PACIFIC RUBIALES ENERGY CORP.

Interim Condensed Consolidated Financial Statements
(Unaudited)

For the three and six months ended June 30, 2011 and 2010

PACIFIC RUBIALES ENERGY CORP.

Interim Consolidated Statements of Income

(In thousands of U.S. Dollars except per share information; unaudited)	Notes	Three months ended June 30 2011	Three months ended June 30 2010	Six months ended June 30 2011	Six months ended June 30 2010
Oil and gas sales		$ 957,509	$ 356,848	$ 1,541,058	$ 736,279
Cost of operations					
Production and operating costs	*4*	355,691	133,196	545,468	261,614
Depletion, depreciation and amortization		178,124	90,608	327,184	176,368
		533,815	223,804	872,652	437,982
Earnings before undernoted		423,694	133,044	668,406	298,297
Expenses					
General and administrative		43,479	25,067	74,724	44,114
Share-based compensation		705	31,853	47,392	72,675
		44,184	56,920	122,116	116,789
Earnings from operations		379,510	76,124	546,290	181,508
Finance costs		(23,781)	(20,420)	(46,930)	(34,296)
(Loss) income from equity investments	*14*	(7,701)	2,259	(11,089)	1,075
Equity tax	*5*	-	(522)	(68,446)	(1,044)
Foreign exchange (loss) gain		(1,523)	(8,241)	2,430	5,284
Gain (loss) on risk management	*21e*	84,896	5,144	(7,738)	10,161
Other income (expenses)		265	1,565	(3,070)	(322)
Net earnings before income tax		431,666	55,909	411,447	162,366
Income tax expense	*6*	(82,291)	(41,471)	(131,665)	(71,801)
Net earnings for the period		**$ 349,375**	**$ 14,438**	**$ 279,782**	**$ 90,565**
Basic earnings per share	*7*	$ 1.30	$ 0.05	$ 1.04	$ 0.35
Diluted earnings per share	*7*	$ 1.20	$ 0.05	$ 1.00	$ 0.33

See accompanying notes to the interim condensed consolidated financial statements

PACIFIC RUBIALES ENERGY CORP.

Interim Consolidated Statements of Comprehensive Income

(In thousands of U.S. Dollars; unaudited)	Notes	Three months ended June 30 2011	Three months ended June 30 2010	Six months ended June 30 2011	Six months ended June 30 2010
Net earnings for the period		$ 349,375	$ 14,438	$ 279,782	$ 90,565
Other comprehensive income					
Foreign currency translation (nil tax effect)		7,530	18,185	(4,912)	8,924
Unrealized gain on cash flow hedges (nil tax effect)	*21c*	12,930	1,987	20,043	10,023
Realized gain on cash flow hedges transferred to earnings (nil tax effect)	*21c*	(7,083)	(1,698)	(7,620)	(1,698)
		13,377	18,474	7,511	17,249
Comprehensive income		$ 362,752	$ 32,912	$ 287,293	$ 107,814

See accompanying notes to the interim condensed consolidated financial statements

PACIFIC RUBIALES ENERGY CORP.

Interim Consolidated Statements of Financial Position

(In thousands of U.S. Dollars; unaudited)	Notes		As at June 30 2011		As at December 31 2010
ASSETS					
Current					
Cash and cash equivalents		$	338,863	$	602,776
Restricted cash			6,505		6,706
Accounts receivables	*21a*		631,167		292,659
Inventories	*9*		116,759		56,532
Income tax receivable			1,412		1,587
Prepaid expenses			904		6,398
Risk management assets	*21c & e*		20,054		1,066
			1,115,664		**967,724**
Non-current					
Oil and gas properties	*10*		2,292,165		2,294,474
Exploration and evaluation assets	*11*		309,439		150,896
Intangible assets	*13*		158,071		170,967
Plant and equipment	*12*		32,767		19,176
Investments and other assets	*14*		286,245		250,256
Goodwill	*13*		100,636		100,636
		$	**4,294,987**	**$**	**3,954,129**
LIABILITIES					
Current					
Accounts payable and accrued liabilities		$	636,034	$	525,956
Risk management liability	*21e*		18,749		53,647
Income tax payable			139,221		109,982
Current portion of long-term debt	*15*		-		90,043
Current portion of obligations under finance lease	*17*		6,014		4,304
			800,018		**783,932**
Non-current					
Long-term debt	*15*		434,868		434,350
Obligations under finance lease	*17*		38,523		34,383
Convertible debenture	*15*		201,388		186,416
Risk management liability	*21e*		44,089		-
Deferred tax liability			262,905		349,614
Equity tax payable	*5*		46,170		-
Asset retirement obligation	*16*		25,605		20,609
			1,853,566		**1,809,304**
SHAREHOLDERS' EQUITY					
Common shares	*19*		1,710,705		1,691,838
Contributed surplus			152,735		112,339
Equity component of convertible debenture			56,766		56,766
Accumulated other comprehensive loss			(13,126)		(20,637)
Retained earnings			534,341		304,519
			2,441,421		**2,144,825**
		$	**4,294,987**	**$**	**3,954,129**

See accompanying notes to the interim condensed consolidated financial statements

PACIFIC RUBIALES ENERGY CORP.

Interim Consolidated Statements of Shareholders' Equity

(In thousands of U.S. Dollars; unaudited)	Notes	Three months ended June 30 2011	Three months ended June 30 2010	Six months ended June 30 2011	Six months ended June 30 2010
Common shares					
Balance, beginning of period		$ 1,697,198	$ 1,612,699	$ 1,691,838	$ 1,364,687
Issued on exercise of warrants		6,176	30	6,176	223,109
Issued on exercise of options		7,331	24,515	12,691	49,404
Issued on conversion of convertible debentures	*15*	-	-	-	44
Balance, end of period		1,710,705	1,637,244	1,710,705	1,637,244
Contributed surplus					
Balance, beginning of period		156,178	107,666	112,339	136,934
Exercise of warrants		(1,347)	(7)	(1,347)	(62,328)
Exercise of options		(2,801)	(8,738)	(5,649)	(16,507)
Share-based compensation		705	31,853	47,392	72,675
Balance, end of period		152,735	130,774	152,735	130,774
Equity component of convertible debentures					
Balance, beginning of period		56,766	57,058	56,766	57,070
Conversion to common shares	*15*	-	-	-	(12)
Balance, end of period		56,766	57,058	56,766	57,058
Accumulated other comprehensive income (loss)					
Balance, beginning of period		(26,503)	(1,225)	(20,637)	-
Other comprehensive income		13,377	18,474	7,511	17,249
Balance, end of period		(13,126)	17,249	(13,126)	17,249
Retained earnings					
Balance, beginning of period		209,990	140,680	304,519	64,553
Net earnings for the period		349,375	14,438	279,782	90,565
Dividends	*8*	(25,024)	-	(49,960)	-
Balance, end of period		534,341	155,118	534,341	155,118
Total shareholders' equity		$ 2,441,421	$ 1,997,443	$ 2,441,421	$ 1,997,443

See accompanying notes to the interim condensed consolidated financial statements

PACIFIC RUBIALES ENERGY CORP.

Interim Consolidated Statements of Cash Flows

(In thousands of U.S. Dollars; unaudited)	Notes	Three months ended June 30 2011	Three months ended June 30 2010	Six months ended June 30 2011	Six months ended June 30 2010
OPERATING ACTIVITIES					
Net earnings for the period		$ 349,375	$ 14,438	$ 279,782	$ 90,565
Items not affecting cash:					
Depletion, depreciation and amortization		181,181	90,608	332,567	176,368
Asset retirement obligation accretion	*16*	254	213	470	466
Unrealized (gain) loss on risk management contracts	*21e*	(86,190)	(11,917)	5,387	(18,681)
Shared-based compensation		705	31,852	47,392	72,674
Deferred income tax	*6*	(58,423)	11,809	(86,706)	(14,937)
Unrealized foreign exchange loss (gain)		6,014	8,108	463	(2,329)
Loss (income) from equity investments	*14*	7,701	(2,259)	11,089	(1,111)
Equity tax		-	-	68,446	-
Unwinding of equity tax discount		1,914	-	3,784	-
Other		(2,329)	5,530	4,235	(5,245)
Changes in non-cash working capital	*22*	(283,929)	(46,486)	(230,833)	61,726
Net cash provided by operating activities		116,273	101,896	436,076	359,496
INVESTING ACTIVITIES					
Additions to oil and gas properties and plant and equipment		(245,149)	(120,177)	(380,485)	(150,374)
Additions to exploration and evaluation assets		(121,206)	(17,682)	(158,124)	(31,102)
Additions to intangible assets	*13*	-	-	-	(190,000)
Investment in investments and other assets	*14*	(2,875)	-	(32,916)	-
Decrease in restricted cash		(76)	340	201	605
Net cash used in investing activities		(369,306)	(137,519)	(571,324)	(370,871)
FINANCING ACTIVITIES					
Advances from debt		-	-	-	4,826
Repayment of debt		(1,578)	(1,720)	(91,621)	(5,667)
Proceeds from the exercise of warrants and options		9,359	15,800	11,871	193,678
Dividends paid	*8*	(25,024)	-	(49,960)	-
Other		-	(3,316)	-	(3,316)
Net cash (used in) provided by financing activities		(17,243)	10,764	(129,710)	189,521
Effect of exchange rate changes on cash and cash equivalents		4,964	(860)	1,045	(3,906)
Change in cash and cash equivalents during the period		(265,312)	(25,719)	(263,913)	174,240
Cash and cash equivalents, beginning of the period		604,175	628,514	602,776	428,556
Cash and cash equivalents, end of the period		$ 338,863	$ 602,795	$ 338,863	$ 602,796
Cash and cash equivalents are comprised of:					
Cash		277,915	$ 525,978	277,915	$ 525,978
Short-term money market instruments		60,948	76,818	60,948	76,818
		$ 338,863	$ 602,796	$ 338,863	$ 602,796

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 August 8, 2011.

2. Basis of preparation and significant accounting policies

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34") and International Financial Reporting Standard 1 *First-time Adoption of IFRS* ("IFRS 1"). They are condensed as they do not include all of the information required in the 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") and the interim condensed consolidated financial statements as at and for the three months ended March 31, 2011.

The Company adopted IFRS in 2011 with a transition date of January 1, 2010. These interim condensed consolidated financial statements have been prepared using the accounting policies the Company expects to adopt in its annual financial statements for the year ending December 31, 2011. These accounting policies and the effect of the first-time adoption of IFRS have been disclosed in the interim condensed consolidated financial statements for the three months ended March 31, 2011, and the policy on carried interest and farm-in arrangements disclosed below which has been initially adopted in the current period. 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.

The accounting policies applied in these interim condensed consolidated financial statements are based on IFRS issued and effective as of August 9, 2011, the date the interim condensed consolidated financial statements 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.

Carried interest and farm-in arrangements

The Company recognizes its expenditures under a farm-in or carried interest arrangement for exploration and evaluation assets in respect of its interest and that retained by the other party, as and when the costs are incurred. Such expenditures are recognized in the same way as the Company's directly incurred exploration and evaluation expenditures.

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.

Certain association contracts in Colombia provide for an adjustment to the partner's share when certain volume thresholds are reached. As a result, from time to time the Company may be required to estimate the impact of such contract adjustments.

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.

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 June 30, 2011. The Company manages its operations to reflect differences in the regulatory environments and risk factors for each country.

As at June 30, 2011 all of the Company's assets are located in Colombia except for $23.5 million (December 31, 2010 - $149 million) in cash and cash equivalents which are held in Canada and the United States and $14.5 million (December 31, 2010 - $5.3 million) of exploration and evaluation assets in Peru.

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

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Colombia	$ 40,534	$ 55,199	$ 84,656	$ 114,522
North and Central America	848,336	121,095	1,271,589	367,703
Asia	68,639	140,698	68,639	214,198
Other	-	39,856	116,174	39,856
	$ 957,509	$ 356,848	$ 1,541,058	$ 736,279

4. Production and operating costs

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Oil and gas operating cost	$ 342,918	$ 132,166	$ 550,759	$ 265,449
Overlift (underlift)	12,773	1,030	(5,291)	(3,835)
Total	$ 355,691	$ 133,196	$ 545,468	$ 261,614

5. Equity tax

Equity tax

On December 29, 2010 the Colombian Congress passed a law which imposes a 6% equity tax 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 recognized on January 1, 2011 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. 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
Unwinding of discount	1,914
Foreign exchange	3,399
Payment	(10,791)
As at June 30, 2011	$ 66,093
Current	$ 19,923
Non-current	46,170
	$ 66,093

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 and six months ended June 30, 2011 and 2010 is provided below:

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Net earnings before income taxes	$ 431,666	$ 55,909	$ 411,447	$ 162,366
Canadian statutory income tax rate	28.25%	31.00%	28.25%	31.00%
Income tax expense at statutory rate	$ 121,946	$ 17,332	$ 116,234	$ 50,334
Increase (decrease) in income tax provision resulting from:				
Other non-deductible (non-taxable) expenses	$ (29,272)	$ 15,728	$ (32,233)	$ 1,390
Special tax benefit	(12,800)	(10,929)	(26,608)	(17,082)
Share-based compensation	199	9,874	13,388	22,529
Risk management (gain) gain	(11,992)	(797)	1,093	(1,575)
Differences in tax rates in foreign jurisdictions	17,918	2,313	24,190	5,275
Losses for which no tax benefit is recorded	(3,708)	6,180	16,265	10,323
Non-deductible equity tax	-	162	19,336	324
Others	-	1,608	-	283
Income tax expense	$ 82,291	$ 41,471	$ 131,665	$ 71,801
Current income tax expense	140,714	29,662	218,371	86,738
Deferred income tax recovery	(58,423)	11,809	(86,706)	(14,937)
Income tax expense	$ 82,291	$ 41,471	$ 131,665	$ 71,801

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 June 30		Six months ended June 30	
	2011	2010	2011	2010
Net earnings	$ 349,375	$ 14,438	$ 279,782	$ 90,565
Basic weighted average number of common shares	268,717,010	263,009,942	268,334,112	259,845,275
Basic earnings per common share	$ 1.30	$ 0.05	$ 1.04	$ 0.35
Adjust net earnings for dilution from convertible debentures	9,295	-	17,800	-
Adjusted net earnings	$ 358,670	$ 14,438	$ 297,582	$ 90,565
Diluted weighted average number of common shares	298,832,627	276,177,629	298,990,994	271,570,504
Diluted earnings per common share	$ 1.20	$ 0.05	$ 1.00	$ 0.33

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 June 30		Six months ended June 30	
	2011	2010	2011	2010
Declared and paid	$ 25,024	$ -	$ 49,960	$ -
Dividend per common share	$ 0.09	$ -	$ 0.19	$ -

9. Inventories

	June 30 2011	December 31 2010
Crude oil and gas	$ 111,039	$ 51,850
Materials and supplies	5,720	4,682
	$ 116,759	$ 56,532

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
Additions	185,767
Change in asset retirement obligation	2,433
Cost as at June 30, 2011	$ 2,980,163

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
Charge for the period	174,840
Accumulated depletion as at June 30, 2011	$ 687,998

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
Net book value as at June 30, 2011	2,292,165

Included in the costs subject to depletion is $712 million (December 31, 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
Additions	121,206
As at June 30, 2011	$ 309,439

During the three months ended June 30, 2011 the Company acquired a 49.999% interest in Maurel and Prom Colombia B.V. ("Maurel & Prom") from Les Establissments Maurel & Prom, for cash consideration of $63.4 million and certain exploratory commitments. Maurel & Prom holds interests in five exploration blocks located on-shore in Colombia. The Company has determined that this transaction does not constitute a business combination in accordance with IFRS 3 *Business Combinations*.

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
Additions	43	2,464	2,507
Cost as at June 30, 2011	$ 7,716	$ 39,380	$ 47,096
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
Charge for the period	1,425	1,592	3,017
Accumulated depreciation as at June 30, 2011	$ 6,114	$ 8,215	$ 14,329
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
Net book value as at June 30, 2011	1,602	31,165	32,767

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
Cost as at January 1, 2010	$	100,636	$	-
Additions		-		190,000
Cost as at December 31, 2010 and June 30, 2011	$	100,636	$	190,000
Accumulated amortization				
Accumulated amortization as at January 1, 2010	$	-	$	-
Charge for the year		-		19,033
Accumulated depreciation as at December 31, 2010		-		19,033
Charge for the period		-		6,412
Accumulated depreciation as at March 31, 2011		-		25,445
Charge for the period		-		6,484
Accumulated depreciation as at June 30, 2011	$	-	$	31,929
Net book value				
Net book value as at January 1, 2010	$	100,636	$	-
Net book value as at December 31, 2010		100,636		170,967
Net book value as at March 31, 2011		100,636		164,555
Net book value as at June 30, 2011		100,636		158,071

Intangible assets comprise of the rights to the available capacity of the OCENSA pipeline system in Colombia. The OCENSA right 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 10.8%. 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	**Pacific Power**	**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
Acquisition (disposition)	-	-	2,875	-	-	(35)	2,840
Income (loss) from equity investments	1,362	516	(74)	(5,069)	(4,436)	-	(7,701)
Foreign currency translation	5,055	-	-	-	5,444	-	10,499
As at June 30, 2011	$112,007	$ 6,528	$ 19,231	$ 49,580	$ 98,598	$ 301	$286,245

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.

Pacific Power Generation Corp (“Pacific Power”, previously Ronter)

The investment in Pacific Power 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 Pacific Power was 21.7% as of December 31, 2009. During 2010, Pacific Power’s convertible debentures were fully converted to its common shares, resulting in a decrease of the Company’s interest in Pacific Power to 17.7%. On December 31, 2010 Pacific Power distributed the Pacific Infrastructure Inc. (“PII”) common shares it held to Pacific Power’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 Pacific Power 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 Pacific Power. 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, Pacific Power distributed its holding in PII common shares to Pacific Power’s shareholders. This distribution resulted in a reduction to the Company’s investment in Pacific Power and a corresponding increase in the investment in PII. During June 2011, the Company acquired an additional 2.3% interest in PII from an unrelated party for a cash consideration of $2.9 million. As at June 30, 2011, PII is 19.1% 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 35.2% owned by unrelated parties.

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 decreased to 13.8%. On March 17, 2011, the common shares and warrants of Pacific Coal began trading on the TSX.

The Company has determined that it holds significant influence but not control over Pacific Power, PII, and Pacific Coal as a result of the Company’s equity interests and a number of common directors. As such the investments in Pacific Power, PII, and Pacific Coal are accounted for 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 six months ended June 30, 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		June 30 2011		December 31 2010
Promissory note (1)	2011	COP	3.50% - 3.80%	$	-	$	89,286
Promissory note (1)	2012	COP	10.48%		-		757
Senior notes (2)		USD	8.75%		438,007		436,946
Deferred transaction cost (3)					(3,139)		(2,596)
				$	434,868	$	524,393
Current portion				$	-	$	90,043
Non-current portion					434,868		434,350
				$	434,868	$	524,393
Convertible debenture		CAD			201,388		186,416
				$	636,256	$	710,809

(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. For the three and six months ended June 30, 2011, $10.3 million and $20.5 million respectively (2010 – $9.1 million and $10 million respectively) in interest expense related to the senior notes have 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

The Company has a $350 million unsecured revolving credit facility with an interest rate determined in accordance with the ratings assigned to the Company's senior debt securities by Standard & Poor's Ratings Group and Fitch Inc. As of June 30, 2011, no borrowing has been made on the facility. Based on the Company's credit rating as of June 30, 2011, the interest rate would be LIBOR plus 2.50%. In addition, the Company is required to pay commitment fees of 0.75% 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, 2013. 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
Accretion expense		4,370
Foreign currency translation		1,052
As at June 30, 2011	$	201,388

During the six months ended June 30, 2011, no convertible debentures were converted to the Company's common shares (six months ended June 30, 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
Arising during the period		2,433
Accretion expense		254
As at June 30, 2011	$	25,605

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 $44.16 million (December 31, 2010 - $51.9 million). The future decommissioning costs are discounted using the risk free rate of 3.1% (December 31, 2010 – 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 June 30, 2011. The Company's minimum lease payments are as follows:

	June 30 2011	December 31 2010
Within 1 year	$ 6,370	$ 11,306
Year 2	12,850	11,337
Year 3	13,478	11,306
Year 4	13,214	11,306
Year 5	13,406	11,306
Thereafter	5,994	5,638
Total minimum lease payments	$ 65,312	$ 62,199
Amounts representing interest	(20,775)	(23,512)
Present value of net minimum lease payments	44,537	38,687
Current portion	6,014	4,304
Non-current portion	38,523	34,383
Total obligations under finance lease	$ 44,537	$ 38,687

For the three and six months ended June 30, 2011, interest expense of $1.9 million and $3.7 million respectively (2010 – $1.9 million and $3.8 million respectively) were 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	$ 131	$ 8,045	$ 6,484	$ 5,784	$ 5,784	$ 30,074	$ 56,302
Transportation and processing commitments	23,490	46,980	46,980	46,980	41,580	83,160	289,170
Minimum work commitments	134,484	112,610	53,668	52,018	4,443	-	357,223
OBC investment commitment	242,676	-	-	-	-	-	242,676
Transmission line project	100,885	-	-	-	-	-	100,885
Total	$ 501,666	$ 167,635	$ 107,132	$ 104,782	$ 51,807	$ 113,234	$ 1,046,256

The Company has various guarantees in place in the normal course of business. As at June 30, 2011, the Company has issued letters of credit and guarantees for exploration and operational commitments for a total of $207.5 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 June 30, 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%
PETROMIL	take or pay	2,000	RMP + 20%		
PROELECTRICA	Firm (2)	9,365	RMP + 74%	13,936	RMP + 0.1$/MBTU
Interruptible supply		4,682	RMP - 18%	1,064	RMP - 18%
Total		61,047		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:

	Number of 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
Issued on exercise of warrants	597,232	$	6,176
Issued on exercise of options	701,518		7,331
As at June 30, 2011	269,423,353	$	1,710,705

(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 year	9,551,000	C$16.37
Exercised during the year	(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
Granted during the period	65,000	C$27.56
Exercised during the period	(701,518)	C$6.22
Balance, June 30, 2011	24,443,361	C$13.99

The weighted average share price at the time when the stock options were exercised during the three and six months ended June 30, 2011 was C$27.44 and C$30.70 respectively.

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

Outstanding & Exercisable	Exercise price (C$)	Expiry date	Remaining contractual life
601,834	$ 2.22	August 21, 2011	0.1
2,154,891	4.70	October 23, 2013	2.3
166,667	5.70	May 9, 2017	5.9
352,001	6.30	July 10, 2017	6.0
946,042	6.78	April 20, 2012	0.8
5,247,501	7.38	February 11, 2013	1.6
10,000	10.86	July 30, 2014	3.1
2,726,800	13.09	October 12, 2014	3.3
7,500	14.57	January 6, 2015	3.5
4,794,000	14.08	February 9, 2015	3.6
18,000	19.00	March 16, 2015	3.7
5,000	19.47	April 14, 2015	3.8
2,897,625	20.56	April 23, 2015	3.8
21,000	20.09	May 17, 2015	3.9
52,000	24.41	June 22, 2015	4.0
46,000	27.58	September 29, 2015	4.3
250,000	34.43	February 2, 2016	4.6
4,081,500	25.76	March 16, 2016	4.7
53,000	28.01	May 3, 2016	4.8
12,000	25.59	May 26, 2016	4.9
24,443,361	$ 13.99		3.1

The following stock options with a 5 year life were granted to employees, directors and consultants during the three and six months June 30, 2011:

	Number of options granted	Weighted average exercise price	Weighted average fair value
During the three months ended March 31, 2011	4,331,500	C$26.26	C$10.69
During the three months ended June 30, 2011	65,000	C$27.56	C$10.39
	4,396,500	C$26.28	C$10.68

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	Six months ended June 30, 2011	Year ended December 31, 2010
Weighted average risk-free interest rate:	1.70%	1.35%
Expected life:	2.5 years	2.5 years
Weighted average expected volatility:	66%	77%
Weighted average expected dividend yield:	1.30%	0%

(c) Warrants

Each warrant outstanding is exercisable into one common share.

The following table summarizes information about the warrants outstanding and exercisable at June 30, 2011:

Outstanding & exercisable	Exercise price	Expiry date
14,450	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	611,682	C$7.80
Exercised during the period	(597,232)	C$7.80
Balance, June 30, 2011	14,450	C$7.80

The weighted average share price at the time when the warrants were exercised during the three and six months ended June 30, 2011 was C$26.94.

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. During the three months ended June 30, 2011 the Company also entered into a 10-year agreement with an entity controlled by Blue Pacific for additional office space in Bogota with a monthly rent of $429.

   The Company also has accounts receivable of $1.8 million from Blue Pacific as at June 30, 2011 (December 31, 2010 - $16) related to certain administrative costs paid by the Company on behalf of Blue Pacific. In addition, the Company paid $0.5 million and $1.1 million to Blue Pacific during the three and six months ended June 30, 2011 respectively (2010 - $0.5 million and $0.5 million) for air transportation services.

b) As at June 30, 2011, the Company had trade accounts receivable of $2.7 million (December 31, 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 Pacific Power. Revenue from Proelectrica in the normal course of the Company's business was $6.3 million and $10.2 million for the three and six months ended June 30, 2011 respectively (2010 - $2.8 million and $10.2 million).

c) During the three and six months ended June 30, 2011, the Company paid $13.4 million and $24.3 million respectively (2010 - $7.7 million and $19.6 million) to Transportadora Del Meta S.A. ("Transmeta") in crude oil transportation costs. In addition the Company has accounts receivable of $3.9 million (December 31, 2010 - $4.1 million) from Transmeta as at June 30, 2011. Transmeta is controlled by a director of the Company.

d) Loans receivable in the aggregate amount of $583 (December 31, 2010 - $322) are due from three management directors and three officers of the Company as at June 30, 2011. The loans are non-interest bearing and payable in equal monthly payments over 48 months.

e) 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 and six months ended June 30, 2011, the Company paid $2.4 million and $3.8 million respectively (2010 - $1.3 million and $3.2 million) in fees as set out under the transportation agreements.

f) The Company received $0.3 million and $0.6 million from ODL during the three and six months ended June 30, 2011 respectively (2010 – $3.9 million and $3.9 million) with respect to certain administrative services and rental equipment and machinery. The Company does not have any outstanding accounts receivable from ODL with respect to reimbursement of power supply costs as at June 30, 2011 (December 31, 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 June 30, 2011 and December 31, 2010 using the amounts of debt and other financial assets and liabilities held as at those dates.

(a) Credit risk

	June 30 2011	December 31 2010
Trade receivable	$ 173,942	$ 146,190
Advances / deposits	111,830	15,383
Recoverable VAT and withholding taxes	206,841	99,004
Other receivables	22,692	16,568
Receivable from joint venturers	116,855	16,480
Allowance for doubtful accounts	(993)	(966)
	$ 631,167	$ 292,659

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 $92.5 million and $32.3 million or 53% and 19% 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 for the three and six months ended

June 30, 2011 were $171.6 million and $207.2 million or 18% and 22% of net revenue, respectively (2010 - $91.3 million and $56.2 million or 5% and 3% of net revenue, respectively).

Included in advances and deposits as at June 30, 2011 is a short-term advance of $69 million (December 31, 2010 – nil) to OBC to fund on-going work commitments, which will be repaid upon OBC's closing of financing.

(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 June 30, 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). 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 June 30, 2011

Instrument	Term	Notional amount	Floor-ceiling (COP/$)	Fair value
Currency collars	July to December 2011	$ 270,000	1860 - 1930	$ 16,250

As at December 31, 2010

Instrument	Term	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 and six months ended June 30, 2011, $12.9 million and $20 million (2010 - $2 million and $10 million) of unrealized gains respectively were initially recorded in other comprehensive income, and $7.1 million and $7.6 million respectively (2010 - $1.7 million and $1.7 million) were subsequently transferred to production and operating cost when the gains became realized. The Company excludes changes in fair value due to the time value of the investments and records these amounts along with hedge ineffectiveness in foreign exchange gains or losses in the period that they arise. During the three and six months ended June 30, 2011, $3 million and $4.9 million (2010 - $4.7 million and $5.7 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 June 30, 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 June 30, 2011, a 10% depreciation or appreciation of the U.S. dollar against the Canadian dollar would result in a $39 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 June 30, 2011, the Company had available $350 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	$636,034	$ -	$ -	$ -	$ -	$ -	$ 636,034
Long-term debt and bank indebtedness	-	-	-	149,985	149,985	150,030	450,000
Convertible debentures - principal (1)	-	-	247,688	-	-	-	247,688
Obligations under finance lease (Note 17)	6,370	12,850	13,478	13,214	13,406	5,994	65,312
Total	$642,404	$ 12,850	$261,166	$163,199	$163,391	$ 156,024	$ 1,399,034

(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 June 30, 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 statement of financial position. None of the Company's commodity price derivatives currently qualify as fair value hedges or cash flow hedges, and accordingly, changes in their fair value are recognized in earnings.

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

Asset as at June 30, 2011

Instrument	Term	Volume (bbl)	Floor/ceiling or strike price ($/bbl)	Benchmark	Fair value
Zero cost collars	January 2012 to December 2012	3,114,200	80/120 - 121	WTI	$ 1,057
Put option	July 2011 to December 2011	6,420,000	70-75	WTI	2,747
	Total				**$ 3,804**
	Short-term				$ 3,804
	Long-term				-
	Total				**$ 3,804**

Liabilities as at June 30, 2011

Instrument	Term	Volume (bbl)	Floor/ceiling or strike price ($/bbl)	Benchmark	Fair value
Call option	November 2011 to December 2012	10,160,000	109.50 -118.80	WTI	$ (62,615)
Zero cost collars	January 2012 to December 2012	1,517,200	80/120 - 121	WTI	(223)
	Total				**$ (62,838)**
	Short-term				$ (18,749)
	Long-term				(44,089)
	Total				**$ (62,838)**

Liabilities as at December 31, 2010

Instrument	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)**

For the three and six months ended June 30, 2011, the Company recorded a gain of $84.9 million and a loss of $7.7 million respectively (2010 - $5.1 million and $10.2 million in gains) on commodity price risk management contracts in net earnings. Included in these amounts were $86.2 million of unrealized gain and $5.4 million of unrealized loss (2010 – $11.9 million and $18.7 million in unrealized gains) representing the change in the fair value of the contracts, and $1.3 million and $2.5 million of realized losses (2010 - $6.8 million and $8.5 million) resulting from premiums paid.

If the forward WTI crude oil price estimated at June 30, 2011 had been $1/bbl higher or lower, the unrealized gain or loss on these contracts would change by approximately $5.8 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 statement of financial position. The carrying value and fair value of these financial instruments are disclosed below by financial instrument category.

	June 30, 2011		December 31, 2010	
Financial Instrument	Carrying value	Fair value	Carrying value	Fair value
Assets held for trading				
Cash and cash equivalents	$ 338,863	$ 338,863	$ 602,776	$ 602,776
Restricted cash	6,505	6,505	6,706	6,706
Loans and receivables				
Accounts receivable	631,167	631,167	292,659	292,659
Derivative assets designated as cash flow hedges				
Foreign currency	16,250	16,250	1,066	1,066
Assets held for trading				
Commodity price derivatives	3,804	3,804	-	-
Liabilities held for trading				
Commodity price derivatives	62,838	62,838	53,647	53,647
Other Liabilities				
Accounts payable and accrued liabilities	636,034	636,034	525,956	525,956
Long-term debt (1)	434,868	495,750	524,393	580,908
Convertible debtentures (2)	201,388	438,019	186,416	523,829
Obligations under finance lease	44,537	48,991	38,687	40,621

(1) Estimated using the last traded price, representing 114% of the face value of the senior notes as at June 30, 2011.
(2) The closing price of the convertible debenture (PRE.DB – TSX) at June 30, 2011 represented 218% 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 in IFRS 7 *Financial Instruments – Disclosures.*

	Fair value as at June 30, 2011			
	Level 1	**Level 2**	**Level 3**	
Risk management assets	$ -	$ 20,054	$ -	$ 20,054
Risk management liabilities	-	(62,838)	-	(62,838)
Total	$ -	$ (42,784)	$ -	$ (42,784)

	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:

	June 30 2011	December 31 2010
Shareholders' equity	$ 2,441,421	$ 2,144,825
Long-term debt	434,868	524,393
Convertible debentures	201,388	186,416
Working capital surplus	(315,646)	(273,835)
	$ 2,762,031	$ 2,581,799

22. Supplemental disclosure on cash flows

Changes in non-cash working capital:

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
(Increase) decrease in accounts receivable	$ (313,381)	$ (131,924)	$ (330,996)	$ (104,499)
(Increase) decrease in income taxes receivable	509	(819)	250	1,299
Increase (decrease) in accounts payable and accrued liabilities	84,378	65,125	126,567	100,376
(Increase) decrease in inventories	(24,484)	3,557	(60,227)	3,993
Increase (decrease) in income taxes payable	(31,623)	16,349	28,079	60,370
Decrease in prepaid expenses	672	1,226	5,494	187
	$ (283,929)	$ (46,486)	$ (230,833)	$ 61,726

Other cash flow information:

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Cash income taxes paid	$ 166,191	$ 2,575	$ 232,822	$ 13,623
Cash interest paid	29,949	29,323	30,184	29,557
Cash interest received	241	623	752	862

23. Subsequent events

a) In July 2011 the Company acquired an additional 2.46% interest in Pacific Power from an unrelated party, for cash consideration of $0.8 million.

b) In July 2011 the Company acquired an additional 2.42% interest in PII from an unrelated party, for cash consideration of $4.4 million.

24. First time adoption of IFRS

These interim condensed consolidated financial statements have been 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. Prior to January 1, 2011, the Company prepared its financial statements in accordance with Canadian GAAP. These accounting policies and the effects of the changeover to IFRS as at January 1, 2010, for the three months ended March 31, 2010, and for the year ended December 31, 2010 have been disclosed in the interim condensed consolidated financial statements for the three months ended March 31, 2011.

The effects of the changeover to IFRS for the three and six months ended June 30, 2010 are explained in the reconciliations and notes below.

Reconciliation of Consolidated Statement of Financial Position as at June 30, 2010

	Jun. 30, 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)	Jun. 30, 2010 IFRS
ASSETS									
Current									
Cash and cash equivalents	$ 604,923	$ -	$ (2,127)	$ -	$ -	$ -	$ -	$ -	$ 602,796
Restricted cash	10,165	-	(3)	-	-	-	-	-	10,162
Accounts receivables	261,332	-	(350)	-	-	(5,315)	-	-	255,667
Inventories	37,748	(3,512)	(163)	-	-	-	-	-	34,073
Income tax receivable	1,154	-	(403)	-	-	-	-	-	751
Prepaid expenses	4,028	-	-	-	-	-	-	-	4,028
Risk management asset	11,143	-	-	-	-	-	-	-	11,143
	930,493	**(3,512)**	**(3,046)**	**-**	**-**	**(5,315)**	**-**	**-**	**918,620**
Non-current									
Property, plant and equipment	2,063,222	(2,063,222)	-	-	-	-	-	-	-
Oil and gas properties	-	1,943,508	(1,411)	2,125	123,727	-	-	-	2,067,949
Exploration and evaluation assets	-	62,562	-	4	-	-	-	(338)	62,228
Intangible assets	181,938	-	-	-	-	-	-	-	181,938
Plant and equipment	-	19,420	(9,718)	-	552	4,431	-	17	14,702
Investments and other assets	87,727	-	239	-	-	-	29,126	-	117,092
Goodwill	100,636	-	-	-	-	-	-	-	100,636
	$ 3,364,016	**$ (41,244)**	**$ (13,936)**	**$ 2,129**	**$ 124,279**	**$ (884)**	**$ 29,126**	**$ (321)**	**$ 3,463,165**
LIABILITIES									
Current									
Accounts payable and accrued liabilities	$ 348,895	$ -	$ (7,562)	$ -	$ -	$ (109)	$ -	$ -	$ 341,224
Risk management liability	6,395	-	-	-	-	-	-	-	6,395
Income tax payable	59,463	-	-	-	-	-	-	-	59,463
Current portion of long-term debt	14,839	-	(1,234)	-	-	-	-	-	13,605
Current portion of obligations under finance lease	4,046	-	-	-	-	-	-	-	4,046
Deferred tax liability	5,350	-	-	-	(5,350)	-	-	-	-
	438,988	**-**	**(8,796)**	**-**	**(5,350)**	**(109)**	**-**	**-**	**424,733**
Non-current									
Long-term debt	435,170	-	-	-	-	-	-	-	435,170
Obligations under finance lease	35,459	-	-	-	-	-	-	-	35,459
Convertible debenture	168,666	-	-	-	-	-	-	-	168,666
Risk management liability	182	-	-	-	-	-	-	-	182
Deferred tax liability	381,896	-	108	(88)	7,882	-	-	-	389,798
Asset retirement obligation	9,334	-	-	2,379	-	-	-	-	11,713
	1,469,695	**-**	**(8,688)**	**2,291**	**2,532**	**(109)**	**-**	**-**	**1,465,721**
SHAREHOLDERS' EQUITY									
Common shares	1,637,244	-	-	-	-	-	-	-	1,637,244
Contributed surplus	130,774	-	-	-	-	-	-	-	130,774
Equity component of convertible debenture	66,118	-	-	-	(9,060)	-	-	-	57,058
Accumulated other comprehensive income	19,357	-	-	-	(229)	-	(1,581)	(297)	17,250
Retained earnings (deficit)	40,828	(41,244)	(5,248)	(162)	131,036	(775)	30,707	(24)	155,118
	1,894,321	**(41,244)**	**(5,248)**	**(162)**	**121,747**	**(775)**	**29,126**	**(321)**	**1,997,444**
	$ 3,364,016	**$ (41,244)**	**$ (13,936)**	**$ 2,129**	**$ 124,279**	**$ (884)**	**$ 29,126**	**$ (321)**	**$ 3,463,165**

Reconciliation of Consolidated Statement of Income and Comprehensive Income for the three months ended June 30, 2010

	Jun. 30, 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)	Jun. 30, 2010 IFRS
Oil and gas sales	$ 359,700	$ -	$ (2,852)	$ -	$ -	$ -	$ -	$ -	$ 356,848
Cost of operations									
Production and operating costs	130,326	2,829	(2,888)	-	2,929	-	-	-	133,196
Depletion, depreciation and amortization	69,363	21,720	-	-	(475)	-	-	-	90,608
	199,689	24,549	(2,888)	-	2,454	-	-	-	223,804
Earnings before undernoted	160,011	(24,549)	36	-	(2,454)	-	-	-	133,044
Expenses									
General and administrative expenses	25,389	346	(565)	(64)	(39)	-	-	-	25,067
Shared-based compensation	31,853	-	-	-	-	-	-	-	31,853
	57,242	346	(565)	(64)	(39)	-	-	-	56,920
Earnings from operations	102,769	(24,895)	601	64	(2,415)	-	-	-	76,124
Finance costs	(20,485)	(77)	142	-	-	-	-	-	(20,420)
Profit (loss) from equity-investments	(1,509)	-	-	-	-	-	3,768	-	2,259
Equity tax	(522)	-	-	-	-	-	-	-	(522)
Foreign exchange	10,566	-	(1,441)	-	910	(15)	-	(18,261)	(8,241)
Gain (loss) on risk management	5,144	-	-	-	-	-	-	-	5,144
Other expenses	(619)	(1)	2,185	-	-	-	-	-	1,565
Net earnings before income tax	95,344	(24,973)	1,487	64	(1,505)	(15)	3,768	(18,261)	55,909
Income tax expense	(47,416)	-	-	-	5,945	-	-	-	(41,471)
Net earnings for the period	**$ 47,928**	**$ (24,973)**	**$ 1,487**	**$ 64**	**$ 4,440**	**$ (15)**	**$ 3,768**	**$ (18,261)**	**$ 14,438**
Other comprehensive income									
Foreign currency translation (nil tax effect)	5,984	-	-	-	-	-	(5,333)	17,535	18,186
Unrealized gain on cash flow hedges (nil tax effect)	1,987	-	-	-	-	-	-	-	1,987
Realized gain on cash flow hedges transferred to profit (nil tax effect)	(1,698)	-	-	-	-	-	-	-	(1,698)
	6,273	-	-	-	-	-	(5,333)	17,535	18,475
Comprehensive income for the period	**$ 54,201**	**$ (24,973)**	**$ 1,487**	**$ 64**	**$ 4,440**	**$ (15)**	**$ (1,565)**	**$ (726)**	**$ 32,913**

Reconciliation of Consolidated Statement of Income and Comprehensive Income for the six months ended June 30, 2010

	Jun. 30, 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)	Jun. 30, 2010 IFRS
Oil and gas sales	$ 740,223	$ -	$ (3,944)	$ -	$ -	$ -	$ -	$ -	$ 736,279
Cost of operations									
Production and operating costs	261,693	3,231	(3,310)	-	-	-	-	-	261,614
Depletion, depreciation and amortization	133,648	37,632	-	-	5,088	-	-	-	176,368
	395,341	40,863	(3,310)	-	5,088	-	-	-	437,982
Earnings before undernoted	344,882	(40,863)	(634)	-	(5,088)	-	-	-	298,297
Expenses									
General and administrative expenses	45,197	341	(1,239)	(90)	(95)	-	-	-	44,114
Shared-based compensation	72,675	-	-	-	-	-	-	-	72,675
	117,872	341	(1,239)	(90)	(95)	-	-	-	116,789
Earnings from operations	227,010	(41,204)	605	90	(4,993)	-	-	-	181,508
Finance costs	(34,401)	(37)	142	-	-	-	-	-	(34,296)
Profit (loss) from equity-investments	(1,509)	-	-	-	-	-	2,584	-	1,075
Equity tax	(1,044)								(1,044)
Foreign exchange	(21,184)	-	1,623	-	25,005	(259)	-	99	5,284
Gain (loss) on risk management	10,161	-	-	-	-	-	-	-	10,161
Other expenses	(2,240)	(2)	1,920	-	-	-	-	-	(322)
Net earnings before income tax	176,793	(41,243)	4,290	90	20,012	(259)	2,584	99	162,366
Income tax expense	(96,740)	-	-	-	24,939	-	-	-	(71,801)
Net earnings for the period	**$ 80,053**	**$ (41,243)**	**$ 4,290**	**$ 90**	**$ 44,951**	**$ (259)**	**$ 2,584**	**$ 99**	**$ 90,565**
Other comprehensive income									
Foreign currency translation (nil tax effect)	10,803	-	-	-	-	-	(1,581)	(297)	8,925
Unrealized gain on cash flow hedges (nil tax effect)	10,023	-	-	-	-	-	-	-	10,023
Realized gain on cash flow hedges transferred to profit (nil tax effect)	(1,698)		-	-	-	-	-	-	(1,698)
	19,128	-	-	-	-	-	(1,581)	(297)	17,250
Comprehensive income for the period	**$ 99,181**	**$ (41,243)**	**$ 4,290**	**$ 90**	**$ 44,951**	**$ (259)**	**$ 1,003**	**$ (198)**	**$ 107,815**

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 and liabilities 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 and liabilities 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, a 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 $1.4 million and $8.6 million for the three and six months ended June 30, 2010.