Pacific
Rubiales Energy

Interim Condensed Consolidated Financial Statements
(Unaudited)

For the three months ended March 31, 2012 and 2011

PACIFIC RUBIALES ENERGY CORP.

Interim Consolidated Statements of Income

For the three months ended March 31

(In thousands of U.S. Dollars,except per share information; unaudited)	Notes	2012	2011
Oil and gas sales	3	$ 931,850	$ 583,549
Cost of operations			
Production and operating costs	4	333,273	189,777
Depletion, depreciation and amortization		166,748	149,060
		500,021	338,837
Earnings before undernoted		431,829	244,712
Expenses			
General and administrative		60,386	31,245
Share-based compensation		30,394	46,687
		90,780	77,932
Earnings from operations		341,049	166,780
Finance costs		(20,581)	(23,149)
Income (loss) from equity investments	14	2,757	(3,388)
Equity tax		-	(68,446)
Foreign exchange (loss) gain		(11,949)	3,953
Gain (loss) on risk management	21c	7,920	(92,634)
Other expenses		(1,481)	(3,335)
Net earnings (loss) before income tax		317,715	(20,219)
Income tax expense	6	(59,370)	(49,374)
Net earnings (loss) for the period		$ 258,345	$ (69,593)
Basic earnings (loss) per share	7	0.88	(0.26)
Diluted earnings (loss) per share	7	0.85	(0.26)

See accompanying notes to the interim condensed consolidated financial statements

PACIFIC RUBIALES ENERGY CORP.

Interim Consolidated Statements of Comprehensive Income

For the three months ended March 31

(In thousands of U.S. Dollars; unaudited)	Notes	2012	2011
Net earnings (loss) for the period		$ 258,345	$ (69,593)
Other comprehensive income (loss)			
Foreign currency translation (nil tax effect)	14	20,721	(12,442)
Fair value adjustments on investments (net of $5.6 million tax effect)	14	17,845	-
Unrealized gain on cash flow hedges (nil tax effect)	21b	50,147	7,113
Realized gain on cash flow hedges transferred to earnings (nil tax effect)	21b	(5,069)	(537)
		83,644	(5,866)
Comprehensive income (loss)		$ 341,989	$ (75,459)

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 March 31 2012	As at December 31 2011
ASSETS			
Current			
Cash and cash equivalents		$ 969,546	$ 729,671
Restricted cash		4,927	3,074
Accounts receivables	21a	657,578	774,759
Inventories	9	214,913	181,272
Income tax receivable		26,116	18,694
Prepaid expenses		1,641	2,462
Risk management assets	21b	10,737	-
		1,885,458	1,709,932
Non-current			
Oil and gas properties	10	2,498,758	2,483,153
Exploration and evaluation assets	11	526,101	437,901
Intangible assets	12	138,477	144,961
Plant and equipment	13	77,990	80,001
Investments in associates and other assets	14	626,194	492,221
Goodwill	12	100,636	100,636
Risk management assets	21b	319	-
		$ 5,853,933	$ 5,448,805
LIABILITIES			
Current			
Accounts payable and accrued liabilities		$ 685,765	$ 702,895
Risk management liability	21b & c	31,015	67,387
Income tax payable		491,482	367,674
Current portion of long-term debt	15	573	4,726
Current portion of obligations under finance lease	17	18,588	17,106
		1,227,423	1,159,788
Non-current			
Long-term debt	15	961,735	922,418
Obligations under finance lease	17	83,846	87,782
Convertible debenture	15	2,315	2,234
Risk management liability	21b	-	5,397
Deferred tax liability	6	214,720	284,462
Equity tax payable	5	37,307	33,522
Asset retirement obligation	16	52,521	45,400
		2,579,867	2,541,003
SHAREHOLDERS' EQUITY			
Common shares	19	2,063,026	2,025,665
Contributed surplus		164,909	145,741
Accumulated other comprehensive income (loss)		63,545	(20,099)
Retained earnings		982,586	756,495
		3,274,066	2,907,802
		$ 5,853,933	$ 5,448,805

See accompanying notes to the interim condensed consolidated financial statements

PACIFIC RUBIALES ENERGY CORP.

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

(In thousands of U.S. Dollars; unaudited)	Notes	2012	2011
Common shares			
Balance, beginning of period		$ 2,025,665	$ 1,691,838
Issued on exercise of warrants		77	-
Issued on exercise of options		37,280	5,360
Issued on conversion of convertible debentures		4	-
Balance, end of period		2,063,026	1,697,198
Contributed surplus			
Balance, beginning of period		145,741	112,339
Exercise of options		(10,305)	(2,848)
Share-based compensation		29,473	46,687
Balance, end of period		164,909	156,178
Equity component of convertible debentures			
Balance, beginning of period		-	56,766
Balance, end of period		-	56,766
Accumulated other comprehensive income (loss)			
Balance, beginning of period		(20,099)	(20,637)
Other comprehensive income (loss)		83,644	(5,866)
Balance, end of period		63,545	(26,503)
Retained earnings			
Balance, beginning of period		756,495	304,519
Net earnings (loss) for the period		258,345	(69,593)
Dividends	8	(32,254)	(24,936)
Balance, end of period		982,586	209,990
Total shareholders' equity		$ 3,274,066	$ 2,093,629

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	2012	2011
OPERATING ACTIVITIES			
Net earnings (loss) for the period		$ 258,345	$ (69,593)
Items not affecting cash:			
Depletion, depreciation and amortization		166,748	149,060
Asset retirement obligation accretion	16	300	216
Unrealized (gain) loss on risk management contracts	21c	(8,869)	91,577
Share-based compensation		30,394	46,687
Gain on cash flow hedges included in operating expense		(5,069)	(537)
Deferred income tax	6	(69,742)	(28,283)
Accretion on convertible debentures		52	3,793
Unrealized foreign exchange loss (gain)		20,444	(5,551)
(Income) loss from equity investments	14	(2,757)	3,388
Equity tax		-	68,446
Unwinding of equity tax discount	5	1,425	1,870
Other		1,193	5,634
Changes in non-cash working capital	22	183,635	53,096
Net cash provided by operating activities		576,099	319,803
INVESTING ACTIVITIES			
Additions to oil and gas properties and plant and equipment		(180,279)	(135,336)
Additions to exploration and evaluation assets		(88,200)	(36,918)
Investment in equity investments and other assets	14	(20,074)	(30,041)
Finance loan to OBC	14	(58,040)	-
(Increase) decrease in restricted cash		(1,853)	277
Net cash used in investing activities		(348,446)	(202,018)
FINANCING ACTIVITIES			
Advances from debt		38,704	-
Repayment of debt		(8,568)	(90,043)
Proceeds from the exercise of warrants and options		27,056	2,512
Dividends paid	8	(32,254)	(24,936)
Net cash provided by (used in) financing activities		24,938	(112,467)
Effect of exchange rate changes on cash and cash equivalents		(12,716)	(3,919)
Change in cash and cash equivalents during the period		239,875	1,399
Cash and cash equivalents, beginning of the period		729,671	602,776
Cash and cash equivalents, end of the period		$ 969,546	$ 604,175
Cash and cash equivalents are comprised of:			
Cash		961,363	$ 599,896
Short-term money market instruments		8,183	4,279
		$ 969,546	$ 604,175

See accompanying notes to the interim condensed consolidated financial statements

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

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 (or the Colombian Stock Exchange). On February 2, 2012, the Brazilian Depository Receipts representing the Company's common shares ("BDRs") commenced trading on the Bolsa de Valores Mercadorias e Futuros (or the Brazilian Stock Exchange). The Company's registered office is located at Suite 650 – 1188 West Georgia Street, Vancouver, British Columbia, V6E4A2, Canada and it also has corporate offices in Toronto, Canada and Bogota, Colombia.

These interim condensed consolidated financial statements of the Company were authorized for issuance by the Audit Committee of the Board of Directors on May 9, 2012.

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") as issued by the International Accounting Standards Board ("IASB"). These interim condensed consolidated financial statements have been prepared following the same accounting policies as the audited annual consolidated financial statements for the year ended December 31, 2011, and the additional accounting policy noted below. They are condensed as they do not include all of the information required for full annual financial statements in accordance with the International Financial Reporting Standards ("IFRS"), and should be read in conjunction with the annual consolidated financial statements of the Company for the year ended December 31, 2011.

Share-based compensation

In addition to stock options, the Company has a deferred share unit plan under which the non-employee directors receive units in consideration for services provided to the Company. Units awarded under the deferred share unit plan vest immediately and may only be settled in cash upon retirement. On the grant date the Company recognizes a share-based compensation expense for cash-settled awards at fair value with a corresponding liability. Fair value of cash-settled awards is estimated using the Black-Scholes pricing model. The liability is revalued each reporting period and the change in fair value is recorded in share-based compensation expense.

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

As at March 31, 2012, all of the Company's assets are located in Colombia except for $427 million (December 31, 2011: $297 million) in cash and cash equivalents which are held in Canada and the United States and $16 million (December 31, 2011: $15 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 March 31	
	2012	2011
North and Central America	$ 443,805	$ 539,427
Europe	329,829	-
Colombia	58,622	44,122
Asia	99,197	-
Others	397	-
	$ 931,850	$ 583,549

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

4. Production and operating costs

	Three months ended March 31	
	2012	2011
Oil and gas operating cost	$ 350,688	$ 207,841
Underlift	(17,415)	(18,064)
Total	$ 333,273	$ 189,777

5. Equity tax

The equity tax in Colombia was imposed as of January 1, 2011 and 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 using a rate of 10.8% and the unwinding of the discount is expensed each period.

As at December 31, 2011	$ 53,142
Unwinding of discount	1,425
Foreign exchange	4,579
As at March 31 2012	$ 59,146
Current	$ 21,839
Non-current	37,307
	$ 59,146

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

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

6. Income tax

A reconciliation between income tax expense and the product of accounting profit multiplied by the Company's domestic tax rate is provided below:

	Three months ended March 31 2012	Three months ended March 31 2011
Net earnings before income taxes	$ 317,715	$ (20,219)
Canadian statutory income tax rate	26.25%	28.25%
Income tax expense at statutory rate	83,400	(5,712)
Increase (decrease) in income tax provision resulting from:		
Other non-deductible (non-taxable) expenses	(61,635)	(2,961)
Special tax benefit	-	(13,808)
Share-based compensation	7,978	13,189
Risk management (gain) loss	(1,040)	13,085
Differences in tax rates in foreign jurisdictions	24,741	6,272
Losses for which no tax benefit is recorded	5,926	19,973
Non-deductible equity tax	-	19,336
Income tax expense	$ 59,370	$ 49,374
Current income tax expense	129,112	77,657
Deferred income tax expense (recovery):		
Relating to origination and reversal of temporary differences	(69,742)	(28,283)
Income tax expense	$ 59,370	$ 49,374

The Company's deferred tax relates to the following:

	As at March 31 2012	As at December 31 2011
Tax loss carry forwards	5,570	
Oil and gas properties and equipment	(236,290)	(301,495)
Other	16,000	17,033
Deferred tax liability	$ (214,720)	$ (284,462)

The Canadian statutory income tax rate is 26.25% and the Colombian statutory tax rate is 33%.

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 2012	Three months ended March 31 2011
Net earnings (loss)	$ 258,345	$ (69,593)
Basic weighted average number of shares	292,413,849	267,946,959
Effects of dilution	10,620,665	-
Diluted weighted average number of shares	303,034,514	267,946,959
Basic earnings (loss) per share	$ 0.88	$ (0.26)
Diluted earnings (loss) per share	$ 0.85	$ (0.26)

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

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

8. Dividends paid

	Three months ended March 31	
	2012	2011
Declared and paid	$ 32,254	$ 24,936
Dividend per common share	$ 0.11	$ 0.09

9. Inventories

	As at March 31 2012	As at December 31 2011
Crude oil and gas	$ 208,386	$ 174,959
Materials and supplies	6,527	6,313
	$ 214,913	$ 181,272

10. Oil and gas properties

Cost	
Cost as at December 31, 2011	$ 3,481,244
Additions	177,135
Change in asset retirement obligation	6,821
Cost as at March 31, 2012	$ 3,665,200

Accumulated depletion	
Accumulated depletion as at December 31, 2011	$ 998,091
Charge for the period	168,351
Accumulated depletion as at March 31, 2012	$ 1,166,442

Net book value	
December 31, 2011	$ 2,483,153
March 31, 2012	$ 2,498,758

Included in the amount subject to depletion is $706 million (December 31, 2011: $800 million) of estimated future development costs that are required to bring proved undeveloped reserves to production.

11. Exploration and evaluation assets

As at December 31, 2011	$ 437,901
Additions	88,200
As at March 31, 2012	$ 526,101

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

12. Intangible assets and goodwill

Cost	Goodwill	Intangible assets
Cost as at December 31, 2011 and March 31, 2012	$ 100,636	$ 190,000
Accumulated amortization		
Accumulated amortization as at December 31, 2011	$ -	$ 45,039
Charge for the period	-	6,484
Accumulated amortization as at March 31, 2012	-	51,523
Net book value		
December 31, 2011	$ 100,636	$ 144,961
March 31, 2012	100,636	138,477

13. Plant and equipment

Cost	Land & buildings	Other plant & equipment	Total
Cost as at December 31, 2011	$ 26,435	77,082	$ 103,517
Additions	459	2,685	3,144
Cost as at March 31, 2012	26,894	79,767	106,661
Accumulated depreciation			
Accumulated depreciation as at December 31, 2011	$ 11,310	12,206	$ 23,516
Charge for the period	1,034	4,121	5,155
Accumulated depreciation as at March 31, 2012	12,344	16,327	28,671
Net book value			
December 31, 2011	$ 15,125	64,876	$ 80,001
March 31, 2012	14,550	63,440	77,990

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

14. Investments in associates and other assets

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

	Investment in associates					Other assets		
	ODL	Pacific Power	PII	Pacific Coal	OBC	CGX	Other	Total
As at December 31, 2011	$ 147,004	$ 8,907	$ 23,546	$ 47,041	$ 121,312	$ 60,624	$ 83,787	$ 492,221
Acquisition	-	-	20,000	-	-	-	67,079	87,079
Income (loss) from equity investments	4,606	1,196	(1,197)	(994)	(854)	-	-	2,757
Fair value adjustment	-	-	-	-	-	22,379	1,037	23,416
Foreign currency translation	10,305	-	611	-	9,805	-	-	20,721
As at March 31, 2012	$ 161,915	$ 10,103	$ 42,960	$ 46,047	$ 130,263	$ 83,003	$ 151,903	$ 626,194

Investments in associates

Set out below are the Company's investments in associates. Investments in associates are accounted for using the equity method, with the Company's proportionate share of the associates' net income or loss recognized in the interim consolidated statement of income.

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. ("Ecopetrol"), the national oil company of Colombia. ODL's functional currency is the Colombian peso and the currency translation adjustment upon conversion to U.S. dollars 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 $302 million from 2012 to 2016.

Pacific Power Generation Corp ("Pacific Power", previously Ronter)

The investment in Pacific Power represents a 20.2% 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.

Pacific Infrastructure Inc. ("PII")

PII is a Panamanian company established for the purpose of developing an export terminal, an industrial park, and a free trade zone in Cartagena. The Company had a 22.6% interest in PII as at December 31, 2011. In March 2012, the Company acquired an additional 20 million newly issued common shares of PII for $1.00 per share for $20 million in aggregate. The Company has the option to subscribe for a further 120 million newly issued common shares at $1.00 per share over the next 12 months, in tranches of at least $20 million. Pursuant to the subscription agreement the Company will hold a seat on PII's board of directors for as long as the Company holds 10% of the issued and outstanding common shares of PII.

As at March 31, 2012, the Company's interest in PII is 30.3% and the remaining is held by Blue Pacific Assets Corp. ("Blue Pacific", see note 20 a), Orinoquia Holdings Corp., a company that two directors of the Company control or provide advice to, and unrelated parties.

Pacific Coal Resources Ltd. ("Pacific Coal")

Pacific Coal is engaged in the acquisition and development of coal mining assets and related businesses in Colombia. The functional currency of Pacific Coal is the Canadian dollar and currency translation adjustment is recorded in the statement of other comprehensive income. As at March 31, 2012, the Company's interest in Pacific Coal was 14.07% and the fair value of the investment in Pacific Coal was estimated at $16 million (December 31, 2011: $20 million), based on the last traded price on the TSX of C$0.35 (December 31, 2011: C$0.43).

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.

Oleoducto Bicentenario de Colombia ("OBC")

The investment represents a 32.9% interest in OBC, 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.

The Company did not receive any cash dividends from its equity-accounted investments during the three months ended March 31, 2012.

Available-for-sale financial assets

CGX Energy Inc. ("CGX")

As at March 31, 2012, the Company holds 58,720,000 (December 31, 2011: 58,720,000) common shares, approximately 18% (December 31, 2011: 18%) of the outstanding common shares of CGX. The Company does not have significant influence in CGX, accordingly the investment in CGX is classified as an available-for-sale financial asset and carried at its fair value with changes in value recorded in other comprehensive income. As at March 31, 2012 the fair value of the investment in CGX, using the last traded price of C$1.41 (December 31, 2011: C$1.05) per common share, was $83 million (December 31, 2011: $60.6 million).

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

Other Assets

Included in other assets is a loan to OBC, classified as loans and receivables. During the fourth quarter of 2011 the Company, along with the other shareholders of OBC, entered into certain subordinated loan agreements with OBC. Pursuant to the agreement the Company will make loans to OBC for up to $237.3 million, with the principal being repaid in 10 equal semi-annual installments over a five-year term. The loans carry an annual interest rate of 7.32% with semi-annual interest payments. As at March 31, 2012 the balance of loans outstanding to the Company under the agreement is $160.7 million (December 31, 2011: $102.3 million). $21 million of the total loan balance, representing the current portion, is included in accounts receivable as at March 31, 2012 (December 31, 2011: $21 million). Interest of $1.9 million was paid on the loan during the three months ended March 31, 2012.

15. Interest-bearing loans and borrowings

	Maturity	Currency	Interest Rate	As at March 31 2012	As at December 31 2011
Promissory note (1)	2012	COP	6.03%	$ -	$ 4,726
Promissory note (1)	2015	COP	7.96%	999	-
Bank loans (2)	2024	COP	DTF + 4.2%	37,281	-
Senior notes - 2009	2016	USD	8.75%	89,431	110,865
Senior notes - 2011	2021	USD	7.25%	643,452	620,836
Revolving credit facility	2013	USD	LIBOR + 2.25%	191,145	190,717
				$ 962,308	$ 927,144
Current portion				$ 573	$ 4,726
Non-current portion				961,735	922,418
				962,308	927,144
Convertible debenture				2,315	2,234
				$ 964,623	$ 929,378

(1) Unsecured, repayable in equal monthly installments.
(2) Represents bank loans received for the construction of power transmission lines to supply additional electricity to two fields in Colombia. The loan amount is for up to $112 million with interest rate of 4.2% plus DTF (90-day benchmark rate in Colombia)

2009 Senior Notes

The 2009 Senior Notes, with maturity dates of November 10, 2014 (33.3%), November 10, 2015 (33.3%), and November 10, 2016 (33.4%), are direct, unsecured subordinated obligations with interest payable in arrears at a rate of 8.75%, 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 2009 Senior Notes are on the Official List of the Luxembourg Stock Exchange and trade on the Euro MTF. Under the terms of the notes, the Company is required to maintain (1) an interest coverage ratio of greater than 2.5; and (2) a debt to EBITDA ratio of less than 3.5. The covenants do not apply during any period of time when the notes have an investment grade rating from at least two rating agencies. The Company was compliant with the covenants during the period.

The Company completed an offer to exchange ("Exchange Offer") any and all of its 8.75% 2009 Senior Notes for newly issued 7.25% notes maturing on December 12, 2021 (“2011 Senior Notes”) on January 3, 2012. Eligible holders who tendered their 2009 Senior Notes on or prior to January 3, 2012 ("Expiration Date") received, in exchange for each $1,000 of principal amount of 2009 Senior Notes, an aggregate principal amount of 2011 Senior Notes equal to $1,150. In total, $359 million of principal amount of the 2009 Senior Notes have been tendered and accepted in exchange for $412 million of 2011 Senior Notes, representing 79.8% of the total outstanding 2009 Senior Notes. Of the total amount, $22.1 million of the 2009 Senior Notes were exchanged for $25.4 million of 2011 Senor Notes during the period January 1 to January 3, 2012 with the remaining portion exchanged prior to December 31, 2011.

The Company determined that the Exchange Offer did not constitute an extinguishment of the 2009 Senior Notes. As such, the carrying amount was not adjusted for the additional principal amount provided under the Exchange Offer. Instead, the additional principal amount, net of transaction costs incurred with respect to the Exchange Offer, will be amortized into the carrying amount of the 2011 Senior Notes through December 2021.

The 2009 Senior Notes are carried at amortized cost using the effective interest rate method with note discount and transaction costs netted against the principal. The principal amount outstanding on the 2009 Senior Notes as at March 31, 2012 was $91 million (December 31, 2011: $114 million). For the three months ended March 31, 2012, $2.1 million (2011: $10.2 million) in interest expense related to the 2009 Senior Notes have been recorded in the interim consolidated statement of income.

2011 Senior Notes

The 2011 Senior Notes, due December 12, 2021, are direct, unsecured, subordinated obligations with interest payable in arrears at a rate of 7.25% on each June 12 and December 12 of each year, commencing on June 12, 2012.

The 2011 Senior Notes are on the Official List of the Luxembourg Stock Exchange and trade on the Euro MTF. Under the terms of the notes, the Company is required to maintain (1) an interest coverage ratio of greater than 2.5; and (2) a debt to EBITDA ratio of less than 3.5. The covenants do not apply during any period of time when the notes have an investment grade rating from at least two rating agencies. The Company was compliant with the covenants during the period.

The 2011 Senior Notes are carried at amortized cost using the effective interest rate method with note discount and transaction costs netted against the principal. The principal amount outstanding on the 2011 Senior Notes as at March 31, 2012 was $712 million (December 31, 2011: $687 million).

For the three months ended March 31, 2012, $13.8 million in interest expense related to the 2011 Senior Notes have been recorded in the interim consolidated statement of income.

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.

Based on the Company's credit rating as at December 31, 2011 and March 31, 2012, the interest rate was LIBOR plus 2.25%. 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 is required to be made by 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. As at March 31, 2012, the total principal amount outstanding on the revolving credit facility is $193 million (December 31, 2011: $193 million).

Convertible debentures

The Company has outstanding convertible unsecured subordinated debentures due August 29, 2013 (the “Debentures”). As at March 31, 2012 the Company had outstanding Debentures of C$2.7 million in face amount (December 31, 2011: C$2.7 million). The debentures are carried at amortized cost using the effective interest rate method. The outstanding Debentures are convertible into common shares of the Company at the rate of C$12.83 (2010 – C$12.83) per share, being equivalent to 77.9423 (2010 – 77.9423) common shares per C$1,000 face amount of Debentures, subject to adjustments pursuant to the indenture. The Debentures bear interest at 8% annually and are payable semi-annually in arrears on June 30 and December 31.

The conversion feature of the Debentures is recognized as a derivative liability and revalued to its fair value with the change in fair value recorded in the interim consolidated statements of income.

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

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 December 31, 2011	$	45,400
Arising during the year		6,821
Accretion expense		300
As at March 31, 2012	$	52,521

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 $68 million (December 31, 2011: $60 million). The future decommissioning costs are discounted using the risk free rate of 3.2% (December 31, 2011: 3.6%) 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 two power generation arrangements to supply electricity for three of its oil fields in Colombia until June 2016 and August 2021. In addition, the Company has lease and take or pay arrangements for airplanes, IT equipment and a fuel transport vessel that are accounted for as finance leases. The arrangements have been accounted for as finance leases with an average effective interest rate of 12.85%. The Company's minimum lease payments are as follows:

		As at March 31 2012		As at December 31 2011
Within 1 year	$	31,325	$	30,105
Year 2		28,735		29,625
Year 3		27,129		27,706
Year 4		21,886		22,386
Year 5		11,331		14,618
Thereafter		30,189		31,849
Total minimum lease payments		150,595		156,289
Amounts representing interest		(48,161)		(51,401)
Present value of net minimum lease payments	$	102,434	$	104,888
Current portion	$	18,588	$	17,106
Non-current portion		83,846		87,782
Total obligations under finance lease	$	102,434	$	104,888

For the three months ended March 31, 2012, interest expense of $3.4 million (2011: $1.8 million) was incurred on these finance leases.

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

18. Contingencies and commitments

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

	2012	2013	2014	2015	2016	Subsequent to 2016	Total
Operating leases	$ 15,665	$ 7,465	$ 7,387	$ 7,282	$ 7,085	$ 23,497	$ 68,381
Transportation and processing commitments	48,883	66,534	62,259	57,650	53,331	14,302	302,959
Minimum work commitments	124,131	97,830	65,643	30,790	12,118	6,600	337,112
OBC investment commitment	9,526	67,566	-	-	-	-	77,092
Community obligations	2,320	-	-	-	-	-	2,320
Transmission line project	27,508	14,780	-	-	-	-	42,288
Total	$ 228,033	$ 254,175	$ 135,289	$ 95,722	$ 72,534	$ 44,399	$ 830,152

The Company has various guarantees in place in the normal course of business. As at March 31, 2012, the Company has issued letters of credit and guarantees for exploration and operational commitments for a total of $202 million (December 31, 2011: $194 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, 2012.

19. Share capital and share-based compensation

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 December 31, 2011	292,178,055	$ 2,025,665
Issued on exercise of options	1,871,784	37,280
Issued on exercise of warrants	7,766	77
Issued on conversion of convertible debentures	233	4
As at March 31, 2012	294,057,838	$ 2,063,026

(b) Stock options

The Company has established a "rolling" Stock Option Plan (the "Stock Option Plan") in compliance with the applicable TSX policy for granting stock options. Under the Stock Option 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.

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

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

	Outstanding	Weighted average exercise price (C$)
Balance, December 31, 2011	22,369,468	$ 14.93
Granted during the period	5,964,500	22.83
Exercised during the period	(1,871,784)	14.31
Cancelled during the period	(3,000)	22.75
Balance, March 31, 2012	26,459,184	$ 16.75

The weighted average share price at the time the stock options were exercised during the three months ended March 31, 2012 was C$28.91 (2011: C$33.13).

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

Outstanding & exercisable	Exercise price (C$)	Expiry date	Remaining contractual life (years)
1,455,791	$ 4.70	October 23, 2013	1.60
166,667	5.70	May 9, 2017	5.10
316,001	6.30	July 10, 2017	5.30
4,710,500	7.38	February 11, 2013	0.90
10,000	10.86	July 30, 2014	2.30
2,484,400	13.09	October 12, 2014	2.50
4,285,000	14.08	February 9, 2015	2.90
18,000	19.00	March 16, 2015	3.00
2,881,375	20.56	April 23, 2015	3.10
15,250	20.09	May 17, 2015	3.10
52,000	24.41	June 22, 2015	3.20
46,000	27.58	September 29, 2015	3.50
250,000	34.43	February 2, 2016	3.80
3,927,000	25.76	March 16, 2016	4.00
53,000	28.01	May 3, 2016	4.10
12,000	25.59	May 26, 2016	4.20
160,000	22.05	September 27, 2016	4.50
27,000	24.68	October 24, 2016	4.60
5,518,700	22.75	January 20, 2017	4.80
70,500	29.10	March 30, 2017	5.00
26,459,184	$ 16.75		3.10

The following stock options with a 5 year life were granted to employees, directors and consultants during the three months ended March 31, 2012.

	Number of options granted	Weighted average exercise price (C$)	Weighted average fair value (C$)
During the period ended March 31, 2012	5,964,500	$ 22.83	$ 5.00

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

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	For the three months ended March 31 2012
Weighted average risk-free interest rate:	1.19%
Expected life:	2.5 years
Weighted average expected volatility:	50%
Weighted average expected dividend yield:	1.10%

(c) Warrants

Each warrant outstanding is exercisable into one common share.

A summary of the changes in warrants is presented below:

	Outstanding & exercisable	Weighted average exercise price (C$)
Balance, December 31, 2011	14,450	$ 7.80
Exercised during the period	(7,766)	7.80
Balance, March 31, 2012	6,684	$ 7.80

The weighted average share price at the time when the warrants were exercised during the three months ended March 31, 2012 was C$29.39 (2011: N/A).

The following table summarizes information about the warrants outstanding and exercisable at March 31, 2012:

Outstanding & excercisable	Exercise price (C$)	Expiry date	Remaining contractual life (year)
6,684	C$ 7.80	July 12, 2012	0.25

(3) Deferred share units

The Company established the Deferred Share Unit Plan (the “DSU Plan”) for its non-employee directors during the three months ended March 31, 2012. Each DSU represents the right to receive a cash payment on retirement equal to the volume weighted average market price of the Company’s shares at the time of surrender. Cash dividends paid by the Company are credited as additional DSUs. As at March 31, 2012, 31,807 DSUs were outstanding with a fair value of $1 million. The fair value of the DSUs was recognized as share-based compensation on the interim consolidated statement of income with a corresponding amount recorded in accounts payable and accrued liabilities on the interim consolidated statement of financial position.

20. Related party transactions

a) The Company leases office space in Bogota from an entity controlled by Blue Pacific. 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 monthly rent under the lease agreement is $0.4 million.

   The Company does not have any outstanding accounts receivable from Blue Pacific as at March 31, 2012 (December 31, 2011: nil). In addition, the Company paid $0.2 million to Blue Pacific during the three months ended March 31, 2012 (2011: $0.5 million) for air transportation services.

b) As at March 31, 2012, the Company had trade accounts receivable of $3.4 million (December 31, 2011: $2.4 million) from Proelectrica, in which the Company has a 20.2% 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 $9 million for the three months ended March 31, 2012 (2011: $3.9 million).

c) During the three months ended March 31, 2012, the Company paid $10.3 million (2011 $10.9 million) to Transportadora Del Meta S.A.S. (“Transmeta”) in crude oil transportation costs. In addition the Company has accounts receivable of $3.1 million (December 31, 2011: $3.2 million) from Transmeta and accounts payable of $0.4 million (December 31, 2011: $5.5 million) to Transmeta as at March 31, 2012. Transmeta is controlled by a director of the Company.

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d) Loans receivable in the aggregate amount of $370 (December 31, 2011: $490) are due from three management directors and three officers of the Company as at March 31, 2012. The loans are non-interest bearing and payable in equal monthly payments over 48 months. The loans were issued to these individuals in connection with costs incurred by them as a result of their relocation.

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 months ended March 31, 2012, the Company paid $3.5 million (2011: $1.4 million) in fees as set out under the transportation agreements. As at March 31, 2012 the Company has accounts payable of $1.3 million to Petroleum Aviation Services S.A.S. (December 31, 2011: $0.2 million).

f) During the three months ended March 31, 2012, the Company paid $27.7 million to ODL (2011: $15 million) for crude oil transport services under the pipeline take or pay agreement, and does not have any outstanding accounts payable to ODL as at March 31, 2012 (December 31, 2011: nil). The Company has accounts receivable of $0.1 from ODL as at March 31, 2012 (December 31, 2011: nil).

g) During the fourth quarter of 2011 the Company, along with the other shareholders of OBC, entered into certain subordinated loan agreements with OBC. Pursuant to the agreement the Company will make loans to OBC for up to $237.3 million, with the principal being repaid in 10 equal semi-annual installments over a five-year term. The loans carry an annual interest rate of 7.32% with semi-annual interest payments. As at March 31, 2012 the balance of loans outstanding to the Company under the agreement is $160.7 (December 31, 2011: $102.3 million). Interest of $1.9 million was paid on the loans during the three months ended March 31, 2012. In addition, during the first quarter of 2012, OBC paid to the Company $13.4 million related with the reimbursement of short-term advance provided to OBC during 2011 to fund on-going work commitments.

h) The Company has accounts receivable of $0.6 million as at March 31, 2012 (December 31, 2011: $0.5 million) from Oil Aviation Services a company controlled by a director of the Company for aircraft transportation expenses.

i) As at March 31, 2012, the Company does not have any outstanding accounts payable (December 31, 2011: $0.4 million) to Helicol with respect to air transportation services and paid during the three months ended March 31, 2012 $0.7 million for this service (2011: nil). Helicol is controlled by a director of the Company.

21. Other financial assets and liabilities

(a) Accounts receivable

	As at March 31 2012	As at December 31 2011
Trade receivable	$ 153,913	$ 229,005
Advances / deposits	58,076	93,684
Recoverable VAT	212,149	301,169
Other receivables	41,027	52,797
Receivable from joint ventures	172,952	78,613
Allowance for doubtful accounts	(991)	(961)
Loan to OBC (current, note 14)	20,452	20,452
	$ 657,578	$ 774,759
Loan to OBC (non-current, note 14)	139,846	81,806
	$ 797,424	$ 856,565

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. One of the Company's customers had accounts receivable that were greater than 10% of total trade accounts receivable. The Company's credit exposure to this customer was $117 million or 76% of trade accounts receivable (2011: two customers at $106 million and $59 million or 46% and 26% of trade accounts receivable). Revenues from this customer for the three months ended

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March 31, 2012 were $117 million or 13% of net revenue (2011: $407 million and $277 million or 12% and 8% of net revenue, respectively).

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

(b) Foreign currency risk

The Company is exposed to foreign currency fluctuations against the U.S. dollar, the Company's functional currency. 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 Colombian pesos ("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, 2012

Instrument	Term		Notional amount	Floor-ceiling (COP/$)		Fair value
Currency collar	April to December 2012	$	487,800	1805-1975	$	9,478
Currency collar	January to December 2013		255,000	1825-1930		1,578
		$	742,800		$	11,056
			Current		$	10,737
			Non-current			319
			Total		$	11,056

As at December 31, 2011

Instrument	Term		Notional amount	Floor-ceiling (COP/$)		Fair value
Currency collar	January to December 2012	$	650,400	1805 - 1975	$	(27,504)
Currency collar	January to December 2013		120,000	1870 - 1930		(5,397)
		$	770,400		$	(32,901)
			Current		$	(27,504)
			Non-current			(5,397)
			Total		$	(32,901)

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, 2012, $50.1 million (2011: $7.1 million) of unrealized gains were initially recorded in other comprehensive income, and $5 million (2011: $0.5 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 months ended March 31, 2012, $6.1 million (2011: $1.9 million) of ineffectiveness was recorded as foreign exchange loss.

(c) 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.

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

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

As at March 31, 2012

Instrument	Term	Volume (bbl)	Floor/ceiling or strike price ($/bbl)	Benchmark		Fair value
Call option	April to December 2012	6,986,000	109.50-116	WTI	$	(17,010)
Sold put	August to December 2012	5,350,000	61.5-64	WTI		(1,430)
Zero cost collars	April to December 2012	9,603,909	70-80 / 120-121	WTI		(12,575)
	Total				$	(31,015)
	Short-term				$	(31,015)
	Total				$	(31,015)

As at December 31, 2011

Instrument	Term	Volume (bbl)	Floor/ceiling or strike price ($/bbl)	Benchmark		Fair value
Call option	February 2012 to December 2012	8,790,000	109.50 -120	WTI	$	(29,353)
Sold put	August 2012 to December 2012	5,350,000	61.5 - 64	WTI		(8,732)
Zero cost collars	January 2012 to December 2012	10,051,404	70-80 / 115-121	WTI		(1,798)
	Total				$	(39,883)
	Short-term				$	(39,883)
	Total				$	(39,883)

For the three months ended March 31, 2012, the Company recorded a gain of $7.9 million (2011: loss of $92.6 million) on commodity price risk management contracts in net earnings. Included in these amounts were $8.9 million of unrealized gain (2011: unrealized loss of $91.6 million) representing the change in the fair value of the contracts, and $1 million (2011: $1 million) of realized loss resulting from premiums paid.

If the forward WTI crude oil price estimated at March 31, 2012 had been $1/bbl higher or lower, the unrealized gain or loss on these contracts would change by approximately $10 million (2011: $9.7 million).

22. Supplemental disclosure on cash flows

Changes in non-cash working capital:

	Three months ended March 31			
		2012		2011
Decrease (Increase) in accounts receivable	$	84,423	$	(17,615)
Increase in income taxes receivable		(8,876)		(259)
(Decrease) Increase in accounts payable and accrued liabilities		(22,237)		42,189
Increase in inventories		(25,554)		(35,743)
Increase in income taxes payable		155,058		59,702
Decrease in prepaid expenses		821		4,822
	$	183,635	$	53,096

Other cash flow information:

	Three months ended March 31			
		2012		2011
Cash income taxes paid	$	43,442	$	66,631
Cash interest paid		2,247		235
Cash interest received		520		129

23. Subsequent events

a) During April 2012 the Company entered into an agreement with BPZ Resources, Inc. ("BPZ") (NYSE: BPZ) (BVL: BPZ) to acquire the beneficial ownership of a 49% undivided participating interest in the Z-1 exploration and development block ("Block Z-1"), offshore in Peru. The acquisition includes developed and producing oil fields, undeveloped prospects, exploration leads, existing production facilities, infrastructure, and development projects. Under the terms of the agreement, the Company will pay $150 million in cash, of which $65 million has been paid, and be subject to a commitment of $185 million for BPZ's share of capital and exploratory expenditures in Block Z-1. Once the Company has satisfied its commitment to BPZ in connection with the capital and exploratory expenditures, the partners will share costs at their respective ownership interest basis. Completion of the acquisition is subject to approval of the applicable Peruvian authorities.

b) During April 2012 the Company signed a binding agreement with InterOil Corporation (NYSE: IOC; POMSoX: IOC) whereby the Company can acquire a 10% net participating interest in the PPL237 Petroleum Prospect License and the Triceratops structure located within PPL237, onshore in Papua New Guinea for an estimated total investment of up to approximately $345 million. The investment will be comprised of an up-front down payment of $116 million cash, of which $20 million has been paid, funding of an agreed exploration work program, and cash payments based on the independently certified resources of the Triceratops structure. The Company's net participating interest is calculated after accounting for a 5% total project back-in right of the Government of Papua New Guinea. The transaction is subject to the approval of the Papua New Guinea regulatory authority