PACIFIC RUBIALES ENERGY CORP.

Interim Condensed Consolidated Financial Statements
(Unaudited)

For the three months ended March 31, 2011 and 2010

Interim Consolidated Statements of Income
For the three months ended March 31

(In thousands of U.S. Dollars; unaudited)	**Notes**		**2011**		**2010**
Oil and gas sales		$	583,549	$	379,431
Cost of operations					
Production and operating costs	*4*		189,777		128,418
Depletion, depreciation and amortization			149,060		85,760
			338,837		214,178
Earnings before undernoted			244,712		165,253
Expenses					
General and administrative			31,245		19,047
Share-based compensation			46,687		40,822
			77,932		59,869
Earnings from operations			166,780		105,384
Finance costs			(23,149)		(13,876)
Loss from equity investments	*14*		(3,388)		(1,184)
Equity tax	*5*		(68,446)		(522)
Foreign exchange gain			3,953		13,525
(Loss) gain on risk management	*21e*		(92,634)		5,017
Other expenses			(3,335)		(1,887)
Net (loss) earnings before income tax			(20,219)		106,457
Income tax expense	*6*		(49,374)		(30,330)
Net (loss) earnings for the period		**$**	**(69,593)**	**$**	**76,127**
Basic (loss) earnings per ordinary share	*7*	$	(0.26)	$	0.32
Diluted (loss) earnings per ordinary share	*7*	$	(0.26)	$	0.30

See accompanying notes to the interim condensed consolidated financial statements

Interim Consolidated Statements of Comprehensive Income
For the three months ended March 31

(In thousands of U.S. Dollars; unaudited)	Notes	2011	2010
Net (loss) earnings for the period		$ (69,593)	$ 76,127
Other comprehensive income			
Foreign currency translation (nil tax effect)		(12,442)	(9,261)
Unrealized gain on cash flow hedges (nil tax effect)	*21c*	7,113	8,036
Realized gain on cash flow hedges transferred to earnings (nil tax effect)	*21c*	(537)	-
		(5,866)	(1,225)
Comprehensive (loss) income		$ (75,459)	$ 74,902

See accompanying notes to the interim condensed consolidated financial statements

Interim Consolidated Statements of Financial Position

(In thousands of U.S. Dollars; unaudited)	Notes	As at March 31 2011	As at December 31 2010	As at January 1 2010
ASSETS				
Current				
Cash and cash equivalents		$ 604,175	$ 602,776	$ 428,556
Restricted cash		6,429	6,706	8,712
Accounts receivables	*21a*	305,703	292,659	153,919
Inventories	*9*	92,275	56,532	38,066
Income tax receivable		1,782	1,587	2,050
Prepaid expenses		1,576	6,398	4,449
Risk management assets	*21c*	6,253	1,066	-
		1,018,193	**967,724**	**635,752**
Non-current				
Oil and gas properties	*10*	2,278,805	2,294,474	2,037,397
Exploration and evaluation assets	*11*	188,233	150,896	38,279
Intangible assets	*13*	164,555	170,967	-
Plant and equipment	*12*	33,277	19,176	10,006
Investments and other assets	*14*	280,607	250,256	103,209
Restricted cash		-	-	2,059
Goodwill	*13*	100,636	100,636	100,636
		$ 4,064,306	**$ 3,954,129**	**$ 2,927,338**
LIABILITIES				
Current				
Accounts payable and accrued liabilities		$ 584,181	$ 525,956	$ 203,332
Risk management liability	*21e*	123,354	53,647	23,538
Income tax payable		167,899	109,982	1,310
Current portion of long-term debt	*15*	-	90,043	12,128
Current portion of obligations under finance lease	*17*	5,992	4,304	1,920
		881,426	**783,932**	**242,228**
Non-current				
Long-term debt	*15*	435,370	434,350	442,159
Obligations under finance lease	*17*	40,105	34,383	38,521
Convertible debenture	*15*	195,966	186,416	165,611
Risk management liability	*21e*	21,870	-	1,720
Deferred tax liability		321,331	349,614	404,736
Equity tax payable	*5*	51,691	-	-
Asset retirement obligation	*16*	22,918	20,609	9,119
		1,970,677	**1,809,304**	**1,304,094**
SHAREHOLDERS' EQUITY				
Common shares	*19*	1,697,198	1,691,838	1,364,687
Contributed surplus		156,178	112,339	136,934
Equity component of convertible debenture		56,766	56,766	57,070
Accumulated other comprehensive income		(26,503)	(20,637)	-
Retained earnings		209,990	304,519	64,553
		2,093,629	**2,144,825**	**1,623,244**
		$ 4,064,306	**$ 3,954,129**	**$ 2,927,338**

See accompanying notes to the interim condensed consolidated financial statements

Interim Consolidated Statements of Shareholders' Equity
For the three months ended March 31

(In thousands of U.S. Dollars; unaudited)	Notes	2011	2010
Common shares			
Balance, beginning of period		$ 1,691,838	$ 1,364,687
Issued on exercise of warrants		-	223,079
Issued on exercise of options		5,360	24,889
Issued on conversion of convertible debentures	*15*	-	44
Balance, end of period		1,697,198	1,612,699
Contributed surplus			
Balance, beginning of period		112,339	136,934
Exercise of warrants		-	(62,321)
Exercise of options		(2,848)	(7,769)
Share-based compensation		46,687	40,822
Balance, end of period		156,178	107,666
Equity component of convertible debentures			
Balance, beginning of period		56,766	57,070
Conversion to common shares	*15*	-	(12)
Balance, end of period		56,766	57,058
Accumulated other comprehensive income			
Balance, beginning of period		(20,637)	-
Other comprehensive loss		(5,866)	(1,225)
Balance, end of period		(26,503)	(1,225)
Retained earnings			
Balance, beginning of period		304,519	64,553
Net (loss) earnings for the period		(69,593)	76,127
Dividends	*8*	(24,936)	-
Balance, end of period		209,990	140,680
Total shareholders' equity		$ 2,093,629	$ 1,916,878

See accompanying notes to the interim condensed consolidated financial statements

PACIFIC RUBIALES ENERGY CORP.

Interim Consolidated Statements of Cash Flows
For the three months ended March 31

(In thousands of U.S. Dollars; unaudited)	**Notes**	**2011**	**2010**
OPERATING ACTIVITIES			
Net (loss) earnings for the period		$ (69,593)	$ 76,127
Items not affecting cash:			
Depletion, depreciation and amortization		151,386	85,759
Asset retirement obligation accretion	*16*	216	253
Unrealized loss on risk management contracts	*21e*	91,577	(8,900)
Shared-based compensation		46,687	40,822
Deferred income tax	*6*	(28,283)	(26,746)
Unrealized foreign exchange gain		(5,551)	(10,437)
Loss (income) from equity investments	*14*	3,388	(1,440)
Equity tax		68,446	-
Unwinding of equity tax discount		1,870	-
Other		6,564	(6,051)
Changes in non-cash working capital		53,096	108,212
Net cash provided by operating activities		319,803	257,599
INVESTING ACTIVITIES			
Additions to oil and gas properties and plant and equipment		(135,336)	(30,197)
Additions to exploration and evaluation assets		(36,918)	(13,420)
Additions to intangible assets	*13*	-	(190,000)
Investment in investments and other assets	*14*	(30,041)	-
Decrease in restricted cash		277	265
Net cash used in investing activities		(202,018)	(233,352)
FINANCING ACTIVITIES			
Advances from debt		-	4,826
Repayment of debt		(90,043)	(3,947)
Proceeds from the exercise of warrants and options		2,512	177,878
Dividends paid	*8*	(24,936)	-
Net cash (used in) provided by financing activities		(112,467)	178,757
Effect of exchange rate changes on cash and cash equivalents		(3,919)	(3,046)
Change in cash and cash equivalents during the period		1,399	199,958
Cash and cash equivalents, beginning of the period		602,776	428,556
Cash and cash equivalents, end of the period		$ 604,175	$ 628,514
Cash and cash equivalents are comprised of:			
Cash		$ 599,896	$ 561,164
Short-term money market instruments		4,279	67,350
		$ 604,175	$ 628,514

See accompanying notes to the interim condensed consolidated financial statements

1. Corporate information

Pacific Rubiales Energy Corp. ("the Company") is an oil and gas company incorporated in Canada and engaged in the exploration, development and production of crude oil and natural gas in Colombia, Peru, and Guatemala. The Company's common shares are listed and publicly traded on the Toronto Stock Exchange and the Bolsa de Valores de Colombia. The registered office is located at Suite 650 – 1188 West Georgia Street, Vancouver, British Columbia, V6E 4A2, Canada. The Company also has corporate offices in Toronto, Canada and Bogota, Colombia.

These interim condensed consolidated financial statements of the Company were authorized for issuance by the Audit Committee of the Board of Directors on May 18, 2011.

2. Basis of preparation

These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standard 1 *First-time adoption of IFRS* ("IFRS 1") and International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34") as issued by the International Accounting Standards Board ("IASB"). They are condensed as they do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Company as at and for the year ended December 31, 2010, prepared under Canadian generally accepted accounting principles ("Canadian GAAP").

These are the Company's first interim condensed consolidated financial statements prepared in accordance with IFRS using the accounting policies the Company expects to adopt in its annual financial statements for the year ending December 31, 2011. The transition to IFRS resulted in changes to the Company's previous accounting policies as applied and disclosed in the consolidated financial statements for the year ended December 31, 2010, prepared in accordance with Canadian GAAP. A summary of the significant changes to the Company's accounting policies is disclosed in Note 24 along with the impact of the changeover to IFRS on the comparative periods. In addition, these interim condensed consolidated financial statements contain certain disclosures for the comparative periods that were not required to be included in the Company's annual consolidated financial statements for the year ended December 31, 2010.

The accounting policies applied in these interim condensed consolidated financial statements are based on IFRS issued and effective as of May 18, 2011, the date they were approved by the Audit Committee of the Board of Directors. Any subsequent changes to IFRS that are given effect in the Company's annual consolidated financial statements for the year ending December 31, 2011 could result in the restatement of these interim condensed consolidated financial statements.

The interim condensed consolidated financial statements have been prepared on a historical cost basis, except derivative financial instruments that have been measured at fair value. The interim condensed consolidated financial statements are presented in U.S. dollars and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The interim condensed consolidated financial statements comprise the financial statements of the Company and subsidiaries as at March 31, 2011.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

All intra-Company balances, income and expenses and unrealized gains and losses resulting from intra-Company transactions are eliminated in full.

2.1. Significant accounting judgments, estimates and assumptions

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

Oil and gas properties are depreciated using the units-of-production method over proved developed and undeveloped oil and gas reserves for facilities and wells. 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 forecast production based on proved reserves. This would generally result from significant changes in any of the factors or assumptions used in estimating reserves. These factors could include:

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

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the oil price assumption may change which may then impact the estimated life of the field and may then require a material adjustment to the carrying value of goodwill and tangible assets. The Company monitors internal and external indicators of impairment relating to its tangible and intangible assets.

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

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

Significant assumptions with respect to share-based payment expense include an estimate of the volatility of the Company's shares and the expected life of the options, which are subject to measurement uncertainty.

The measurement of the fair value allocation of the convertible debenture between its debt and equity components is based on estimated stock volatility and expected life of the equity component, while the debt component is determined by deducting the amount of the equity component from the fair value of the convertible debenture as a whole upon issuance. These estimates are subject to measurement uncertainty.

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

2.2. Summary of significant accounting policies

Interests in joint ventures

Substantially, all of the Company's operations are conducted jointly with others. Joint control is defined as contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Jointly controlled operations and jointly controlled entities

A jointly controlled operation involves the use of assets and other resources of the Company and other venturers rather than the establishment of a corporation, partnership or other entity.

The Company recognizes in its consolidated financial statements the assets that it controls and the liabilities and the expenses it incurs, and the share of income that it earns from the sale of goods or services by the joint venture. For those operations where the Company is the operator, the gross working capital has been included in the Company's consolidated financial statements. For jointly controlled entities, these consolidated financial statements only reflect the Company's proportionate interest in such activities.

Reimbursement of the joint venture operator's costs

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

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

Business combinations and goodwill

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

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

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

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Accounts receivable

Trade accounts receivable are recorded based on the Company's revenue recognition policy. The allowance for doubtful accounts is management's best estimate of accounts receivable balances that may not be collectible.

Inventories

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

Oil and gas properties, exploration and evaluation assets, and plant and equipment

Oil and gas properties and plant and equipment

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

Depletion, depreciation and amortization

Oil and gas properties are depleted on a unit-of-production basis over the proved reserves of the field concerned, except in the case of assets whose useful life is shorter than the lifetime of the field, in which case the straight-line method is applied. Rights and concessions are depleted on the unit-of-production basis over the total proved

reserves of the relevant area. The unit-of-production rate for the depletion of field development costs takes into account expenditures incurred to date, together with approved future development expenditure required to develop reserves.

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

Development costs

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

Exploration and evaluation costs

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

Exploration and evaluation assets are tested for impairment when indicators of impairment are present and when exploration and evaluation assets are transferred to oil and gas properties. The Company has determined the level for assessing for impairment at the cash-generating unit level.

Pre-license costs

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

Major maintenance and repairs

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

Intangible assets

Intangible assets are stated at the amount initially paid, less accumulated amortization and accumulated impairment losses. Intangible assets represent rights to the available capacity of a pipeline system in Colombia. Following initial recognition, the intangible asset is amortized based on the usage of the 160 million barrel capacity over the term of the agreement. The Company does not have intangible assets with an infinite life which would not be subject to amortization. Internally generated intangible assets are not capitalized and the expenditure is reflected in the consolidated statement of income in the year in which the expenditure is incurred.

Investments

When the Company determines that it has significant influence in an investment, the investment is accounted for using the equity method. Under the equity method the investment is initially recorded at cost and the carrying value is adjusted thereafter to include the Company's pro rata share of post-acquisition earnings of the investee, computed using the consolidation method. The amount of the adjustment is included in the determination of net income and the

investment account is also increased or decreased to reflect the Company's share of capital transactions. Profit distributions received or receivable from an investee reduce the carrying value of the investment.

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

Impairment of assets

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

The Company bases its impairment calculation on detailed budgets and forecast calculations which are prepared separately for each of the Company's cash generating units to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long term growth rate is calculated and applied to project future cash flow after the fifth year. Impairment losses of continuing operations are recognized in the consolidated statement of income

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

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

Financial instruments

Financial assets

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

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

Financial assets at fair value through profit or loss

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

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

Loans and receivables

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

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

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

Cash and cash equivalents

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

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

Financial liabilities

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives, as appropriate. The Company determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognized initially at fair value and in the case of loans and borrowings, net of directly attributable transaction costs.

The Company's financial liabilities include accounts payable and accrued liabilities, long-term debts, and derivative financial instruments.

Interest bearing loans and borrowings

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

Convertible debenture

The component parts of compound instruments (convertible debentures) issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the equity component of the convertible debenture is valued using the Black-Scholes option pricing model. The debt component is determined by deducting the amount of the equity component from the fair value of the compound instrument as a whole. The debt component presented on the consolidated statement of financial position increases over the term of the debenture to the full face value of the outstanding debentures at maturity. The difference, representing the accretion on convertible debentures, is reflected as interest expense with the result that adjusted interest expense reflects the effective yield of the debt component of the convertible debentures.

The equity component of the convertible debenture is presented under shareholders' equity in the consolidated statement of financial position. The equity component represents the fair value of the conversion right granted to the

holder, which remains a fixed amount over the term of the related debentures. Upon conversion of the debentures into common shares by the holders, the debt and equity components are transferred to common share capital. Upon the repayment of the face value of the debt, the equity component of the convertible debentures not converted before or upon maturity is transferred to contributed surplus.

Transaction costs related to the issuance of the convertible debentures are allocated on a pro rata basis to the debt and equity components based on the fair values assigned to the components, respectively.

Financial liabilities at fair value through profit or loss

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

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

Own use exemption

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

Fair value heirarchy

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

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis. Level 1 consists of financial instruments such as exchange-traded oil collars and information from forward markets such as the New York Mercantile Exchange.

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value, volatility factors and broker quotations, which can be substantially observed or corroborated in the marketplace. Instruments in this category include non-exchange traded crude oil and foreign currency derivatives.

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

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

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date: whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

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

Finance charges are recognized in the consolidated statement of income.

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

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

Embedded leases

All take or pay contracts are reviewed for indicators of a lease on inception.

Asset retirement obligation

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

The Company does not recognize either the deferred tax asset regarding the temporary difference on the decommissioning liability or the corresponding deferred tax liability regarding the temporary difference on a decommissioning asset.

Taxes

Current income tax

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

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

Deferred income tax

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

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

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

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

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

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

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

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

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

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

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

Production-sharing arrangements

According to the production-sharing agreement, the share of the profit oil to which the government is entitled in any calendar year in accordance with the production sharing contract is deemed to include a portion representing the corporate income tax imposed upon and due by the Company, and which will be paid directly by the government on behalf of the Company to the appropriate tax authorities. This portion of income tax and revenue are presented net in the consolidated statement of income.

Revenue recognition

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

Sales between the Company’s subsidiaries, as disclosed in the segment information, are based on prices generally equivalent to commercially available prices.

Revenue is stated after deducting royalties, sales taxes, excise duties and similar levies.

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

Borrowing costs

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

Where surplus funds are available for a short term out of money borrowed specifically to finance a project, the income generated from such short term investments is also capitalized and reduced from the total capitalized borrowing cost. Where the funds used to finance a project form part of general borrowings, the amount capitalized is calculated using

a weighted average of rates applicable to relevant general borrowings of the Company during the period. All other borrowing costs are recognized in the consolidated statement of income in the period in which they are incurred.

Share-based compensation

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

Foreign currency translation

The Company's functional currency is the Canadian dollar. Transactions in currencies other than the Canadian dollar are initially recorded at the exchange rate as at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the closing rate as at the date of the consolidated statement of financial position. All differences are recorded in net earnings or loss. Non-monetary items are translated using the historical exchange rates as at the dates of the initial transactions.

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

The Company's consolidated financial statements are reported in U.S. dollars, which is the Company's presentation currency. In translating the financial results from Canadian dollars to U.S. dollars, the Company uses the following method: assets and liabilities are translated at the exchange rate in effect as at the date of the consolidated statement of financial position; revenues and expenses are translated at the rate effective at the time of the transaction or the average rate for the period; and shareholders' equity is translated at the rate effective at the time of the transaction. Unrealized gains and losses resulting from the translation to the U.S. dollar presentation currency are included in other comprehensive income.

Earnings per share

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

2.3. Standards issued but not yet effective

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

IFRS 7 *Financial Instruments: Disclosures*

In October 2010, the IASB amended IFRS 7 to enhance the disclosure about transfers of financial assets. This improvement is to assist users in understanding the possible effects of any risks that remain in an entity after the asset has been transferred. In addition, if disproportionate amounts are transferred near year end, additional disclosures would be required. The effective date of the amendment is July 1, 2011. The Company has determined that the adoption of this amendment will not have a material impact on the consolidated financial statements.

IAS 12 *Income Taxes*

In December 2010, the IASB amended IAS 12 for the recovery of underlying assets and the impact on deferred taxes. The amendments provide a solution to the problem of assessing whether recovery would be through use or through sale when the asset is measured at fair value under IAS 40 *Investment Property*, by adding the presumption

that the recovery would normally be through sale. The amendment also incorporates the remaining guidance in SIC-21 *Income Taxes – Recovery of Revalued Non-depreciable Assets*, as SIC-21 has been withdrawn. The effective date of amendment is January 1, 2012. The Company is in the process of reviewing the amendment to determine the possible impact on the consolidated financial statements.

IFRS 9 *Financial Instruments: Classification and Measurement*

In November 2009, the IASB issued IFRS 9, which covers classification and measurement as the first part of its project to replace IAS 39. In October 2010, the Board also incorporated new accounting requirements for liabilities. The standard introduces new requirements for measurement and eliminates the current classification of loans and receivables, available-for-sale and held-to-maturity, currently in IAS 39. There are new requirements for the accounting of financial liabilities as well as carryover of requirements from IAS 39. The Company does not anticipate early adoption and will adopt the standard on the effective date of January 1, 2013. The Company has not determined the impact of the new standard on the consolidated financial statements.

IFRS 10 *Consolidated Financial Statements*

IFRS 10 *Consolidated Financial Statements* will replace portions of IAS 27 *Consolidated and Separate Financial Statements and interpretation* SIC-12 *Consolidation – Special Purpose Entities*. The key features of IFRS 10 include consolidation using a single control model, definition of control, considerations on power, and continuous reassessment. IFRS 10 is effective for annual periods beginning on or after January 1, 2013 and early adoption is permitted. The Company has not determined the impact of the new standard on the consolidated financial statements.

IFRS 11 *Joint Arrangements*

IFRS 11 *Joint Arrangements* will apply to interests in joint arrangements where there is joint control. IFRS 11 would require joint arrangements to be classified as either joint operations or joint ventures. The structure of the joint arrangement would no longer be the most significant factor when classifying the joint arrangement as either a joint operation or a joint venture. In addition, the option to account for joint ventures (previously called jointly controlled entities) using proportionate consolidation would be removed, equity accounting would be required. Venturers would transition the accounting for joint ventures from the proportionate consolidation method to the equity method by aggregating the carrying values of the proportionately consolidated assets and liabilities into a single line item.

These amendments are effective for annual periods beginning on or after January 1, 2013 and early adoption is permitted. The Company has not determined the impact of the new standard on the consolidated financial statements.

IFRS 12 *Disclosure of Involvement with Other Entities*

The IASB has issued IFRS 12 *Disclosure of Involvement with Other Entities*, which includes disclosure requirements about subsidiaries, joint ventures, and associates, as well as unconsolidated structured entities and replaces existing disclosure requirements. This standard is effective for annual periods beginning on or after January 1, 2013. Entities will be permitted to apply any of the disclosure requirements in IFRS 12 before the effective date. The Company has not determined the impact of the new standard on the consolidated financial statements.

IFRS 13 *Fair Value Measurement*

IFRS 13 will generally converge the IFRS and US GAAP requirements for how to measure fair value and the related disclosures. IFRS 13 establishes a single source of guidance for fair value measurements, when fair value is required or permitted by IFRS. The key features of IFRS 13 include: a single framework for measuring fair value while requiring enhanced disclosures when fair value is applied, fair value would be defined as the 'exit price', and concepts of 'highest and best use' and 'valuation premise' would be relevant only for non-financial assets and liabilities. IFRS 13 is effective for annual periods beginning on or after January 1, 2013 and early adoption is permitted. The Company has not determined the impact of the new standard on the consolidated financial statements.

IAS 27 *Separate Financial Statements*

As a result of the issue of the new consolidation suite of standards, IAS 27 *Separate Financial Statements* has been reissued as the consolidation guidance will now be included in IFRS 10. IAS 27 will now only prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity

prepares separate financial statements. These amendments are effective for annual periods beginning on or after January 1, 2013 and early adoption is permitted. The Company does not believe IAS 27 will have a material impact on the Company's consolidated financial statements.

IAS 28 *Investments in Associates and Joint Ventures*

As a consequence of the issue of IFRS 10, IFRS 11 and IFRS 12, IAS 28 has been amended and will provide the accounting guidance for investments in associates and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The amended IAS 28 will be applied by all entities that are investors with joint control of, or significant influence over, an investee. These amendments are effective for annual periods beginning on or after January 1, 2013 and early adoption is permitted. The Company has not determined the impact of the new standard on the consolidated financial statements.

3. Segmented information

The Company is organized into business units based on the main types of activities and has one reportable segment, being the exploration, development, and production of heavy crude oil and gas in Colombia. The operations in Peru and Guatemala are not significant as at March 31, 2011. The Company manages its operations to reflect differences in the regulatory environments and risk factors for each country.

As at March 31, 2011 all of the Company's assets are located in Colombia except for $89.7 million (2010 - $149 million) in cash and cash equivalents which are held in Canada and the United States and $1.4 million (2010 - $5.3 million) of exploration and evaluation assets in Peru and Guatemala.

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

	Three months ended March 31	
	2011	2010
Colombia	$ 44,122	$ 58,231
North America	423,253	247,700
Others	116,174	73,500
	$ 583,549	$ 379,431

4. Production and operating costs

	Three months ended March 31	
	2011	2010
Oil and gas operating cost	$ 207,841	133,283
Underlift	(18,064)	(4,865)
Total	$ 189,777	$ 128,418

5. Equity tax

On December 29, 2010 the Colombian Congress passed a law which imposes a 6% equity tax levied on Colombian operations. The Company's total equity tax payable for the years 2011 to 2014 is $83.4 million, to be paid in eight equal installments.

The new equity tax is payable even in the event that the Company ceases to have taxable equity in subsequent years. As such, the Company has recognized the entire amount of the equity tax payable on the consolidated statement of financial position and a corresponding expense in the consolidated statement of income during the three month period ended March 31, 2011. The amount recognized is calculated by discounting the eight future equity tax payments by the Company's weighted cost of capital at 10.8%.

As at December 31, 2010	$	-
Amount expensed during the period		68,446
Unwinding of discount		1,870
Foreign exchange		1,255
As at March 31, 2011	$	71,571
Current	$	19,880
Non-current		51,691
	$	71,571

The current portion of the equity tax payable is included in accounts payable on the consolidated statement of financial position.

6. Income tax

A reconciliation between tax expense and the product of accounting profit multiplied by the Company's domestic tax rate for the three months ended March 31, 2011 and 2010 is as follows:

	Three months ended March 31			
		2011		2010
Net (loss) earnings before income taxes	$	(20,219)	$	106,457
Canadian statutory income tax rate		28.25%		31.00%
Income tax (recovery) expense at statutory rate	$	(5,712)	$	33,002
Increase (decrease) in income tax provision resulting from:				
Other non-deductible (non-taxable) expenses	$	(1,878)	$	(11,022)
Effect of foreign exchange not taxable or deductible		(1,083)		(3,316)
Special tax benefit		(13,808)		(6,153)
Share-based compensation		13,189		12,655
Risk management loss (gain)		13,085		(778)
Differences in tax rates in foreign jurisdictions		6,272		2,962
Losses for which no tax benefit is recorded		19,973		4,143
Non-deductible equity tax		19,336		162
Others		-		(1,325)
Income tax expense	$	49,374	$	30,330
Current income tax expense		77,657		57,076
Deferred income tax recovery		(28,283)		(26,746)
Income tax expense	$	49,374	$	30,330

7. Earnings per share

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

	Three months ended March 31 2011	2010
Net (loss) earnings	$ (69,593)	$ 76,127
Basic weighted average number of common shares	267,946,959	240,126,671
Basic (loss) earnings per common share	$ (0.26)	$ 0.32
Diluted weighted average number of common shares	267,946,959	251,582,984
Diluted (loss) earnings per common share	$ (0.26)	$ 0.30

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

8. Dividends paid

	Three months ended March 31 2011	2010
Declared and paid	$ 24,936	$ -
Dividend per common share	$ 0.09	$ -

9. Inventories

	March 31 2011	December 31 2010	January 1 2010
Crude oil and gas	$ 87,022	$ 51,850	$ 34,868
Materials and supplies	5,253	4,682	3,198
	$ 92,275	$ 56,532	$ 38,066

10. Oil and gas properties

Cost		
Cost as at January 1, 2010	$	2,037,397
Additions		618,066
Change in asset retirement obligation		9,521
Cost as at December 31, 2010		2,664,984
Additions		124,885
Change in asset retirement obligation		2,094
Cost as at March 31, 2011	$	2,791,963

Accumulated depletion		
Accumulated depletion as at January 1, 2010	$	-
Charge for the year		370,510
Accumulated depletion as at December 31, 2010		370,510
Charge for the period		142,648
Accumulated depletion as at March 31, 2011	$	513,158

Net book value		
Net book value as at January 1, 2010	$	2,037,397
Net book value as at December 31, 2010		2,294,474
Net book value as at March 31, 2011		2,278,805

Included in the costs subject to depletion is $840 million (2010 - $210 million) of estimated future development costs that are required to bring proved undeveloped reserves to production.

11. Exploration and evaluation assets

As at January 1, 2010	$	38,279
Additions		112,617
As at December 31, 2010		150,896
Additions		37,337
As at March 31, 2011	$	188,233

12. Plant and equipment

Cost	Land & buildings	Other plant & equipment	Total
Cost as at January 1, 2010	$ 4,624	$ 11,390	$ 16,014
Additions	3,029	9,119	12,148
Cost as at December 31, 2010	7,653	20,509	28,162
Additions	20	16,407	16,427
Cost as at March 31, 2011	$ 7,673	$ 36,916	$ 44,589
Accumulated depreciation			
Accumulated depreciation as at January 1, 2010	$ 1,715	$ 4,293	$ 6,008
Charge for the year	1,579	1,399	2,978
Accumulated depreciation as at December 31, 2010	3,294	5,692	8,986
Charge for the period	1,395	931	2,326
Accumulated depreciation as at March 31, 2011	$ 4,689	$ 6,623	$ 11,312
Net book value			
Net book value as at January 1, 2010	$ 2,909	$ 7,097	$ 10,006
Net book value as at December 31, 2010	4,359	14,817	19,176
Net book value as at March 31, 2011	2,984	30,293	33,277

Depreciation charge for plant and equipment is included in general and administrative expenses on the consolidated statement of income.

13. Intangible assets and goodwill

Cost	Goodwill	Intangible assets	Total
Cost as at January 1, 2010	$ 100,636	$ -	$ 100,636
Additions	-	190,000	190,000
Cost as at December 31, 2010 and March 31, 2011	100,636	190,000	290,636
Accumulated amortization			
Accumulated amortization as at January 1, 2010	$ -	$ -	$ -
Charge for the year	-	19,033	19,033
Accumulated depreciation as at December 31, 2010	-	19,033	19,033
Charge for the period	-	6,412	6,412
Accumulated depreciation as at March 31, 2011	$ -	$ 25,445	$ 25,445
Net book value			
Net book value as at January 1, 2010	$ 100,636	$ -	$ 100,636
Net book value as at December 31, 2010	100,636	170,967	271,603
Net book value as at March 31, 2011	100,636	164,555	265,191

Intangible assets comprise of the rights to the available capacity of the OCENSA pipeline system in Colombia. The intangible asset is amortized based on the usage of the 160 million barrel capacity over the term of the agreement. The Company does not have intangible assets with an indefinite life which would not be subject to amortization.

Impairment test for goodwill

The Company assessed the goodwill for impairment as at January 1, 2010 and December 31, 2010. The recoverable amount for each of the cash-generating units is determined based on value-in-use, which is calculated based on the future cash flows of the proven reserves over reserve life, discounted by the Company's weighted cost of capital of

10%. As at January 1, 2010 and December 31, 2010, the recoverable amount for each of the cash-generating units exceeded the carrying amount and as such no impairment was recognized.

14. Investments and other assets

The Company's investments and other assets are as follows:

	ODL	Ronter	PII	Pacific Coal	OBC	Other	Total
As at January 1, 2010	$ 92,043	$ 10,675	$ -	$ -	$ -	$ 491	$ 103,209
Acquisition (disposition)	-	-	10,500	24,000	95,682	(56)	130,126
Income from equity investments	4,726	1,472	1,197	119	-	-	7,514
Distribution of PII common shares	-	(6,412)	6,412	-	-	-	-
Foreign currency translation	9,305	-	-	-	102	-	9,407
As at December 31, 2010	$ 106,074	$ 5,735	$ 18,109	$ 24,119	$ 95,784	$ 435	250,256
Acquisition (disposition)	-	-	-	30,140	-	(99)	30,041
Income (loss) from equity investments	(2,376)	277	(1,679)	390	-	-	(3,388)
Foreign currency translation	1,892	-	-	-	1,806	-	3,698
As at March 31, 2011	$ 105,590	$ 6,012	$ 16,430	$ 54,649	$ 97,590	$ 336	$ 280,607

ODL Finance S.A. ("ODL")

The investment represents a 35% interest in ODL, a special purpose Panamanian company with a Colombian branch that has constructed an oil pipeline for the transportation of heavy crude oil produced from the Rubiales field. The remaining 65% interest is owned by Ecopetrol S.A., the national oil company of Colombia. The investment is accounted for using the equity method. ODL's functional currency is the Colombian peso and the currency translation adjustment upon conversion to U.S. dollars is recorded in other comprehensive income.

The Company has ship or pay contracts with ODL for the transportation of crude oil from the Rubiales field to Colombia´s oil transportation system, for a total commitment of $280.7 million from 2011 to 2016.

Ronter Inc. ("Ronter")

The investment in Ronter represents a 17.7% indirect interest in Promotora de Energia Electrica de Cartagena & Cia, S.C.A. ESP ("Proelectrica"). Proelectrica is a private, Cartagena, Colombia-based 90 megawatt electrical utility peak demand supplier to the local Cartagena utility. The Company's interest in Ronter was 21.7% as of December 31, 2009. During 2010, Ronter's convertible debentures, with a face value of $8 million, were fully converted to its common shares. The conversion resulted in a decrease in the Company's interest in Ronter to 17.7%. The investment in Ronter is accounted for using the equity method. On December 31, 2010 Ronter distributed the Pacific Infrastructure Inc. ("PII", previously Lando) common shares it held to Ronter's shareholders, including the Company. The distribution represented a dividend payment in kind with a fair value of $6.4 million. The Company recorded a decrease of $6.4 million to the carrying amount of its investment in Ronter with a corresponding increase to its investment in PII as of December 31, 2010.

Pacific Infrastructure Inc. ("PII")

In April 2010 the Company acquired a 9.4% interest in PII, a Panamanian company established for the purpose of developing an export seaport, an industrial park, and a free trade zone in Cartagena. Prior to the transaction, PII was fully owned by Ronter. The consideration consisted of a $3.5 million deposit previously advanced to PII to acquire land. In September 2010, the Company acquired a 4% interest for $2 million from a shareholder of PII that was not related to the Company. In November 2010, the Company invested an additional $5 million in PII as part of a private placement offering. Subsequent to the private placement offering, Ronter distributed its holding in PII common shares to Ronter's shareholders. This distribution resulted in a reduction to the Company's investment in Ronter and a corresponding increase in the investment in PII. As of March 31, 2011, PII is 16.8% owned by the Company, 38.1% owned by Blue Pacific Assets Corp. ("Blue Pacific", see note 21 a), 7.6% owned by Orinoquia Holdings Corp., a company that two directors of the Company control or provide advice to, and 37.5% owned by unrelated parties. The investment in PII is accounted for using the equity method.

Pacific Coal Resources Ltd. ("Pacific Coal")

During 2010, the Company acquired a 19.05% interest in Pacific Coal, a private company incorporated in Panama, for $24 million. Pacific Coal is engaged in the acquisition and development of coal mining assets and related

businesses in Colombia. In February 2011, the Company invested an additional $30.3 million in Pacific Coal as part of a private placement offering. Upon completion of the private placement, the Company's interest in Pacific Coal is 13.8%. On March 17, 2011, the common shares and warrants of Pacific Coal began trading on the TSX. The Company accounts for the investment in Pacific Coal using the equity method.

Oleuducto Bicentenario de Colombia ("OBC")

During 2010, the Company acquired a 32.9% interest in the OBC pipeline project for $95.7 million. OBC is a corporation established and owned by a consortium of oil producers operating in Colombia, led by Ecopetrol. OBC will build and operate a private-use oil pipeline in Colombia between Casanare and Coveñas with an ultimate capacity of 450,000 barrels per day. The investment in OBC is accounted for using the equity method. OBC's functional currency is the Colombian peso and the currency translation adjustment upon conversion to U.S. dollars has been recorded in other comprehensive income. The shareholders of OBC are obliged to execute a transport agreement before the completion of the first phase of the project for the transport of crude at a set rate per barrel.

During the three months ended March 31, 2011 and 2010 the Company did not receive any cash dividends from its equity-accounted investments.

15. Interest-bearing loans and borrowings

	Maturity	Currency	Interest Rate	March 31 2011	December 31 2010	January 1 2010
Prommisory note (1)	2010	COP	9.70% - 10.00%	$ -	$ -	$ 11,923
Prommisory note (1)	2011	COP	3.50% - 3.80%	-	89,286	-
Prommisory note (1)	2012	COP	10.48%	-	757	23
Bank overdraft		COP		-	-	182
Senior notes (2)		USD	8.75%	437,478	436,946	442,159
Deferred transaction cost (3)				(2,108)	(2,596)	-
				$ 435,370	$ 524,393	$ 454,287
Current portion				$ -	$ 90,043	$ 12,128
Non-current portion				435,370	434,350	442,159
				$ 435,370	$ 524,393	$ 454,287
Convertible debenture		CAD		195,966	186,416	165,611
				$ 631,336	$ 710,809	$ 619,898

(1) Unsecured, repayable in equal monthly installments.
(2) November 10, 2014 (33.3%), November 10, 2015 (33.3%), and November 10, 2016 (33.4%).
(3) Deferred transaction costs related to the revolving credit facility.

Senior notes

The Company has outstanding senior notes with an aggregate principal amount of $450 million and maturity dates of November 10, 2014 (33.3%), November 10, 2015 (33.3%), and November 10, 2016 (33.4%). The interest rate on the notes is 8.75%, payable on May 10 and November 10 of each year. The notes may be redeemed in whole (but not in part) at any time at the discretion of the Company with a redemption price equal to the greater of (1) 100% of the principal amount of the notes to be redeemed, and (2) the sum of the present values of the remaining scheduled payments of principal and interest discounted to the date of redemption on a semi-annual basis at the applicable treasury rate plus 75 basis points, in each case plus accrued and unpaid interest on the outstanding principal amount. The notes are senior unsecured and will rank equal in right of payment with all of the Company's existing and future senior unsecured debt. The notes are on the Official List of the Luxembourg Stock Exchange and trade on the Euro MTF. Under the terms of the notes, the Company is required to maintain (1) an interest coverage ratio of greater than 2.5; and (2) a debt to EBITDA ratio of less than 3.5. The covenants do not apply during any period of time when the notes have an investment grade rating from at least two rating agencies. The Company was compliant with the covenants during the period.

The senior notes are carried at amortized cost using the effective interest rate method with note discount and transaction costs netted against the principal of the revolving credit facility. For the period ended March 31, 2011, $10.2 million (2010 – $10 million) in interest expense related to the senior notes has been recorded in the consolidated statements of income. On June 30, 2010 the Company solicited consents to amend the indenture relating to its senior notes to provide the

Company with flexibility to invest in minority equity investments and provide guarantees for joint venture entities. This solicitation was approved by a majority of the noteholders on July 15, 2010.

Revolving credit facility

During April 2010, the Company closed the syndication of a $250 million unsecured revolving credit facility. As of March 31, 2011, no borrowing has been made on the facility. The interest rate for the facility is determined in accordance with the ratings assigned to the Company's senior debt securities by Standard & Poor's Ratings Group and Fitch Inc. Based on the Company's rating as of March 31, 2011, the interest rate would be LIBOR plus 3.25%. In addition, the Company is required to pay commitment fees of 1% on the unutilized portion of any outstanding commitments under the facility. Subject to customary acceleration events set out in the credit agreement, or unless terminated earlier by the Company without penalty, repayment of the outstanding principal drawn on the facility will be made in full on April 26, 2012. Under the terms of the credit facility, the Company is required to maintain (1) a debt to EBITDA ratio of less than 3.5; and (2) an EBITDA to interest expense ratio of greater than 3. The Company was compliant with the covenants during the period.

Convertible debentures

The Company has outstanding convertible unsecured subordinated debentures due August 29, 2013 and convertible into common shares of the Company at C$13 per share. The debentures bear interest at 8% annually and are payable semi-annually in arrears on June 30 and December 31.

The debentures have been classified into their debt and equity components. The debt component accretes up to the principal balance over the term of the debenture using the effective interest method. The accretion and interest paid are expensed as interest expense yielding an effective annual rate of 18%.

As at January 1, 2010	$	165,611
Conversion to common shares		(880)
Accretion expense		13,028
Foreign currency translation		8,657
As at December 31, 2010	$	186,416
Accretion expense		4,648
Foreign currency translation		4,902
As at March 31, 2011	$	195,966

During the period ended March 31, 2011, no convertible debentures were converted to the Company’s common shares (three months ended March 31, 2010 - $45 of face value or $32 in amortized cost were converted).

16. Asset retirement obligation

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

As at January 1, 2010	$	9,119
Arising during the year		9,521
Accretion expense		1,969
As at December 31, 2010	$	20,609
Arising during the period		2,093
Accretion expense		216
As at March 31, 2011	$	22,918

The asset retirement obligation represents the present value of decommissioning costs relating to oil and gas properties, which are expected to be incurred up to $50.7 million. The future decommissioning costs are discounted using the risk free rate of 4.6% to arrive at the present value. Assumptions, based on the current economic environment, have been made which management believe are a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual decommissioning costs will ultimately depend upon future market prices for the necessary decommissioning expenditures which will reflect market conditions at the relevant time. Furthermore, the timing of

decommissioning is likely to depend on when the fields cease to produce at economically viable rates. This in turn will depend upon future oil and gas prices, which are inherently uncertain.

17. Finance lease

The Company has entered into a power generation arrangement to supply electricity for three of its oil fields in Colombia until June 2016. The arrangement has been accounted for as a finance lease with an effective interest rate of 18.9%. In addition, the Company has lease and take or pay arrangements for airplanes and a fuel transport vessel that are accounted for as finance leases as at March 31, 2011. The Company's minimum lease payments are as follows:

	March 31 2011	December 31 2010	January 1 2010
Within 1 year	$ 9,729	$ 11,306	$ 9,524
Year 2	12,965	11,337	11,306
Year 3	13,494	11,306	11,337
Year 4	13,214	11,306	11,306
Year 5	13,278	11,306	11,306
Thereafter	5,994	5,638	16,944
Total minimum lease payments	$ 68,674	$ 62,199	$ 71,723
Amounts representing interest	(22,577)	(23,512)	(31,282)
Present value of net minimum lease payments	46,097	38,687	40,441
Current portion	5,992	4,304	1,920
Long-term portion	40,105	34,383	38,521
Total obligations under finance lease	$ 46,097	$ 38,687	$ 40,441

For the period ended March 31, 2011, interest expense of $7.6 million (2010 – $1.9 million) was incurred on these finance leases.

18. Contingencies and commitments

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

	2011	2012	2013	2014	2015	Subsequent to 2015	Total
Operating leases	$ 196	$ 578	$ 6,173	$ 5,509	$ 5,509	$ 30,074	$ 48,039
Transportation and processing commitments	35,235	46,980	46,980	46,980	41,580	83,160	300,915
Minimum work commitments	120,380	100,350	42,428	30,778	-	-	293,936
OBC investment commitment	242,676	-	-	-	-	-	242,676
Maurel et Prom acquisition price	73,000	20,000	20,000	10,000	-	-	123,000
EPC contract (transmition line)	100,885	-	-	-	-	-	100,885
Total	$ 572,372	$ 167,908	$ 115,581	$ 93,267	$ 47,089	$ 113,234	$ 1,109,451

The Company has various guarantees in place in the normal course of business. As at March 31, 2011, the Company has issued letters of credit and guarantees for exploration and operational commitments for a total of $185 million (December 31, 2010 – $304 million).

Association contracts

Certain association contracts signed before 2003 with Ecopetrol include clauses in which Ecopetrol may commence participating in the operation of new discoveries made by the Company at any time, without prejudice to the Company's right to be reimbursed for the investments made on their sole account and risk (back-in right). The contract provides that if Ecopetrol decides to declare the commerciality of the field and participate in the commercial phase of the association contract, the Company shall have the right to be reimbursed for 200% of the total costs

incurred during the exploration phase of the contract. Once the reimbursement has been made, Ecopetrol is entitled to acquire a 50% share of the oil production of the fields. The back-in rights were not exercised as at March 31, 2011.

Contingencies

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

Natural gas supply agreements

Since the discovery of the La Creciente field in early 2007, the Company has focused on developing a commercial strategy to service the domestic market while concurrently exploring export opportunities. The Company has entered into the following take or pay contracts, and interruptible contracts, totaling 60 MMBTU per day for the period 2011-2012:

		2011		2012	
Client	*Contract*	Quantity (MMBTUD)	Price (1) ($/MMBTU)	Quantity (MMBTUD)	Price (1) ($/MMBTU)
GECELCA	take or pay	45,000	RMP + 28%	45,000	RMP + 28%
PROELECTRICA	Firm (2)	4,703	RMP + 102%	13,936	RMP + 0.1$/MBTU
Interruptible supply		10,297	RMP - 21%	1,064	RMP - 21%
Total		60,000		60,000	

(1) RMP represents the Colombian Regulated Market Price.
(2) Up to 14,000 MBTUD

The Company anticipates having sufficient production to meet all future delivery commitments.

19. Issued capital

(a)Authorized, issued and fully paid common shares

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

Continuity schedule of share capital:

	Shares	Amount
As at January 1, 2010	232,904,772	$ 1,364,687
Issued on exercise of warrants	27,109,081	223,109
Issued on exercise of options	7,550,002	102,860
Issued on conversion of convertible debentures	84,998	1,182
As at December 31, 2010	267,648,853	$ 1,691,838
Issued on exercise of options	475,750	5,360
As at March 31, 2011	268,124,603	$ 1,697,198

(b) Stock options

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

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

	Outstanding	Weighted average exercise price
Balance, January 1, 2010	19,223,131	C$7.60
Granted during the period	9,551,000	C$16.37
Exercised during the period	(7,550,002)	C$9.18
Balance, December 31, 2010	21,224,129	C$10.98
Granted during the period	4,331,500	C$26.26
Exercised during the period	(475,750)	C$5.23
Balance, March 31, 2011	25,079,879	C$13.73

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

Outstanding & Exercisable	Exercise price (C$)	Expiry date	Remaining contractual life
795,668	$ 2.22	August 21, 2011	0.4
2,309,891	4.70	October 23, 2013	2.6
166,667	5.70	May 9, 2017	6.1
352,001	6.30	July 10, 2017	6.3
946,042	6.78	April 20, 2012	1.1
5,497,835	7.38	February 11, 2013	1.9
10,000	10.86	July 30, 2014	3.3
2,820,900	13.09	October 12, 2014	3.5
7,500	14.57	January 6, 2015	3.8
4,801,000	14.08	February 9, 2015	3.9
18,000	19.00	March 16, 2015	4.0
5,000	19.47	April 14, 2015	4.0
2,898,875	20.56	April 23, 2015	4.1
21,000	20.09	May 17, 2015	4.1
52,000	24.41	June 22, 2015	4.2
46,000	27.58	September 29, 2015	4.5
250,000	34.43	February 2, 2016	4.8
4,081,500	25.76	March 16, 2016	5.0
25,079,879	$ 13.73		3.3

The following stock options with a 5 year life were granted to employees, directors and consultants during the period ended March 31, 2011:

Number of options granted	Weighted average exercise price	Weighted average fair value
4,331,500	C$26.26	C$10.69

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

For options granted during the	Three months ended March 31, 2011	Year ended December 31, 2010
Weighted average risk-free interest rate:	1.67%	1.35%
Expected life:	2.5 years	2.5 years
Weighted expected volatility:	70%	77%
Expected dividend yield:	1.25%	0%

(c) Warrants

Each warrant outstanding is exercisable into one common share.

The following table summarizes information about the warrants outstanding and exercisable at March 31, 2011:

Outstanding & exercisable	Exercise price	Expiry date
611,682	C$ 7.80	July 12, 2012

A summary of the changes in warrants is presented below:

	Outstanding & exercisable	Weighted average exercise price
Balance, January 1, 2010	27,910,343	C$7.80
Exercised during the year	(27,298,661)	C$6.30
Balance, December 31, 2010 and March 31, 2011	611,682	C$7.80

20. Related party transactions

a) In June 2007, the Company entered into a 5-year lease agreement with Blue Pacific for administrative office space in one of its Bogota, Colombia locations. Monthly rent expense of $57 is payable to Blue Pacific under this agreement. Three directors and officers of the Company control, or provide investment advice to the holders of, 67.2% of the shares of Blue Pacific. The Company also has accounts receivable of $1.3 million from Blue Pacific related to certain administrative costs paid by the Company on behalf of Blue Pacific. In addition, the Company paid $554 (2010 - $500) to Blue Pacific during the three months ended March 31, 2011 for air transportation services.

b) As at March 31, 2011, the Company had trade accounts receivable of $0.9 million (2010 - $1.7 million) from Proelectrica, in which the Company has a 17.7% indirect interest and which is 31.49% owned by Blue Pacific. The Company's and Blue Pacific's indirect interests are held through Ronter. Revenue from Proelectrica in the normal course of the Company's business was $3.9 million for the three months ended March 31, 2011 (2010 - $7.4 million).

c) During the three months ended March 31, 2011, the Company paid $10.9 million (2010 - $11.9 million) to Transportadora Del Meta S.A. ("Transmeta") in crude oil transportation costs. The Company has accounts receivable of $4 million (2010 - $4.1 million) from Transmeta as at March 31, 2011. Transmeta is controlled by a director of the Company. Prior to the Company's transition to IFRS, the financial results of Transmeta were consolidated by the Company as Transmeta was accounted for as a variable interest entity and the Company was its primary beneficiary. Under IFRS, the Company no longer consolidates Transmeta.

d) During the period ended March 31, 2011, the Company received $537 (2010 - $1.8 million) from companies related by way of a number of directors in common, for reimbursement of general and administrative support expenses for the office premises in Canada. As at March 31, 2011, the Company has accounts receivable of $350 (2010 - $215) from the above companies, which has since been fully repaid.

e) Loans receivable in the aggregate amount of $497 (2010 – $322) are due from three management directors and three officers of the Company as at March 31, 2011. The loans are non-interest bearing and payable in equal monthly payments over 48 months.

f) The Company has entered into aircraft transportation agreements with Petroleum Aviation Services S.A.S., a company controlled by a director of the Company. During the three months ended March 31, 2011, the Company paid $1.4 million (2010 - $1.9 million) in fees as set out under the agreements.

g) The Company received $.03 million from ODL during the three months ended March 31, 2011 (2010 – nil) with respect to certain administrative services and rental equipment and machinery. The Company has accounts receivable of $1.9 million from ODL with respect to reimbursement of power supply costs as at March 31, 2011 (2010 – $3.1 million).

All related party transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

21. Financial risk management objectives and policies

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

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

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

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

The sensitivity has been prepared as at March 31, 2011 and December 31, 2010 using the amounts of debt and other financial assets and liabilities held as at those balance sheet dates.

(a) Credit risk

	March 31 2011	December 31 2010	January 1 2010
Trade receivable	$ 101,235	$ 146,190	$ 68,311
Advances / deposits	22,002	15,383	21,188
Other receivables	150,291	115,572	53,823
Receivable from joint ventures	33,148	16,480	11,722
Allowance for doubtful accounts	(973)	(966)	(1,125)
	$ 305,703	$ 292,659	$ 153,919

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. Two (December 31, 2010 – two) of the Company's customers had accounts receivable that were greater than 10% of total trade accounts receivable. The Company's credit exposure to these customers was $63.9 million and $10.5 million or 63% and 10% of trade accounts receivable, respectively (December 31, 2010 - two customers at $56.9 million and $56.2 million or 38% and 37% of trade accounts receivable, respectively). Revenues from these customers were 63.9 million and $99.9 million or 11% and 17% of net revenue, respectively (December 31, 2010 - $91.3 million and $56.2 million or 5% and 3% of net revenue, respectively).

(b) Interest rate risk

The Company is exposed to interest rate risk on its outstanding variable rate revolving credit borrowings due to fluctuations in market interest rates. The Company monitors its exposure to interest rates. As at March 31, 2011 the Company does not have outstanding borrowings under the variable rate revolving credit agreement.

(c) Foreign currency risk

The Company is exposed to foreign currency fluctuations in Colombian pesos (COP) and Canadian dollars relative to U.S. dollars. Such exposure arises primarily from expenditures that are denominated in currencies other than the functional currency. The Company monitors its exposure to foreign currency risks. To reduce its foreign currency exposure associated with operating expenses incurred in COP, the Company may enter into foreign currency derivatives to manage such risks. The Company has the following currency risk management contracts outstanding that qualify for cash flow hedge accounting:

As at March 31, 2011

Instrument	Term	Notional amount ($)	Floor-ceiling (COP/$)	Fair value ($)
Currency collars	April to December 2011	$ 405,000	1860 - 1930	$ 6,253

As at December 31, 2010

Instrument	Settlement date	Notional amount ($)	Floor-ceiling (COP/$)	Fair value ($)
Currency collars	January to December 2011	240,000	1900 - 1930	1,066

The effective portion of the change in the fair value of the above currency hedges is recognized in other comprehensive income as unrealized gains or losses on cash flow hedges. The effective portion is reclassified as production and operating expenses in net earnings in the same period as the hedged operating expenses are incurred. During the three months ended March 31, 2011, $7.1 million (2010 - $8 million) of unrealized gains were initially recorded in other comprehensive income, and $0.5 million (2010 - nil) was subsequently transferred to production and operating cost when the gains became realized. The Company excludes changes in fair value due to the time value of options and records these amounts along with hedge ineffectiveness in foreign exchange gains or losses in the period that they arise. During the three months ended March 31, 2011, $1.9 million (2010 - $0.5 million) of ineffectiveness was recorded as foreign exchange loss.

The Company has U.S. dollar denominated senior notes with an aggregate principle of $450 million outstanding as at March 31, 2011. The carrying amount of the senior notes is revalued each period end at the closing exchange rate with the unrealized foreign exchange gain or loss recorded in net earnings. Based on the debt balance and foreign exchange rates as at March 31, 2011, a 10% depreciation or appreciation of the U.S. dollar against the Canadian dollar would result in a $39.6 million (2010 - $39.5 million) increase or decrease in the Company's net earnings.

(d) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's process for managing liquidity risk includes ensuring, to the extent possible, that it will have sufficient liquidity to meet its liabilities when they become due. The Company prepares annual capital expenditure budgets which are monitored and updated as required. In addition, the Company requires authorizations for expenditures on projects to assist with the management of capital. As at March 31, 2011, the Company had available $250 million of undrawn revolving credit available.

The following are the contractual maturities of financial liabilities (undiscounted):

Financial liability due in	2011	2012	2013	2014	2015	Subsequent to 2015	Total
Accounts payable and accrued liabilities	$ 584,181	$ -	$ -	$ -	$ -	$ -	$ 584,181
Long-term debt and bank indebtedness	-	-	-	149,985	149,985	150,030	450,000
Convertible debentures - principal (1)	-	-	231,633	-	-	-	231,633
Obligations under finance lease (Note 17)	9,729	12,965	13,494	13,214	13,278	5,994	68,674
Total	$ 593,910	$ 12,965	$ 245,127	$ 163,199	$ 163,263	$ 156,024	$ 1,334,488

(1) The principal of C$238,895 of convertible debentures is due on August 29, 2013. The balance due is converted to U.S. dollars using the exchange rate on March 31, 2011.

(e) Commodity price risk

Commodity price risk is the risk that the cash flows and operations of the Company will fluctuate as a result of changes in commodity prices. Significant changes in commodity prices can also impact the Company's ability to raise capital or obtain additional debt financing. Commodity prices for crude oil are impacted by world economic events that dictate the levels of supply and demand. From time to time the Company may attempt to mitigate commodity price risk through the use of financial derivatives. The Company recognizes the fair value of its derivative instruments as assets or liabilities on the balance sheet. None of the Company's commodity price derivatives currently qualify as fair value hedges or cash flow hedges, and accordingly, changes in their fair value are recognized in earnings.

The Company has the following commodity price risk management contracts outstanding:

As at March 31, 2011

Type of Instrm.	Term	Volume (bbl)	Floor/ceiling or strike price ($/bbl)	Benchmark	Fair value
Zero cost collars	April 2011 to December 2012	13,421,400	70-80 / 98-120	WTI	(131,695)
Call option	November 2011 to January 2012	1,680,000	114.10 -118.80	WTI	(11,991)
Put option	April to July 2011	1,532,500	40-70	WTI	(1,538)
	Total				**$ (145,224)**
	Short-term				(123,354)
	Long-term				(21,870)
	Total				**$ (145,224)**

As at December 31, 2010

Type of Instrm.	Term	Volume (bbl)	Floor/ceiling or strike price ($/bbl)	Benchmark	Fair value
Zero cost collars	January to December 2011	12,150,000	70-75 / 98-102	WTI	(50,819)
Put option	January to July 2011	1,285,000	40	WTI	(2,828)
	Total				**$ (53,647)**
	Short-term				(53,647)
	Long-term				-
	Total				**$ (53,647)**

As at January 1, 2010

Type of Instrm.	Term	Volume (bbl)	Floor/ceiling or strike price ($/bbl)	Benchmark	Fair value
Call option	January to November 2010	2,845,001	76.10 - 90.00	WTI	(18,553)
Put option	January to December 2010	5,170,000	40	WTI	(6,705)
				Total $	**(25,258)**
	Short-term				(23,538)
	Long-term				(1,720)
	Total				**$ (25,258)**

For the three months ended March 31, 2011, the Company recorded a total loss of $92.6 million (2010 - $5 million gain) on commodity price risk management contracts in net earnings. Included in these amounts were $91.6 million of

unrealized losses (2010 – $6.8 million unrealized gains) representing the change in the fair value of the contracts, and $1 million of realized losses (2010 - $1.8 million realized loss).

If the forward WTI crude oil price estimated at March 31, 2011 had been $1/bbl higher or lower, the unrealized loss on these contracts would change by approximately $9.7 million (2010 – $1.5 million).

(f) Fair value risk

The Company's financial instruments are cash and cash equivalents, restricted cash, accounts receivable and accounts payable and accrued liabilities, risk management assets and liabilities, bank debt, finance lease obligation, convertible debentures on the balance sheet. The carrying value and fair value of these financial instruments are disclosed below by financial instrument category.

	As at March 31, 2011		**As at December 31, 2010**	
Financial Instrument	Carrying value	Fair value	Carrying value	Fair value
Assets held for trading				
Cash and cash equivalents	$ 604,175	$ 604,175	$ 602,776	$ 602,776
Restricted cash	6,429	6,429	6,706	6,706
Loans and receivables				
Accounts receivable	305,703	305,703	292,659	292,659
Derivative assets designated as cash flow hedges				
Foreign currency	6,253	6,253	1,066	1,066
Liabilities held for trading				
Commodity price derivatives	145,224	145,224	53,647	53,647
Other Liabilities				
Accounts payable and accrued liabilities	584,181	584,181	525,956	525,956
Long-term debt (1)	435,370	496,322	524,393	580,908
Convertible debtentures (2)	195,966	441,885	186,416	523,829
Obligations under finance lease	46,097	48,402	38,687	40,621

(1) Estimated using the last traded price, representing 114% of the face value of the senior notes as at March 31, 2011.
(2) The closing price of the convertible debenture (PRE.DB – TSX) at March 31, 2011 represented 225% of the face value of the convertible debenture (December 31, 2010 – 281%). The fair value of the convertible debenture includes both the fair value of the conversion feature and the debt itself.

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

The following table summarizes the Company's financial instruments that are carried at fair value, in accordance with the classification of fair value input hierarchy as defined in Note 2.2 of these financial statements - *Financial Instruments*.

	Fair value as at March 31, 2011			
	Level 1	**Level 2**	**Level 3**	
Risk management assets	$ -	$ 6,253	$ -	$ 6,253
Risk management liabilities	-	(145,224)	-	(145,224)
Total	$ -	$ (138,971)	$ -	$ (138,971)

	Fair value as at December 31, 2010			
	Level 1	**Level 2**	**Level 3**	
Risk management assets	$ -	$ 1,066	$ -	$ 1,066
Risk management liabilities	-	(53,647)	-	(53,647)
Total	$ -	$ (52,581)	$ -	$ (52,581)

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

(g) Capital management

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

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

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

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

The Company defines its capital as follows:

	March 31 2011	December 31 2010	January 1 2010
Shareholders' equity	$ 2,093,629	$ 2,144,825	$ 1,623,244
Long-term debt	435,370	524,393	454,287
Convertible debentures	195,966	186,416	165,611
Working capital surplus	(136,767)	(273,835)	(405,652)
	$ 2,588,198	$ 2,581,799	$ 1,837,490

22. Supplemental disclosure on cash flows

Other cash flow information:

	Three months ended March 31	
	2011	2010
Cash income taxes paid	$ 66,631	$ 11,048
Cash interest paid	235	234
Cash interest received	129	239

23. Subsequent events

1. In April 2011 the terms of the Company's unsecured revolving credit facility were amended, which increased the amount under the facility from $250 million to $350 million and extended the commitment to April 2013. The amendment also reduces the commitment fee and the applicable interest rate. Based on the Company's current rating and expected usage, the commitment fee is reduced from 100 to 75 basis points and the interest rate is reduced from 325 to 250 basis points over LIBOR.

2. On May 6, 2011, the Company signed a sale and purchase agreement ("SPA") with Etablisssments Maurel & Prom ("Maurel et Prom") whereby the Company will acquire 49.999% of the interests held by Maurel et Prom in the Sabanero, Muisca, SSJN-9, CPO-17 and COR-15 blocks, all located on-shore in Colombia. The SPA has an effective date of April 1, 2011, and is subject to legal and regulatory approvals as well as certain contractual approvals by the partners in Colombia. Based on the SPA, the Company will pay Maurel et Prom cash consideration of up to $66 million as reimbursement for past exploration costs incurred on the blocks. In addition, the Company will assume: i) a fully carried obligation of up to $120 million in three years for exploration activities in the SSJN-9, CPO-17 and Muisca Blocks and ii) a fully carried obligation on the exploration activities in the Sabanero and COR-15 blocks with a reimbursement out of future free cash flow.

24. First time adoption of IFRS

These interim condensed consolidated financial statements are the first that the Company has prepared in accordance with IAS 34, using accounting policies the Company expects to adopt for the year ending December 31, 2011 in accordance with IFRS. The Company previously prepared its financial statements in accordance with Canadian GAAP for periods up to and including December 31, 2010.

IFRS 1 Exemptions

The general principle to be applied on first-time adoption of IFRS is that standards in force at the first annual reporting date (December 31, 2011) should be applied as at the date of transition to IFRS (January 1, 2010) and throughout all periods presented in the first IFRS financial statements. IFRS 1 contains a number of exemptions that companies are permitted to apply. The Company has elected to apply the following exemptions:

a) To apply IFRS 3 *Business Combinations* prospectively and not restate business combinations that occurred prior to January 1, 2010.
b) To not apply IFRS 2 *Share-Based Payments* to equity awards that vested before January 1, 2010
c) To deem cumulative currency translation differences for all foreign operations to be zero as at January 1, 2010.
d) To deem the cost of oil and gas properties and exploration and evaluation assets equal to its Canadian GAAP historical property, plant and equipment net book value as at January 1, 2010.
e) To measure the changes in asset retirement obligation and the related depreciation as at January 1, 2010, with the effective recorded in retained earnings.
f) To apply the exemption to prospectively capitalize borrowing costs from January 1, 2010.

Reconciliations from Canadian GAAP to IFRS

In preparing the interim condensed consolidated financial statements, the Company has adjusted amounts reported previously in its consolidated financial statements prepared under Canadian GAAP. An explanation of how the transition from Canadian GAAP to IFRS has impacted the Company's consolidated statement of financial position, consolidated statement of income and shareholders' equity is included in the following reconciliations and notes.

Reconciliation of Consolidated Statement of Financial Position as at January 1, 2010

	Jan. 1, 2010 Cdn GAAP	O&G assets (24.1)	Transmeta (24.2)	ARO (24.3)	Deferred income tax (24.4)	Land acquisition (24.5)	Equity investments (24.6)	Functional currency (24.7)	Jan. 1, 2010 IFRS
ASSETS									
Current									
Cash and cash equivalents	$ 438,117	$ -	$ (9,561)	$ -	$ -	$ -	$ -	$ -	$ 428,556
Restricted cash	8,712	-	-	-	-	-	-	-	8,712
Accounts receivables	159,049	-	(1,204)	-	-	(3,926)	-	-	153,919
Inventories	38,228	-	(162)	-	-	-	-	-	38,066
Income tax receivable	5,048	-	(2,998)	-	-	-	-	-	2,050
Prepaid expenses	4,449	-	-	-	-	-	-	-	4,449
Deferred tax asset	2,693	-	-	-	(2,693)	-	-	-	-
	656,296	**-**	**(13,925)**	**-**	**(2,693)**	**(3,926)**	**-**	**-**	**635,752**
Non-current									
Property, plant and equipment	1,985,361	(1,985,361)	-	-	-	-	-	-	-
Oil and gas properties	-	1,937,121	-	-	100,276	-	-	-	2,037,397
Exploration and evaluation assets	-	38,421	-	-	-	-	-	(142)	38,279
Plant and equipment		9,819	(3,823)	-	456	3,536	-	18	10,006
Investments and other assets	74,758	-	328	-	-	-	28,123	-	103,209
Restricted cash	2,059	-	-	-	-	-	-	-	2,059
Goodwill	100,636	-	-	-	-	-	-	-	100,636
	$ 2,819,110	**$ -**	**$ (17,420)**	**$ -**	**$ 98,039**	**$ (390)**	**$ 28,123**	**$ (124)**	**$ 2,927,338**
LIABILITIES									
Current									
Accounts payable and accrued liabilities	$ 208,603	$ -	$ (5,397)	$ -	$ -	$ 126	$ -	$ -	$ 203,332
Risk management liability	23,538	-	-	-	-	-	-	-	23,538
Income tax payable	2,721	-	(1,411)	-	-	-	-	-	1,310
Current portion of long-term debt	13,310	-	(1,182)	-	-	-	-	-	12,128
Current portion of obligations under finance lease	1,920	-	-	-	-	-	-	-	1,920
Deferred tax liability	846	-	-	-	(846)	-	-	-	-
	250,938	**-**	**(7,990)**	**-**	**(846)**	**126**	**-**	**-**	**242,228**
Non-current									
Long-term debt	442,159	-	-	-	-	-	-	-	442,159
Obligations under finance lease	38,521	-	-	-	-	-	-	-	38,521
Convertible debenture	165,611	-	-	-	-	-	-	-	165,611
Risk management liability	1,720	-	-	-	-	-	-	-	1,720
Deferred tax liability	382,625	-	108	(88)	22,091	-	-	-	404,736
Asset retirement obligation	8,778	-	-	341	-	-	-	-	9,119
	1,290,352	**-**	**(7,882)**	**253**	**21,245**	**126**	**-**	**-**	**1,304,094**
SHAREHOLDERS' EQUITY									
Common shares	1,364,687	-	-	-	-	-	-	-	1,364,687
Contributed surplus	136,934	-	-	-	-	-	-	-	136,934
Equity component of convertible debenture	66,130	-	-	-	(9,060)	-	-	-	57,070
Accumulated other comprehensive income	229	-	-	-	(229)	-	-	-	-
Retained earnings (deficit)	(39,222)	-	(9,538)	(253)	86,083	(516)	28,123	(124)	64,553
	1,528,758	**-**	**(9,538)**	**(253)**	**76,794**	**(516)**	**28,123**	**(124)**	**1,623,244**
	$ 2,819,110	**$ -**	**$ (17,420)**	**$ -**	**$ 98,039**	**$ (390)**	**$ 28,123**	**$ (124)**	**$ 2,927,338**

Reconciliation of Consolidated Statement of Financial Position as at March 31, 2010

	Mar. 31, 2010 Cdn GAAP	O&G assets (24.1)	Transmeta (24.2)	ARO (24.3)	Deferred income tax (24.4)	Land acquisition (24.5)	Equity investments (24.6)	Functional currency (24.7)	Mar. 31, 2010 IFRS
ASSETS									
Current									
Cash and cash equivalents	$ 630,638	$ -	$ (2,124)	$ -	$ -	$ -	$ -	$ -	$ 628,514
Restricted cash	10,506	-	(4)	-	-	-	-	-	10,502
Accounts receivables	129,747	-	1,901	-	-	(4,405)	-	-	127,243
Inventories	38,707	(834)	(243)	-	-	-	-	-	37,630
Income tax receivable	(68)	-	-	-	-	-	-	-	(68)
Prepaid expenses	5,254	-	-	-	-	-	-	-	5,254
Risk management asset	10,659	-	-	-	-	-	-	-	10,659
Deferred tax asset	2,459	-	-	-	(2,459)	-	-	-	-
	827,902	**(834)**	**(470)**	**-**	**(2,459)**	**(4,405)**	**-**	**-**	**819,734**
Non-current									
Property, plant and equipment	1,998,621	(1,998,621)	-	-	-	-	-	-	-
Oil and gas properties	-	1,933,184	(705)	(1,202)	106,633	-	-	-	2,037,910
Exploration and evaluation assets	-	40,820	-	(7)	-	-	-	390	41,203
Intangible assets	187,072	-	-	-	-	-	-	-	187,072
Plant and equipment	-	9,179	(3,197)	-	512	3,536	-	14	10,044
Investments and other assets	79,522	-	285	-	-	-	30,920	-	110,727
Goodwill	100,636	-	-	-	-	-	-	-	100,636
	$ 3,193,753	**$ (16,272)**	**$ (4,087)**	**$ (1,209)**	**$ 104,686**	**$ (869)**	**$ 30,920**	**$ 404**	**$ 3,307,326**
LIABILITIES									
Current									
Accounts payable and accrued liabilities	$ 253,977	$ -	$ 4,161	$ -	$ -	$ (109)	$ -	$ -	$ 258,029
Risk management liability	17,114	-	-	-	-	-	-	-	17,114
Income tax payable	42,886	-	(163)	-	-	-	-	-	42,723
Current portion of long-term debt	14,189	-	(1,459)	-	-	-	-	-	12,730
Current portion of obligations under finance lease	3,822	-	-	-	-	-	-	-	3,822
	331,988	**-**	**2,539**	**-**	**-**	**(109)**	**-**	**-**	**334,418**
Non-current									
Long-term debt	457,701	-	-	-	-	-	-	-	457,701
Obligations under finance lease	37,536	-	-	-	-	-	-	-	37,536
Convertible debenture	173,261	-	-	-	-	-	-	-	173,261
Risk management liability	1,380	-	-	-	-	-	-	-	1,380
Deferred tax liability	390,587	-	108	(88)	(12,618)	-	-	-	377,989
Asset retirement obligation	9,057	-	-	(894)	-	-	-	-	8,163
	1,401,510	**-**	**2,647**	**(982)**	**(12,618)**	**(109)**	**-**	**-**	**1,390,448**
SHAREHOLDERS' EQUITY									
Common shares	1,612,699	-	-	-	-	-	-	-	1,612,699
Contributed surplus	107,666	-	-	-	-	-	-		107,666
Equity component of convertible debenture	66,118	-	-	-	(9,060)	-	-	-	57,058
Accumulated other comprehensive income	12,855	-	-	-	(229)	-	3,981	(17,832)	(1,225)
Retained earnings (deficit)	(7,095)	(16,272)	(6,734)	(227)	126,593	(760)	26,939	18,236	140,680
	1,792,243	**(16,272)**	**(6,734)**	**(227)**	**117,304**	**(760)**	**30,920**	**404**	**1,916,878**
	$ 3,193,753	**$ (16,272)**	**$ (4,087)**	**$ (1,209)**	**$ 104,686**	**$ (869)**	**$ 30,920**	**$ 404**	**$ 3,307,326**

Reconciliation of Consolidated Statement of Financial Position as at December 31, 2010

	Dec. 31, 2010 Cdn GAAP	O&G assets (24.1)	Transmeta (24.2)	ARO (24.3)	Deferred income tax (24.4)	Land acquisition (24.5)	Equity investments (24.6)	Functional currency (24.7)	Dec. 31, 2010 IFRS
ASSETS									
Current									
Cash and Cash equivalents	$ 608,344	$ -	$ (5,568)	$ -	$ -	$ -	$ -	$ -	$ 602,776
Restricted Cash	6,706	-	-	-	-	-	-	-	6,706
Accounts Receivables	300,836	-	(2,853)	-	-	(5,324)	-	-	292,659
Inventories	56,050	690	(208)	-	-	-	-	-	56,532
Income tax receivable	2,324	-	(737)	-	-	-	-	-	1,587
Prepaid expenses	6,398	-	-	-	-	-	-	-	6,398
Risk Management	1,066	-	-	-	-	-	-	-	1,066
Deferred tax asset	2,669	-	-	-	(2,669)	-	-	-	-
	984,393	**690**	**(9,366)**	**-**	**(2,669)**	**(5,324)**	**-**	**-**	**967,724**
Non-current									
Property, plant and equipment	2,383,628	(2,383,628)	-	-	-	-	-	-	-
Oil and gas properties	-	2,129,081	(3,081)	2,574	165,900	-	-	-	2,294,474
Exploration and evaluation assets	-	150,252	-	70	(155)	-	-	729	150,896
Intangible assets	170,967	-	-	-	-	-	-	-	170,967
Plant and equipment	-	22,344	(8,163)	-	552	4,431	-	12	19,176
Investments and other assets	215,462	-	151	-	(155)	-	34,798	-	250,256
Goodwill	100,636	-	-	-	-	-	-	-	100,636
	$ 3,855,086	**$ (81,261)**	**$ (20,459)**	**$ 2,644**	**$ 163,473**	**$ (893)**	**$ 34,798**	**$ 741**	**$ 3,954,129**
LIABILITIES									
Current									
Accounts payable and accrued liabilities	$ 540,292	$ -	$ (14,225)	$ -	$ -	$ (111)	$ -	$ -	$ 525,956
Risk Management liability	53,647	-	-	-	-	-	-	-	53,647
Income tax payable	109,982	-	-	-	-	-	-	-	109,982
Current portion of long-term debt	90,091	-	(48)	-	-	-	-	-	90,043
Current portion of obligations under finance lease	4,304	-	-	-	-	-	-	-	4,304
Deferred tax liability	3,396	-	-	-	(3,396)	-	-	-	-
	801,712	**-**	**(14,273)**	**-**	**(3,396)**	**(111)**	**-**	**-**	**783,932**
Non-current									
Long-term debt	434,350	-	-	-	-	-	-	-	434,350
Obligations under finance lease	34,383	-	-	-	-	-	-	-	34,383
Convertible debenture	186,416	-	-	-	-	-	-	-	186,416
Deferred tax liability	344,810	-	114	(89)	4,779	-	-	-	349,614
Asset retirement obligation	18,343	-	-	2,266	-	-	-	-	20,609
	1,820,014	**-**	**(14,159)**	**2,177**	**1,383**	**(111)**	**-**	**-**	**1,809,304**
SHAREHOLDERS' EQUITY									
Common shares	1,691,838	-	-	-	-	-	-	-	1,691,838
Contributed surplus	112,339	-	-	-	-	-	-	-	112,339
Equity component of convertible debenture	65,826	-	-	-	(9,060)	-	-	-	56,766
Accumulated other comprehensive income	11,806	-	-	-	(229)	-	(2,425)	(29,789)	(20,637)
Retained earnings (deficit)	153,263	(81,261)	(6,300)	467	171,379	(782)	37,223	30,530	304,519
	2,035,072	**(81,261)**	**(6,300)**	**467**	**162,090**	**(782)**	**34,798**	**741**	**2,144,825**
	$ 3,855,086	**$ (81,261)**	**$ (20,459)**	**$ 2,644**	**$ 163,473**	**$ (893)**	**$ 34,798**	**$ 741**	**$ 3,954,129**

Reconciliation of Consolidated Statement of Income and Comprehensive Income for the three months ended March 31, 2010

	Mar. 31, 2010	O&G assets	Transmeta	ARO	Deferred income tax	Land acquisition	Equity investments	Functional currency	Mar. 31, 2010
	Cdn GAAP	(24.1)	(24.2)	(24.3)	(24.4)	(24.5)	(24.6)	(24.7)	IFRS
Oil and gas sales	$ 380,523	$ -	$ (1,092)	$ -	$ -	$ -	$ -	$ -	$ 379,431
Cost of operations									
Production and operating costs	131,366	402	(422)	-	(2,928)	-	-	-	128,418
Depletion, depreciation and amortization	64,285	15,912	-	-	5,563	-	-	-	85,760
	195,651	16,314	(422)	-	2,635	-	-	-	214,178
Earnings before undernoted	184,872	(16,314)	(670)	-	(2,635)	-	-	-	165,253
Expenses									
General and administrative expenses	19,808	(5)	(674)	(26)	(56)	-	-	-	19,047
Shared-based compensation	40,822	-	-	-	-	-	-	-	40,822
	60,630	(5)	(674)	(26)	(56)	-	-	-	59,869
Earnings from operations	124,242	(16,309)	4	26	(2,579)	-	-	-	105,384
Finance costs	(13,916)	40	-	-	-	-	-	-	(13,876)
Profit (loss) from equity-investments	-	-	-	-	-	-	(1,184)	-	(1,184)
Equity tax	(522)							-	(522)
Foreign exchange	(31,750)	-	3,064	-	24,095	(244)	-	18,360	13,525
Gain (loss) on risk management	5,017	-	-	-	-	-	-	-	5,017
Other expenses	(1,621)	(1)	(265)	-	-	-	-	-	(1,887)
Net earnings before income tax	81,450	(16,270)	2,803	26	21,516	(244)	(1,184)	18,360	106,457
Income tax expense	(49,324)	-	-	-	18,994	-	-	-	(30,330)
Net earnings for the period	**$ 32,126**	**$ (16,270)**	**$ 2,803**	**$ 26**	**$ 40,510**	**$ (244)**	**$ (1,184)**	**$ 18,360**	**$ 76,127**
Other comprehensive income									
Foreign currency translation (nil tax effect)	4,819		-	-	-	-	3,752	(17,832)	(9,261)
Unrealized gain on cash flow hedges (nil tax effect)	8,036		-	-	-	-	-	-	8,036
	12,855	-	-	-	-	-	3,752	(17,832)	(1,225)
Comprehensive income for the period	44,981	(16,270)	2,803	26	40,510	(244)	2,568	528	74,902

Reconciliation of Consolidated Statement of Income for the year ended December 31, 2010

	Dec. 31, 2010 Cdn GAAP	O&G assets (24.1)	Transmeta (24.2)	ARO (24.3)	Deferred income tax (24.4)	Land acquisition (24.5)	Equity investments (24.6)	Functional currency (24.7)	Dec. 31, 2010 IFRS
Oil and gas sales	$ 1,661,544	$ -	$ -	$ -	$ -	$ -	$ -		$ 1,661,544
Cost of operations									
Production and operating costs	626,772	(1,435)	5,035	-	-	-	-		630,372
Depletion, depreciation and amortization	298,567	83,083	-	-	12,658	-	-		394,308
	925,339	81,648	5,035	-	12,658	-	-	-	1,024,680
Earnings before undernoted	736,205	(81,648)	(5,035)	-	(12,658)	-	-	-	636,864
Expenses									
General and administrative expenses	111,919	1,253	(3,699)	(380)	104	-	-		109,197
Shared-based compensation	73,327	-	-	-	-	-	-		73,327
	185,246	1,253	(3,699)	(380)	104	-	-	-	182,524
Earnings from operations	550,959	(82,901)	(1,336)	380	(12,762)	-	-	-	454,340
Finance costs	(76,447)	(1,112)	176	-	-	-	-		(77,383)
Profit (loss) from equity-investments	(1,634)	-	-	-	-	-	9,404		7,770
Foreign exchange	(11,092)	-	2,937	340	11,278	(266)	-	30,654	33,851
Gain (loss) on risk management	(40,230)	-	-	-	-	-	-		(40,230)
Other expenses	(951)	2,753	1,375	-	(155)	-	(304)		2,718
Net earnings before income tax	420,605	(81,260)	3,152	720	(1,639)	(266)	9,100	30,654	381,066
Income tax expense	(202,999)	-	133	-	86,887	-	-		(115,979)
Net earnings for the period	**$ 217,606**	**$ (81,260)**	**$ 3,285**	**$ 720**	**$ 85,248**	**$ (266)**	**$ 9,100**	**$ 30,654**	**$ 265,087**
Other comprehensive income									
Foreign currency translation (nil tax effect)	11,577						(2,425)	(29,789)	(20,637)
Unrealized gain on cash flow hedges (nil tax effect)	21,721								21,721
Realized gain on cash flow hedges transferred to profit (nil tax effect)	(21,721)								(21,721)
	11,577	-	-	-	-	-	(2,425)	(29,789)	(20,637)
Comprehensive income for the period	229,183	(81,260)	3,285	720	85,248	(266)	6,675	865	244,450

Notes for reconciliations from Canadian GAAP to IFRS

24.1 Oil and gas properties and exploration and evaluation assets

The Company has elected to apply the exemption under IFRS 1 to deem the cost of oil and gas properties and exploration and evaluation assets as at January 1, 2010 equal to the net book value of property, plant and equipment recorded under Canadian GAAP.

Under Canadian GAAP, depreciation, depletion and amortization of oil and gas properties is determined on a unit-of-production basis with Colombia being considered one cost centre. Under IAS 16 *Property, Plant and Equipment*, depletion, depreciation and amortization is calculated at the level of the cash generating unit, which the Company has determined to be the major producing fields.

Depreciation charged against certain administrative assets related to oil producing fields is now included under cost of operations rather than general and administrative expenses.

All oil and gas properties and exploration and evaluation assets were tested for impairment as at January 1, 2010 and no impairment was recognized.

24.2 Consolidation of Transmeta

Under Canadian GAAP, the Company consolidated Transmeta as a variable interest entity. Under SIC 12 requirements, consolidation of special purpose entities is determined based on control. The Company has concluded it does not control Transmeta as of January 1, 2010 and therefore consolidation has been reversed.

24.3 Asset retirement obligation

As the Company elected to use the full cost as deemed cost exemption as described above, the asset retirement obligation has been re-measured as at January 1, 2010 using the guidance in IAS 37. In re-measuring the asset retirement obligation, expected future cash outflows were estimated and discounted to January 1, 2010 using the risk free rate of 4% with the offset recorded to retained earnings.

24.4 Deferred income tax

a) Under Canadian GAAP the Company recognized a deferred income tax arising from the bonus depreciation “superdeduction” related to qualifying new investments in Colombia. This type of benefit is not within the scope of IAS 20 and is therefore not treated as part of the tax base. Instead, the deduction is recognized as a reduction to income tax expense in the current period.

b) Under Canadian GAAP, deferred income tax assets were classified between current and non-current, based on the classification of the underlying assets and liabilities that gave rise to the differences. IAS 12 requires that deferred taxation amounts be classified as non-current assets only.

c) Deferred income tax assets and liabilities have been adjusted for the changes to net book values of oil and gas properties arising as a result of the adjustments for first time adoption of IFRS as discussed in 1 above. Under Canadian GAAP, deferred tax was not recognized for temporary differences resulting from differences between the functional currency and the currency in which the Company’s taxes are denominated, being the Colombian peso. Under IFRS, such temporary tax differences are recognized as part of the deferred tax expense or recovery in the consolidated statement of income.

d) Under IFRS, temporary difference is calculated on the difference between the accounting base and the tax base of the convertible debenture. The tax effect calculated on the equity component of the convertible debenture is recorded as a deferred tax liability with a corresponding adjustment to the equity component at the time of issue. The tax effect on the subsequent change in the temporary difference related to the debt component of the convertible debenture is recognized as deferred tax expense or recovery in the consolidated statement of income.

24.5 Land acquisition

Certain advances made for the acquisition of land that were included in accounts receivable under Canadian GAAP have been reclassified to oil and gas properties, as the title of the land has been transferred to a trust that is considered to be a special purpose entity subject to consolidation pursuant to the requirements of SIC 12.

24.6 Equity-accounted investments

The Company determined that the effect of the changeover to IFRS on the financial statements of the Company's equity-accounted investments as at January 1, 2010 was an increase to the carrying amount of the investments by $28.1 million with a corresponding adjustment to retained earnings. The carrying amounts of property, plant and equipment of ODL and PII were adjusted for IFRS requirements, including the effect of the accounting for the superdeduction related to qualifying investments in Colombia.

24.7 Functional currency

The Company's functional currency under Canadian GAAP was the U.S. dollar. Under IFRS, the Company has determined that its functional currency is the Canadian dollar. The Company's presentation currency continues to be the U.S. dollar. The effect of this change is primarily related to the translation of the Company's cash and debts on the consolidated statement of financial position and the resulting foreign exchange gains and losses on the consolidated statement of income. Unrealized gains and losses resulting from the translation to the U.S. dollar presentation currency have been included in other comprehensive income.

24.8 Reconciliation of the statement of cash flows from Canadian GAAP to IFRS

The transition from Canadian GAAP to IFRS did not materially change the underlying cash flows of the Company with the exception that the Company no longer consolidates the operating results of Transmeta as described in 24.2 above. As a result of the reversal of consolidation of Transmeta, the Company's net cash provided by operating activities was reduced by $2.2 million for the three months ended March 31, 2010.