528
Current portion	$	3,172
Non-current portion		254,356
	$	257,528

The asset retirement obligation represents the present value of decommissioning costs relating to oil and gas properties, of which up to $350 million is expected to be incurred (December 31, 2015: $345 million). Cash flows are expected to occur in a variety of countries and currencies, and the discount rates and inflation rates are chosen in association with the currencies in which the liabilities are expected to be settled. The future decommissioning costs are discounted using the risk-free rate between 2.74% and 3.74% and an inflation rate of 1.1% for cash flows expected to be settled in U.S. dollars, and a risk-free rate between 6.70% and 8.61% and an inflation rate between 3.1% and 5.1% for cash flows expected to be settled in Colombian pesos (December 31, 2015: U.S. dollars risk-free rate between 3.52% and 4.97% with inflation of 0.6%; Colombian pesos risk-free rate between 6.01% and 10.2% with inflation rate between 3% and 5.2%) to arrive at the present value. Assumptions, based on the current economic environment, have been made that 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 on 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 on future oil and gas prices, which are inherently uncertain.

21. Contingencies and Commitments

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

As at June 30, 2016	2016	2017	2018	2019	2020	Subsequent to 2021	Total
ODL Take-or-Pay Agreement	$ 25,146	$ 50,292	$ 48,633	$ 47,440	$ 29,327	$ 1,160	$ 201,998
Minimum work commitments	47,580	144,637	88,941	8,500	-	58,609	348,267
Bicentenario Take-or-Pay Agreement	77,562	155,124	155,124	155,124	155,124	699,214	1,397,272
Operating purchase and leases	29,713	9,865	5,098	5,098	5,098	14,561	69,433
Transportation and processing commitments	75,015	223,486	216,244	215,132	215,132	920,541	1,865,550
Community obligations	7,052	-	-	-	-	-	7,052
Total	$ 262,068	$ 583,404	$ 514,040	$ 431,294	$ 404,681	$ 1,694,085	$ 3,889,572

The Company has various guarantees in place in the normal course of business. As at June 30, 2016, the Company had issued letters of credit and guarantees for exploration and operational commitments for a total of $172 million (December 31, 2015: $272 million).

The Company has an assignment agreement with Transporte Incorporado S.A.S. ("**Transporte Incorporado**"), a Colombian company owned by an unrelated international private equity fund. Transporte Incorporado owns a 5% equity interest and capacity right in the OCENSA pipeline in Colombia. Under the assignment agreement, the Company is entitled to use Transporte Incorporado's capacity to transport crude oil through the OCENSA pipeline for a set monthly premium until 2024. Pursuant to the assignment agreement, the Company is required for the duration of the agreement to maintain a minimum credit rating of Ba3 (Moody's), which was breached in September and December 2015 and January 2016 when Moody's downgraded the Company's credit rating to B3, Caa3 and C respectively. As a result of the downgrade and in accordance with the assignment agreement, upon giving notice to the Company, Transporte Incorporado would have the right to early-terminate the assignment agreement and the Company would be required to pay an amount determined in accordance with the agreement, estimated at $129 million. The Company has not received such notice from Transporte Incorporado, and on January 6, 2016, the Company received a waiver from Transporte Incorporado of its right to early-terminate for a period of 45 days until February 15, 2016, which was further extended several times to September 15, 2016. The Company continues to pay monthly premiums and is currently in negotiation with Transporte Incorporado regarding the terms of the agreement and the minimum credit rating requirement. No provision has been recognized as of June 30, 2016 relating to the breach of the credit rating requirement.

In Colombia, the Company is participating in a project to expand the OCENSA pipeline, which is expected to be completed and commence operation later in 2016. As part of the expansion project, the Company, through its subsidiaries Meta Petroleum and Petrominerales Colombia, entered into separate crude oil transport agreements with OCENSA for future transport capacity. The Company will start paying ship-or-pay fees once the expansion project is complete and operational. As part of the transport agreements, the Company is required to maintain minimum credit ratings of BB- (Fitch) and Ba3 (Moody's). This covenant was breached in September and December 2015 and January 2016 when Moody's downgraded the Company's credit rating to B3, Caa3 and C respectively. As a result of the downgrades and pursuant to the transport agreements, upon giving notice to the Company, OCENSA has the right to require the Company to provide a letter of credit or proof of sufficient equity or working capital within a cure period of 60 days starting from the day on which notice is received by the Company. On November 5, 2015, the Company received a waiver from OCENSA of its rights to receive a letter of credit which will expire once the project is complete and operational. No provision has been recognized as of June 30, 2016 relating to the breach of the credit rating requirement.

Contingencies

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

Tax Review in Colombia

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

The DIAN has officially reassessed several value-added tax ("**IVA**") declarations on the basis that the volume of oil produced and used for internal consumption at certain fields in Colombia should have been subject to IVA. For the six months ended June 30, 2016, the amounts reassessed, including interest and penalties, is estimated at $63.2 million, of which the Company estimates that $22 million should be assumed by companies that share interests in these contracts. The Company disagrees with the DIAN's reassessment and official appeals have been initiated.

On February 24, 2016, the DIAN released a general ruling to a third party, which concluded that the internal consumption of oil produced does not create an IVA obligation. The Company expects the current dispute regarding IVA to be resolved in its favour, and as such no provision has been recognized in the interim condensed consolidated financial statement.

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 June 30, 2016, the DIAN has reassessed $63 million of tax owing, including estimated interest and penalties, with respect to the denied deductions.

As at June 30, 2016, the Company believes that the disagreements with the DIAN related to the denied income tax deductions will be resolved in favour of the Company. No provision with respect to income tax deductions under dispute has been recognized in the interim condensed consolidated financial statements.

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

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 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. As at June 30, 2016, the amount under arbitration is approximately $194 million plus related interest of $41 million. 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%. An amount under discussion with the ANH for another contract is approximately $99 million plus interest.

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

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, 2015, March 31, 2016 and June 30, 2016	315,021,198	$ 2,615,788

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.

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

A summary of the changes in stock options is presented below:

	Number of options outstanding	Weighted average exercise price (C$)
As at December 31, 2015	16,521,117	23.76
Cancelled during the period	(3,999,750)	26.28
As at March 31, 2016	12,521,367	22.95
Expired during the period	(275,500)	24.21
As at June 30, 2016	12,245,867	22.92

The following table summarizes information about the stock options outstanding and exercisable as of June 30, 2016:

Outstanding & exercisable	Exercise price (C$)	Expiry date	Remaining contractual life (years)
160,000	22.05	September 27, 2016	0.24
2,500	24.68	October 24, 2016	0.32
5,066,700	22.75	January 18, 2017	0.55
60,000	29.10	March 30, 2017	0.75
116,667	6.30	July 10, 2017	1.03
6,112,000	23.26	January 28, 2018	1.58
628,000	24.32	February 8, 2018	1.61
100,000	19.21	November 15, 2018	2.38
12,245,867	22.92		1.13

c) *Deferred Share Units*

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

The following table summarizes information about the DSUs outstanding:

	Number of DSUs outstanding	Amount
As at December 31, 2015	6,880,425	$ 8,500
Fair value adjustment for the period	-	(4,097)
Granted during the period	1,883,321	1,224
Settled during the period	(107,278)	(95)
Foreign exchange translation	-	(236)
As at March 31, 2016	8,656,468	$ 5,296
Fair value adjustment for the period	-	(5,297)
Foreign exchange translation	-	1
As at June 30, 2016	8,656,468	$ -

The liability is based on the Company's closing share price in U.S dollars and as a result of the Company entering into a Comprehensive Restructuring Plan (Note 2) and the Company's common shares being delisted, the fair value of the DSU's as at June 30, 2016 are $Nil (December 31, 2015: $1.71)

For the three and six months ended June 30, 2016, a $5.3 million of gain and $8.5 million gain respectively (2015: $11.5 million loss and $13.6 million loss) was recorded as share-based compensation expenses with respect to DSUs granted during the period and the change in fair value.

23. Related Party Transactions

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

a) 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, in which the Company has a 24.9% indirect interest and Genser Power Inc. ("**Genser**") which is 51% owned by Pacific Power. On March 1, 2013, these contracts were assigned to TermoMorichal SAS ("**TermoMorichal**"), the company created to perform the agreements, in which Pacific Power has a 51% indirect interest. Total commitment under the BOMT agreements is $229.7 million over ten years. In April 2013, the Company and Ecopetrol entered into another agreement with Genser-Proelectrica to acquire additional assets for a total commitment of $57 million over ten years. At the end of the Rubiales Association Contract on June 30 2016, the Company's obligations along with the power generation assets were transferred to Ecopetrol. As at June 30, 2016, the Company had an advance of $Nil (December 2015: $3.3 million).

   The Company had accounts payable of $4 million (December 2015: $3.6 million) due to Genser-Proelectrica as at June 30, 2016. In addition, on May 5, 2014, a subsidiary of the Company provided a guarantee in favour of XM Compañia 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. In December 2014, the Company entered into a new contract with Genser related to the operation and maintenance of the power generation facility located in the Sabanero field.

   In October 2013, the Company entered into connection agreements and energy supply agreements with Proelectrica for the supply of power to the oil fields in the Llanos basin. The connection agreements authorize Meta Petroleum Corp. and Agro Cascada S.A.S. to use the connection assets of Petroelectrica for power supply at the Quifa and Rubiales fields. The agreement commenced on November 1, 2013 and will operate for 13 years. During the three and six months ended June 30, 2016 the Company made payments of $9.2 million and $15.3 million respectively (2015: $13.6 million and $26.6 million) under this agreement.

   The Company has entered into several take-or-pay agreements as well as interruptible gas sales and transport agreements to supply gas from the La Creciente natural gas field to Proelectrica's gas-fired plant. During the three and six months ended June 30, 2016, the Company recorded revenues of $1.8 million and $7.7 million respectively (2015: $0.6 million and $1.3 million) from such agreements. As at June 30, 2016, the Company had trade accounts receivable of $1.2 million (December 2015: $12.3 million) from Proelectrica.

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

b) As at June 30, 2016, the Company had trade accounts receivable of $1.2 million (December 31, 2015: $12.3 million) from Proelectrica, in which the Company has a 21.1% indirect interest and which is 5% owned by Blue Pacific Assets Corp. ("**Blue Pacific**"). Two directors, one executive officer and one director until August 14, 2015 of the Company, control or provide investment advice to the holders of 88% of shares of Blue Pacific. The Company and Blue Pacific's indirect interests are held through Pacific Power. Revenue from Proelectrica in the normal course of the Company's business was $1.8 million and $7.7 million for the three and six months ended June 30, 2016 (2015: $0.6 million and $1.3 million).

c) As at June 30, 2016, loans receivable from related parties in the aggregate amount of $0.4 million (December 31, 2015: $0.5 million) are due from one executive director and six officers of the Company. The loans are non-interest bearing and payable in equal monthly payments over a 48-month term.

   In August 2015, the Company agreed to pay $8.3 million in severance to one of its officers, who retired from the Company effective August 14, 2015, which included $5.5 million in cash paid during 2015, $1.4 million paid in three months ended March 31, 2016 and $1.4 million payable as at June 30, 2016. In addition, the departing officer's DSU entitlement was paid in kind with the Company's shares held in treasury on a one-to-one basis for a total of approximately 1.3 million common shares. Also during 2015, the Company made payments in kind of approximately 0.5 million common shares to three departing directors as settlement for DSU entitlements.

d) The Company has take-or-pay contracts with ODL for the transportation of crude oil from the Company's fields to Colombia's oil transportation system for a total commitment of $202 million from 2016 to 2020. During the three and six months ended June 30 2016, the Company paid $21.8 million and $51.4 million respectively to ODL (2015: $19.8 million and $54.2 million) for crude oil transport services under the pipeline take-or-pay agreement, and had accounts payable of $11.5 million (December 31, 2015: $13.1 million). In addition, the Company received $0.1 million and $0.2 million from ODL during the three and six months ended June 30, 2016 (2015: $0.6 million and $1 million) with respect to certain administrative services and rental equipment and machinery. The Company accounts receivable from ODL as at June 30, 2016 of $0.1 million (December 31, 2015: $0.1 million). The Company has an approximately 22% indirect interest in ODL.

e) The Company has ship-or-pay contracts with Bicentenario for the transportation of crude oil from the Company's fields to Colombia's oil transportation system for a total commitment of $1.4 billion from 2016 to 2025. The Bicentenario pipeline has experienced periodic suspensions following security-related disruptions. During the three and six months ended June 30, 2016, the Company paid $29.1 million and $79.4 million respectively to Oleoducto Bicentenario de Colombia S.A.S. (2015: $59 million and $86.9 million), a pipeline company in which the Company has a 27.9% interest, for crude oil transport services under the pipeline ship-or-pay agreement. As at June 30, 2016, the balance of loans outstanding to Bicentenario was $Nil (December 31, 2015: $Nil). Interest income of $Nil and $Nil was recognized during the three six months ended June 30, 2016 (2015: $0.4 million and $1 million). Interest of $Nil and $Nil was paid on the loans during the three and six months ended June 30, 2016 (2015: $Nil and $1.3 million), and capital of $Nil and $Nil was paid on the loans in the three and six months ended in June 30, 2016 (2015: $Nil and $17.2 million). The Company has advanced $87.9 million as at June 30, 2016 (December 31, 2015: $87.9 million) to Bicentenario as a prepayment of transport tariff, which is amortized against the barrels transported. As at June 30, 2016 the Company had trade accounts receivable of $3.7 million (December 31, 2015: $0.4 million) as a short-term advance.

f) The Company has established two charitable foundations in Colombia: the Pacific Rubiales Foundation and the Foundation for Social Development of Energy Available ("**FUDES**"). Both foundations have the objective of advancing social and community development projects in the country. During the three and six months ended June 30, 2016, the Company contributed $1.7 million and $5.3 million respectively to these foundations (2015: $4.2 million and $6.7 million). At as June 30, 2016, the Company had accounts receivable (advances) of $0.4 million (December 31, 2015: $0.4 million) and accounts payable of $0.6 million (December 31, 2015: $3.2 million). Three of the Company's directors and an officer of the Company sit on the board of directors of the Pacific Rubiales Foundation.

g) At as June 30, 2016, the Company had demand loans receivable from PII in the amount of $72.4 million (December 31, 2015: $72.4 million). The loans are guaranteed by PII's pipeline project and bear interest that ranges from LIBOR + 2% to 7% per annum. The Company owns 41.77% of PII (December 31, 2015: 41.79%). Interest income of $1.3 million and $2.6 million was recognized during the three and six months ended June 30, 2016 (2015: $1.3 million and $2.5 million) regarding to the loan. In addition, during the three and six months ended June 30, 2016, the Company received $0.5 million and $2.6 million (2015: $3 million and $3 million) from PII with respect to contract fees for advisory services and technical assistance in pipeline construction of "Oleoducto del Caribe". In addition, as at June 30, 2016, the Company had accounts receivable of $2.4 million (December 31, 2015: $0.5 million) from a branch of PII. As at June 30, 2016 the Company had accounts payable of $1.6 million to PII (December 31, 2015: $0.5 million).

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

h) In October 2012, the Company entered into an agreement with CRC, Blue Advanced Colloidal Fuels Corp. ("**Blue ACF**"), Alpha Ventures Finance Inc. ("**AVF**"), and an unrelated party whereby the Company acquired from CRC the right to a 5% equity interest in Blue ACF for a cash consideration of $5 million. Blue ACF is a company engaged in developing colloidal fuels; its majority shareholder is AVF, which is controlled by Blue Pacific. As part of the purchase, CRC also assigned to the Company the right to acquire up to an additional 5% equity interest in Blue ACF for an additional investment of up to $5 million. The Company currently has an 9.63% equity interest in CRC. In addition, the Company has an indirect equity interest of 9.84% in CRC through its 21.1% ownership of Pacific Power, which in turn has a 46.67% equity interest in CRC. A director of the Company is the Executive Chairman of CRC.

i) The Company has a lease agreement for an office in Caracas, Venezuela for approximately $6 thousand per month. The office space is 50% owned by a family member of an executive officer of the Company.

j) On February 29, 2016, the Company agreed to provide CGX with a bridge loan of up to $2 million at an interest rate of 5% per annum and payable within 12 months of the first draw down. As at June 30, 2016, the amount CGX had drawn down from the bridge loan was $1.3 million.

   In October 2014, the Company extended a bridge loan to CGX of CDN$7.5 million with an interest rate of 5%; as at June 30, 2016 the full amount is still outstanding. In November 2015, CGX issued convertible debentures to the Company in an amount of $1.5 million with a conversion price of CDN$0.335; as at June 30, 2016 the Company has not converted the debentures.

k) During the three and six months ended June 30, 2016, the Company received cash of $10.9 million and $22.9 million respectively in accordance with its joint operations obligation associated with its 49% interest in Block Z-1 in Peru. In addition, the Company had accounts receivable of $Nil under the joint operation agreement from Alfa SAB de CV ("**Alfa**") who owns a 51% working capital interest in Block Z-1 and also holds 18.95% of the issued and outstanding capital of the Company.

l) As of June 30, 2016 the Company had accounts payable of $1.9 million (December 31, 2015: $1.9 million) outstanding to Pacific Green with respect to contributions made previously by Pacific Green to Promotora Agricola, an agricultural project associated with the Company's operations in the Llanos Basin. Pacific Green's contributions to the project are expected to be capitalized in the near term. Pacific Green is controlled by three officers of the Company.

m) On December 11, 2015, the Company and the other shareholders of Pacific Power, including Proenergy Corp. (a subsidiary of Blue Pacific), entered into a share purchase agreement with Faustia Development S.A., Tusca Equities Inc. and Associated Ventures Corp. (the "**Pacific Power Purchasers**"), for the sale of 70% of the shares of Pacific Power. As part of the transaction, the Company agreed to sell 4% of the Company's 24.9% equity interest in Pacific Power to the Pacific Power Purchasers for approximately $5.0 million. As a result of the sale, the Company currently owns 21.09% and Proenergy Corp. (Blue Pacific) currently owns approximately 5% of Pacific Power. Associated Ventures Corp. is controlled by Alejandro Betancourt, a director of the Company until April 26, 2016.

   The Company used most of the proceeds from the sale to pay for its share of a put option that was exercised by Sustainable Services Inc., pursuant to the terms of a pre-existing shareholder agreement between Pacific Power and its shareholders.

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 and to manage its market risk associated with commodity markets, notably its exposure to crude oil pricing. The

Company also enters into supply agreements and purchases goods and services denominated in non-functional currencies such as Colombian pesos for its Colombia-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 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 crude oil 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 affected 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 crude oil 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/US.$ 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 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 affecting pre-tax net earnings as follows:

- A 10% change in the COP/USD exchange rate would have resulted in a $0.9 million change in foreign exchange gain/loss as at June 30, 2016 (2015: $0.5 million); and

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

- A 1% (100 basis points) change in the interest rate would increase or decrease interest expense by $4 thousand (2015: $2.5 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 June 30		As at December 31	
	2016		2015	
Trade receivable	$	41,574	$	173,777
Advances / deposits		22,033		26,853
Recoverable VAT and withholding tax		60,116		57,845
Other receivables		110,528		182,384
Receivable from joint arrangements		96,810		101,413
Allowance for doubtful accounts		(23,957)		(24,275)
	$	307,104	$	517,997
Long-term recoverable VAT (non-current, Note 16)		75,813		64,958
	$	382,917	$	582,955

As at June 30, 2016, two of the Company's customers had accounts receivable that were greater than 10% of the total trade accounts receivable. The Company's credit exposure to these customers was $16 million (See "QV Trading Litigation" below) and $4 million or 38%, and 10% of trade accounts receivable respectively (December 31, 2015: one customer at $39 million or 23% of trade accounts receivable). Revenues from these customers for 2016 were $Nil and $13 million, or 0% and 3% of revenue (2015: $56 million, $85 million, $168 million and $41 million or 8%, 12%, 24% and 6% 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 is due from Ecopetrol.

Included in other receivables are loans receivable from PII of $72.4 million (December 2015: $72.4 million). The demand loan receivable from PII is guaranteed by PII's pipeline project and bears interest that ranges from LIBOR + 2% to 7% per annum and interest income of $1.3 million and $2.6 million was recognized during the three and six months ended June 30, 2016 (2015: $1.3 million and $2.5 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.

QV Trading Litigation

The Company is in the process of commencing legal proceedings against an unrelated customer, QV Trading LLC, in respect of an overdue accounts receivable in the amount of approximately $16 million for the sale of oil in August 2015.

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 that 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 June 30, 2016, the Company had available $Nil of revolving credit and $115.5 million of Letter of Credit Facility.

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

The following are the contractual maturities of non-derivative financial liabilities (based on calendar year and undiscounted):

Financial liability due in	Note	2016	2017	2018	2019	2020	Subsequent to 2021	Total
Accounts payable and accrued liabilities		$ 861,529	$ -	$ -	$ -	$ -	$ -	$ 861,529
Loans and Borrowings, DIP Notes and Warrants	18	565,443	1,150,000	-	1,300,000	-	2,804,197	5,819,640
Obligations under finance lease	19	4,478	6,778	6,778	6,778	6,796	4,518	36,126
Total		$ 1,431,450	$ 1,156,778	$ 6,778	$ 1,306,778	$ 6,796	$ 2,808,715	$ 6,717,295

Accounts payables and accrued liabilities consisted of the following as at June 30, 2016 and December 31, 2015:

	As at June 30 2016	As at December 31 2015
Trade and other payables	$ 312,481	$ 403,176
Accrued liabilities	173,472	450,355
Payables - JV partners	26,269	11,076
Advances, warranties, and deposits	78,969	91,982
Withholding tax and provisions	255,021	260,302
Equity tax	15,317	-
	$ 861,529	$ 1,216,891

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:

June 30, 2016

As at December 31, 2015 it was determined that the derivatives subject to hedge accounting no longer met the requirement of highly probable, therefore hedge accounting for these instruments has been discontinued. The amount previously accumulated within equity as a cash flow hedge and time value reserve has been reclassified into net income (loss) as the original hedged transactions occur which are expected to occur between January and June 2016.

During the six months ended June 30, 2016, all of the Company's outstanding oil price derivate contracts were early terminated and a $161 million settlement was recognized, which included $128.2 million in cash received and a $33.4 million reduction to the principle outstanding under the 2013 BOFA Loan (Note 18). The amount previously accumulated within equity as a cash flow hedge and time value reserve has been reclassified into net income (loss) as the original hedged transactions was contracted and occurred between April and June 2016.

December 31, 2015

Type of Instrument	Term	Notional Amount / Volume (bbl)	Floor/ Ceiling or strike price	Benchmark	Carrying amount Assets	Carrying amount Liabilities
Previously Subject to Hedge Accounting:						
Zero-cost collars	January to June 2016	600,000	60-66	WTI	12,244	(3)
Total subject to hedge accounting					$ 12,244	$ (3)
Not Subject to Hedge Accounting:						
Commodities Price Risk						
Zero-cost collars	April to December 2016	1,800,000	48 / 68	WTI	15,360	-
Zero-cost collars	January to December 2016	1,500,000	48.60 - 56 / 58.75 -73.45	BRENT	77,867	(53,061)
(counterparty option)						
Extendable	Various 2016	1,650,000	57-59.30 / 62-64.30	BRENT	32,728	(1)
Extendable Swap	January to March 2016	2,100,000	55.20 - 55.30	BRENT	34,584	(1)
Total not subject to hedge accounting					$ 160,539	$ (53,063)
Total December 31, 2015					$ 172,783	$ (53,066)

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

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 ended June 30, 2016:

	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
Commodities Price Risk					
Zero-cost collars	-	-	Risk management gain (loss)	6,073	Revenue
	$ -	$ -		$ 6,073	

For the six months ended June 30, 2016:

	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
Commodities Price Risk					
Zero-cost collars	-	-	Risk management gain (loss)	12,146	Revenue
	$ -	$ -		$ 12,146	

For the three months ended June 30, 2015:

	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	$ 2,281	$ 13,395	Foreign exchange gain (loss)	$ (12,767)	Production and operating costs
Commodities Price Risk					
Zero-cost collars	(42,503)	(4,180)	Risk management gain (loss)	(24,865)	Revenue/Risk management
	$ (40,222)	$ 9,215		$ (37,632)	

For the six months ended June 30, 2015:

	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	$ (16,627)	$ 20,252	Foreign exchange gain (loss)	(26,250)	Production and operating costs
Commodities Price Risk					
Zero-cost collars	(13,204)	(5,187)	Risk management gain (loss)	25,880	Revenue/Risk management
	$ (29,831)	$ 15,065		$ (370)	

For the three and six months ended June 31, 2016, the Company recorded ineffectiveness on foreign currency risk management contracts of $Nil and $Nil respectively (2015: gain of $13.4 million and gain of $20.2 million).

For the three and six months ended June 30, 2016, the Company recorded ineffectiveness on commodity price risk management contracts of $Nil and $Nil respectively (2015: loss of $4.2 million and loss of $5.2 million).

Instruments Not Subject to Hedge Accounting

As part of the Company's risk management strategy, derivative financial instruments are used to manage exposure to 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 as risk management gain or loss.

For the three and six months ended June 30, 2016, the Company recorded risk management losses of $Nil and $107 million respectively on commodity price risk management contracts in net losses (2015: loss of $84.7 million and loss of $83.8 million). In addition during the three and six months ended June 30, 2016, the Company recognized gains in revenue of $Nil and $148 million respectively related to these instruments, which were settled (2015: gain of $7.6 million and $21.7 million).

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

For the three and six months ended June 30, 2016, the Company did not record risk management gains or losses on foreign currency risk management contracts in net losses (2015: gain of $18 million and $31.7 million, included $32.5 million and $67.8 million of unrealized gain) representing the change in fair value. In addition, during the three and six months ended June 30, 2016, the Company did not recognize realized gains or losses in foreign exchange, which were settled (2015: $14.5 million losses and $36.1 million losses).

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 obligations, debentures and equity 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 June 30, 2016		As at December 31, 2015	
	Note	Carrying value	Fair value	Carrying value	Fair value
Financial Assets					
Financial assets measured at amortized cost					
Cash and cash equivalents		$ 599,410	$ 599,410	$ 342,660	$ 342,660
Restricted cash		112,629	112,629	35,922	35,922
Accounts receivable(1)	24b, 16	382,917	382,917	582,955	582,955
Long-term receivables	16	63,387	63,387	60,469	60,469
		1,158,343	1,158,343	1,022,006	1,022,006
Financial assets mandatorily measured at fair value through profit or loss (FVTPL)					
Held-for-trading derivatives that are not designated in hedge accounting relationships	24d	-	-	160,539	160,539
		-	-	160,539	160,539
Financial assets designated as measured at fair value through other comprehensive income (FVTOCI)					
Investments in equity instruments	16	1,182	1,182	1,125	1,125
		1,182	1,182	1,125	1,125
Derivative instruments in designated hedge accounting relationships	24d	-	-	12,244	12,244
		-	-	12,244	12,244
		$ 1,159,525	$ 1,159,525	$ 1,195,914	$ 1,195,914
Financial Liabilities					
Financial liabilities measured at amortized cost					
Accounts payable and accrued liabilities	24c	$ (861,529)	$ (861,529)	$ (1,216,891)	$ (1,216,891)
Loans and borrowings	18	(1,215,440)	(223,206)	(1,273,146)	(248,745)
DIP Notes and Warrants	18	(483,200)	(483,200)	-	-
Senior Notes (2)	18	(4,104,200)	(753,705)	(4,104,200)	(801,870)
Obligations under finance lease	19	(25,683)	(32,358)	(36,511)	(46,000)
		(6,690,052)	(2,353,998)	(6,630,748)	(2,313,506)
Financial liabilities measured at fair value through profit or loss (FVTPL)					
Held-for-trading derivatives that are not designated in hedge accounting relationships	24d	-	-	(53,063)	(53,063)
		-	-	(53,063)	(53,063)
Derivative instruments in designated hedge accounting relationships	24d	-	-	(3)	(3)
		-	-	(3)	(3)
		$ (6,690,052)	$ (2,353,998)	$ (6,683,814)	$ (2,366,572)

(1) Includes long-term VAT.

(2) Total fair value of the various Senior Notes is estimated using their last traded prices as at June 30, 2016.

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

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*.

As at June 30, 2016:

	Quoted prices in active markets	Significant Observable Inputs	Significant Unobservable Inputs	
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at FVTOCI				
Investments in equity instruments	$ -	$ -	$ 1,182	$ 1,182
Other Assets				
Long-term receivables	$ -	$ 63,387	$ -	$ 63,387
Other liabilities				
Loans and Borrowings	$ -	$ (223,206)	$ -	$ (223,206)
DIP Notes and Warrants	-	(483,200)	-	(483,200)
Senior notes	(753,705)	-	-	(753,705)
Obligations under finance lease	-	(32,358)	-	(32,358)

As at December 31, 2015:

	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	$ -	$ 160,539	$ -	$ 160,539
Derivative instruments in designated hedge accounting relationships	-	12,244	-	12,244
Financial assets at FVTOCI				
Investments in equity instruments	$ -	$ -	$ 1,125	$ 1,125
Other Assets				
Long-term receivables	$ -	$ 60,469	$ -	$ 60,469
Financial liabilities at Fair Value				
Held-for-trading derivatives that are not designated in hedge accounting relationships	$ -	$ (53,063)	$ -	$ (53,063)
Derivative instruments in designated hedge accounting relationships	-	(3)	-	(3)
Other liabilities				
Long-term debt	$ -	$ (248,745)	$ -	$ (248,745)
Senior notes	(801,870)	-	-	(801,870)
Obligations under finance lease	-	(46,000)	-	(46,000)

The Company uses Level 1 inputs, specifically 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, certain receivables and debt balances. The fair values of the risk management contracts are estimated using internal discounted cash flows based on forward prices and quotes obtained from counterparties to the contracts, taking into account the creditworthiness of those counterparties or the Company's credit rating when applicable. The fair value of certain receivables and debt balances are estimated based on recently observed transactions.

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

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

Valuation Techniques

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 crude oil prices.

Investment in unquoted ordinary shares that 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 June 30		Six months ended June 30	
	2016	2015	2016	2015
Decrease in accounts receivable	$ 65,017	$ 190,500	$ 214,672	$ 139,088
Decrease (increase) in income taxes receivable	37,032	(17,982)	82,724	(39,628)
Decrease in accounts payable and accrued liabilities	(84,895)	(200,040)	(380,089)	(489,931)
Increase in inventories	(21,362)	(1,342)	(26,898)	(3,901)
Increase (decrease) in income taxes payable	594	(45,150)	1,509	54,982
Decrease (increase) in prepaid expenses	2,251	3,099	2,891	(2,528)
	$ (1,363)	$ (70,915)	$ (105,191)	$ (341,918)

	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
Cash income taxes paid	$ 2,416	$ 50,324	$ 4,664	$ 77,849
Cash interest paid	1,878	10,534	4,899	82,045
Cash interest received	2,628	1,814	4,226	2,427

26. Subsequent Events

- During July 2016 the Company entered into a number of oil price derivatives in the form of zero cost collars contracts to hedge a total of 4,200,000 barrels of crude oil (700,000 on a monthly basis) with a floor price of between $42.50 and $43.00 and a ceiling price of between $47.25 and $47.75 Brent.

- During July 2016 the Company received default notices from its partners in the exploration blocks in Brazil related to the Company's obligations to make several cash calls to those join operating agreements. The Company has chosen to postpone the payments of the cash calls while it evaluates its options and negotiates with the partners during the CCAA restructuring process. The obligations outstanding under these joint operating agreements amounted to approximately $16 million.

27. Comparative Financial Statements

The Interim Condensed Consolidated Financial Statements have been reclassified from the ones previously presented to conform to the presentation of the current consolidated financial statements.