Interim Condensed Consolidated Financial Statements
(Unaudited)

For the three and six months ended June 30, 2012 and 2011

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 2012	Three months ended June 30 2011	Six months ended June 30 2012	Six months ended June 30 2011
Oil and gas sales	3	$ 1,035,854	$ 957,509	$ 1,967,704	$ 1,541,058
Cost of operations					
Production and operating costs	4	404,664	355,691	737,937	545,468
Depletion, depreciation and amortization		223,354	178,124	390,102	327,184
		628,018	533,815	1,128,039	872,652
Earnings before undernoted		407,836	423,694	839,665	668,406
Expenses					
General and administrative		71,395	43,479	131,781	74,724
Share-based compensation		619	705	31,013	47,392
		72,014	44,184	162,794	122,116
Earnings from operations		335,822	379,510	676,871	546,290
Finance costs		(19,751)	(23,781)	(40,332)	(46,930)
Loss from equity investments	14	(6,862)	(7,701)	(4,105)	(11,089)
Equity tax		-	-	-	(68,446)
Foreign exchange (loss) gain		(4,824)	(1,523)	(16,773)	2,430
Gain (loss) on risk management	21c	42,679	84,896	50,599	(7,738)
Other (expenses) income		(1,112)	265	(2,593)	(3,070)
Net earnings before income tax		345,952	431,666	663,667	411,447
Income tax expense	6	(121,608)	(82,291)	(180,978)	(131,665)
Net earnings for the period		$ 224,344	$ 349,375	$ 482,689	$ 279,782
Basic earnings per share	7	$ 0.76	$ 1.30	$ 1.64	$ 1.04
Diluted earnings per share	7	$ 0.74	$ 1.20	$ 1.59	$ 1.00

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 2012	Three months ended June 30 2011	Six months ended June 30 2012	Six months ended June 30 2011
Net earnings for the period		$ 224,344	$ 349,375	$ 482,689	$ 279,782
Other comprehensive (loss) income					
Foreign currency translation (nil tax effect)	14	1,412	7,530	22,133	(4,912)
Fair value adjustments on equity investments	14	(56,630)	-	(38,785)	-
Unrealized gain on cash flow hedges (nil tax effect)	21b	13,127	12,930	63,274	20,043
Realized gain on cash flow hedges transferred to earnings (nil tax effect)	21b	(5,323)	(7,083)	(10,392)	(7,620)
		(47,414)	13,377	36,230	7,511
Comprehensive income		$ 176,930	$ 362,752	$ 518,919	$ 287,293

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 2012	As at December 31 2011
ASSETS			
Current			
Cash and cash equivalents		$ 566,298	$ 729,671
Restricted cash		5,717	3,074
Accounts receivables	21a	724,767	774,759
Inventories	9	86,685	181,272
Income tax receivable		31,636	18,694
Prepaid expenses		874	2,462
Risk management assets	21b & c	27,385	-
		1,443,362	1,709,932
Non-current			
Oil and gas properties	10	2,586,267	2,483,153
Exploration and evaluation assets	11	549,110	437,901
Intangible assets	12	131,994	144,961
Plant and equipment	13	81,594	80,001
Investments in associates and other assets	14	662,939	492,221
Goodwill	12	100,636	100,636
Risk management assets	21b	1,785	-
		$ 5,557,687	$ 5,448,805
LIABILITIES			
Current			
Accounts payable and accrued liabilities		$ 695,688	$ 702,895
Risk management liability	21b & c	3,887	67,387
Income tax payable		52,087	367,674
Current portion of long-term debt	15	191,905	4,726
Current portion of obligations under finance lease	17	19,281	17,106
		962,848	1,159,788
Non-current			
Long-term debt	15	777,499	922,418
Obligations under finance lease	17	78,876	87,782
Convertible debenture	15	2,338	2,234
Risk management liability	21b	624	5,397
Deferred tax liability	6	201,733	284,462
Equity tax payable	5	28,148	33,522
Asset retirement obligation	16	56,551	45,400
		2,108,617	2,541,003
SHAREHOLDERS' EQUITY			
Common shares	19	2,077,669	2,025,665
Contributed surplus		160,588	145,741
Accumulated other comprehensive income (loss)		36,322	(20,099)
Retained earnings		1,174,491	756,495
		3,449,070	2,907,802
		$ 5,557,687	$ 5,448,805

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 2012	Three months ended June 30 2011	Six months ended June 30 2012	Six months ended June 30 2011
Common shares					
Balance, beginning of period		$ 2,063,026	$ 1,697,198	$ 2,025,665	$ 1,691,838
Issued on exercise of warrants		-	6,176	77	6,176
Issued on exercise of options		14,643	7,331	51,923	12,691
Issued on conversion of convertible debentures		-	-	4	-
Balance, end of period		2,077,669	1,710,705	2,077,669	1,710,705
Contributed surplus					
Balance, beginning of period		164,909	156,178	145,741	112,339
Exercise of warrants		-	(1,347)	-	(1,347)
Exercise of options		(4,321)	(2,801)	(14,626)	(5,649)
Share-based compensation		-	705	29,473	47,392
Balance, end of period		160,588	152,735	160,588	152,735
Equity component of convertible debentures					
Balance, beginning of period		-	56,766	-	56,766
Balance, end of period		-	56,766	-	56,766
Accumulated other comprehensive income (loss)					
Balance, beginning of period		63,545	(26,503)	(20,099)	(20,637)
Other comprehensive (loss) income		(47,414)	13,377	36,230	7,511
Reversal of fair value adjustment on CGX	14	20,191	-	20,191	-
Balance, end of period		36,322	(13,126)	36,322	(13,126)
Retained earnings					
Balance, beginning of period		982,586	209,990	756,495	304,519
Net earnings for the period		224,344	349,375	482,689	279,782
Dividends	8	(32,439)	(25,024)	(64,693)	(49,960)
Balance, end of period		1,174,491	534,341	1,174,491	534,341
Total shareholders' equity		$ 3,449,070	$ 2,441,421	$ 3,449,070	$ 2,441,421

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 2012	Three months ended June 30 2011	Six months ended June 30 2012	Six months ended June 30 2011
OPERATING ACTIVITIES					
Net earnings for the period		$ 224,344	$ 349,375	$ 482,689	$ 279,782
Items not affecting cash:					
Depletion, depreciation and amortization		223,354	178,124	390,102	327,184
Asset retirement obligation accretion	16	362	254	662	470
Unrealized (gain) loss on risk management contracts	21c	(42,678)	(86,190)	(51,547)	5,387
Share-based compensation		619	705	31,013	47,392
Gain on cash flow hedges included in operating expense	21b	(5,322)	(7,083)	(10,391)	(7,620)
Deferred income tax	6	(12,987)	(58,423)	(82,729)	(86,706)
Accretion on convertible debentures		20	4,230	72	8,023
Unrealized foreign exchange loss		9,506	6,014	29,950	463
Loss from equity investments	14	6,862	7,701	4,105	11,089
Equity tax		-	-	-	68,446
Unwinding of equity tax discount	5	1,608	1,914	3,033	3,784
Other		9,535	3,581	10,728	9,215
Changes in non-cash working capital	22	(283,317)	(283,929)	(99,682)	(230,833)
Net cash provided by operating activities		131,906	116,273	708,005	436,076
INVESTING ACTIVITIES					
Additions to oil and gas properties and plant and equipment		(209,977)	(245,149)	(390,256)	(380,485)
Additions to exploration and evaluation assets		(110,284)	(121,206)	(198,484)	(158,124)
Investment in equity investments and other assets	14	(195,457)	(2,875)	(273,571)	(32,916)
(Increase) decrease in restricted cash		(693)	(76)	(2,546)	201
Net cash used in investing activities		(516,411)	(369,306)	(864,857)	(571,324)
FINANCING ACTIVITIES					
Advances from debt		5,600	-	44,304	-
Repayment of debt		(4,349)	(1,578)	(12,917)	(91,621)
Proceeds from the exercise of warrants and options		10,322	9,359	37,378	11,871
Dividends paid	8	(32,439)	(25,024)	(64,693)	(49,960)
Net cash provided by (used in) financing activities		(20,866)	(17,243)	4,072	(129,710)
Effect of exchange rate changes on cash and cash equivalents		2,123	4,964	(10,593)	1,045
Change in cash and cash equivalents during the period		(403,248)	(265,312)	(163,373)	(263,913)
Cash and cash equivalents, beginning of the period		969,546	604,175	729,671	602,776
Cash and cash equivalents, end of the period		$ 566,298	$ 338,863	$ 566,298	$ 338,863
Cash and cash equivalents are comprised of:					
Cash		490,713	$ 277,915	490,713	$ 277,915
Short-term money market instruments		75,585	60,948	75,585	60,948
		$ 566,298	$ 338,863	$ 566,298	$ 338,863

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 August 8, 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. 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.

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 were not significant as of June 30, 2012. The Company manages its operations to reflect differences in the regulatory environments and risk factors for each country.

As at June 30, 2012, all of the Company's assets are located in Colombia except for $114 million (December 31, 2011: $297 million) in cash and cash equivalents held in Canada and the United States and $163 million (December 31, 2011: $15 million) of non-current 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	
	2012	2011	2012	2011
North and Central America	$ 558,994	$ 848,336	$ 1,002,799	$ 1,271,589
Europe	303,499	-	633,328	-
Asia	118,719	68,639	217,916	68,639
Colombia	54,088	40,534	112,710	84,656
Others	554	-	951	116,174
	$ 1,035,854	$ 957,509	$ 1,967,704	$ 1,541,058

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

4. Production and operating costs

	Three months ended June 30		Six months ended June 30	
	2012	2011	2012	2011
Oil and gas operating cost	$ 417,154	$ 342,918	$ 767,842	$ 550,759
(Underlift) Overlift	(12,490)	12,773	(29,905)	(5,291)
Total	$ 404,664	$ 355,691	$ 737,937	$ 545,468

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
Unwinding of discount	1,608
Foreign exchange	(558)
Payment	(10,681)
As at June 30, 2012	$ 49,515
Current	$ 21,367
Non-current	28,148
	$ 49,515

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

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 June 30		Six months ended June 30	
	2012	2011	2012	2011
Net earnings before income taxes	$ 345,952	$ 431,666	$ 663,667	$ 411,447
Canadian statutory income tax rate	26.50%	28.25%	26.50%	28.25%
Income tax expense at statutory rate	91,677	121,946	175,872	116,234
Increase (decrease) in income tax provision resulting from:				
Other non-deductible (non-taxable) expenses	13,388	(29,272)	(49,042)	(32,233)
Special tax benefit	-	(12,800)	-	(26,608)
Share-based compensation	240	199	8,218	13,388
Risk management (gain) loss	(5,665)	(11,992)	(6,705)	1,093
Differences in tax rates in foreign jurisdictions	20,815	17,918	45,556	24,190
Losses for which no tax benefit is recorded	1,153	(3,708)	7,079	16,265
Non-deductible equity tax	-	-	-	19,336
Income tax expense	$ 121,608	$ 82,291	$ 180,978	$ 131,665
Current income tax expense	134,595	140,714	263,707	218,371
Deferred income tax recovery:				
Relating to origination and reversal of temporary differences	(12,987)	(58,423)	(82,729)	(86,706)
Income tax expense	$ 121,608	$ 82,291	$ 180,978	$ 131,665

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

The Company's deferred tax relates to the following:

		As at June 30 2012		As at December 31 2011
Tax loss carry forwards		3,320		-
Oil and gas properties and equipment		(205,813)		(301,495)
Other		760		17,033
Deferred tax liability	$	(201,733)	$	(284,462)

The Canadian statutory income tax rate is 26.5% 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 June 30				Six months ended June 30			
		2012		2011		2012		2011
Net earnings	$	224,344	$	349,375	$	482,689	$	279,782
Adjust for interest expense on dilutive convertible debentures		-		9,295		-		17,800
Adjusted net earnings		224,344		358,670		482,689		297,582
Basic weighted average number of shares		294,561,287		268,717,010		293,487,568		268,334,112
Effects of dilution		9,563,558		30,115,617		9,613,945		30,656,882
Diluted weighted average number of shares		304,124,845		298,832,627		303,101,513		298,990,994
Basic earnings per share	$	0.76	$	1.30	$	1.64	$	1.04
Diluted earnings per share	$	0.74	$	1.20	$	1.59	$	1.00

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			
		2012		2011		2012		2011
Declared and paid	$	32,439	$	25,024	$	64,693	$	49,960
Dividend per common share	$	0.11	$	0.09	$	0.22	$	0.19

9. Inventories

		As at June 30 2012		As at December 31 2011
Crude oil and gas	$	80,027	$	174,959
Materials and supplies		6,658		6,313
	$	86,685	$	181,272

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

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
Additions		201,091
Transfer from exploration and evaluation assets		60,987
Change in asset retirement obligation		3,668
Cost as at June 30, 2012	$	3,930,946

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
Charge for the period		178,237
Cost as at June 30, 2012	$	1,344,679

Net book value		
As at December 31, 2011	$	2,483,153
As at March 31, 2012		2,498,758
As at June 30, 2012		2,586,267

11. Exploration and evaluation assets

As at December 31, 2011	$	437,901
Additions		88,200
As at March 31, 2012		526,101
Additions		110,284
Transfer to oil and gas properties		(60,987)
Impairment		(26,288)
As at June 30, 2012	$	549,110

The impairment of $26.3 million represented the write-down of certain exploration and evaluation assets based on an evaluation of the qualitative conditions at the field level. The impairment is recognized in the interim consolidated statement of income as depletion, depreciation and amortization.

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

12. Intangible assets and goodwill

Cost		Goodwill		Intangible asset
Cost as at December 31, 2011, March 31 and June 30, 2012	$	100,636	$	190,000
Accumulated amortization				
Accumulated depreciation as at December 31, 2011	$	-	$	45,039
Charge for the period		-		6,484
Accumulated depreciation as at March 31, 2012		-		51,523
Charge for the period		-		6,483
Accumulated depreciation as at June 30, 2012	$	-	$	58,006
Net book value				
As at December 31, 2011	$	100,636	$	144,961
As at March 31, 2012		100,636		138,477
As at June 30, 2012		100,636		131,994

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
Additions		-		8,886		8,886
Cost as at June 30, 2012	$	26,894	$	88,653	$	115,547
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
Charge for the period		985		4,297		5,282
Accumulated depreciation as at June 30, 2012	$	13,329	$	20,624	$	33,953
Net book value						
As at December 31, 2011	$	15,125	$	64,876	$	80,001
As at March 31, 2012		14,550		63,440		77,990
As at June 30, 2012		13,565		68,029		81,594

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

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

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	BPZ Advance	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
Acquisition	-	-	-	-	-	29,211	146,246	22,816	198,273
Reclassified to accounts receivable	-	-	-	-	-	-	-	(114,198)	(114,198)
Income (loss) from equity investments	(1,724)	647	(1,127)	(3,639)	(716)	(303)	-	-	(6,862)
Fair value adjustment	-	-	-	-	-	(43,525)	-	1,645	(41,880)
Foreign currency translation	653	-	39	-	720	-	-	-	1,412
As at June 30, 2012	$ 160,844	$ 10,750	$ 41,872	$ 42,408	$ 130,267	$ 68,386	$ 146,246	$ 62,166	$ 662,939

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 $310 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 June 30, 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 June 30, 2012, the Company's interest in Pacific Coal was 14.35% and the investment was estimated at $7.8 million (December 31, 2011: $20 million), based on the last traded price on the TSX VE of C$0.17 (December 31, 2011: C$0.43).

The Company has determined that it holds significant influence but not control over Pacific Coal as a result of the Company's equity interests and a number of common directors. The investment in Pacific Coal is 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.

CGX Energy Inc. ("CGX")

During the three months ended June 30, 2012 the Company invested in 85,714,285 units under a private placement agreement with CGX for C$30 million, which was closed in July 2012 upon receiving the necessary approvals. Each unit consists of one newly issued common share in CGX and one-half common share purchase warrant, exercisable at C$0.60 per common share for a period of 18 months. Combined with the 18% interest that the Company already held prior to the private placement, the Company's interest in CGX increased to 35% (41% on a partially diluted basis). Under the terms of the private placement, the Company obtained two seats on CGX's board of directors and is entitled to nominate one additional director by the end of 2012.

The Company has determined that it had significant influence in CGX effective upon signing the private placement and obtaining two seats on the board of directors. The investment in CGX, which was previously classified as an available-for-sale financial asset, was reclassified to investment in associates. The amount previously recognized as fair value adjustment in the statement of other comprehensive income was derecognized when CGX became an associate. The Company began applying the equity method in accounting for the profit or loss of CGX when it became an associate on May 28, 2012. As at June 30, 2012 the value of the investment in CGX, estimated using the last traded price of C$0.49 (December 31, 2011: C$1.05) per common share, was $69.6 million (December 31, 2011: $60.6 million).

The Company did not receive any cash dividends from its equity-accounted investments during the three and six months ended June 30, 2012 and 2011.

<u>*Other Assets*</u>

BPZ Advance

On April 27, 2012, the Company entered into an agreement with BPZ Resources, Inc. ("BPZ") to acquire a 49% undivided participating interest in the Z-1 exploration and development block ("Block Z-1") offshore in Peru. Under the terms of the agreement, Pacific Rubiales has paid $146 million in cash and is 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 bases. Completion of the acquisition is subject to approval of the applicable Peruvian authorities. Prior to obtaining the necessary approvals, the amount paid by the Company is included in other assets as an advance to BPZ.

OBC Loan

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 June 30, 2012 the balance of loans outstanding to the Company under the agreement is $160.7 million (December 31, 2011: $102.3 million) The current portion of $134.6 million is included in accounts receivable as at June 30, 2012 (December 31, 2011: $21 million). Interest of nil and $1.9 million was paid on the loan during the three and six months ended June 30, 2012.

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

15. Interest-bearing loans and borrowings

	Maturity	Currency	Interest Rate	As at June 30 2012	As at December 31 2011
Promissory note (1)	2012	COP	6.03%	$ -	$ 4,726
Promissory note (1)	2015	COP	7.96%	902	-
Bank loans (2)	2024	COP	DTF + 4.2%	42,713	-
Senior notes - 2009	2016	USD	8.75%	89,556	110,865
Senior notes - 2011	2021	USD	7.25%	644,660	620,836
Revolving credit facility	2013	USD	LIBOR + 2.25%	191,573	190,717
				$ 969,404	$ 927,144
Current portion				$ 191,905	$ 4,726
Non-current portion				777,499	922,418
				969,404	927,144
Convertible debenture				2,338	2,234
				$ 971,742	$ 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 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 June 30, 2012 was $91.5 million (December 31, 2011: $114 million). For the three and six months ended June 30, 2012, $2.1 million and $4.2 million respectively (2011:$10.3 million and $20.5 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 June 30, 2012 was $712 million (December 31, 2011: $687 million). For the three and six months ended June 30, 2012, $14.1 million and $27.9 million respectively (2011: nil) in interest expense related to the 2011 Senior Notes have been recorded in the interim consolidated statement of income.

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

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 June 30, 2012 and December 31, 2011, 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 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 June 30, 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 June 30, 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 (2011 – C$12.83) per share, being equivalent to 77.9423 (2011 – 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.

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
Arising during the year		3,668
Accretion expense		362
As at June 30, 2012	$	56,551

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 $72 million (December 31, 2011: $60 million). The future decommissioning costs are discounted using the risk free rate of 3.1% (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.

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

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 June 30 2012	As at December 31 2011
Within 1 year	$ 31,502	$ 30,105
Year 2	27,287	29,625
Year 3	26,300	27,706
Year 4	21,416	22,386
Year 5	7,994	14,618
Thereafter	28,479	31,849
Total minimum lease payments	142,978	156,289
Amounts representing interest	(44,821)	(51,401)
Present value of net minimum lease payments	$ 98,157	$ 104,888
Current portion	$ 19,281	$ 17,106
Non-current portion	78,876	87,782
Total obligations under finance lease	$ 98,157	$ 104,888

For the three and six months ended June 30, 2012, interest expense of $3.3 million and $6.8 million respectively (2011: $1.9 million and $3.7 million) was incurred on these finance leases.

18. Contingencies and commitments

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

	2012	2013	2014	2015	2016	Subsequent to 2016	Total
Investment acquisitions	$ 223,698	$ 223,698	$ 108,333	$ -	$ -	$ -	$ 555,729
Transportation and processing commitments	47,359	72,381	67,969	63,032	58,764	19,716	329,221
Minimum work commitments	92,230	126,091	37,769	-	-	-	256,090
OBC investment commitment	9,526	67,566	-	-	-	-	77,092
Operating leases	18,915	7,494	7,416	7,310	7,113	23,596	71,844
Transmission line project	39,568	17,798	-	-	-	-	57,366
Community obligations	1,867	-	-	-	-	-	1,867
Total	$ 433,163	$ 515,028	$ 221,487	$ 70,342	$ 65,877	$ 43,312	$ 1,349,209

The Company has various guarantees in place in the normal course of business. As at June 30, 2012, the Company has issued letters of credit and guarantees for exploration and operational commitments for a total of $203 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 June 30, 2012.

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

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
Issued on exercise of options	809,275		14,643
As at June 30, 2012	294,867,113	$	2,077,669

(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.

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
Forfeited during the period	(3,000)		22.75
Balance, March 31, 2012	26,459,184		16.75
Exercised during the period	(809,275)		12.44
Forfeited during the period	(40,000)		21.57
Balance, June 30, 2012	25,609,909	$	16.87

The weighted average share price at the time the stock options were exercised during the three and six months ended June 30,2012 was C$27.60 and C$28.51 respectively (2011: C$27.44 and C$30.70).

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

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	1.32
166,667		5.70	May 9, 2017	4.86
316,001		6.30	July 10, 2017	5.03
4,264,600		7.38	February 11, 2013	0.62
10,000		10.86	July 30, 2014	2.08
2,389,400		13.09	October 12, 2014	2.28
4,233,500		14.08	February 9, 2015	2.61
18,000		19.00	March 16, 2015	2.71
2,795,500		20.56	April 23, 2015	2.81
15,250		20.09	May 17, 2015	2.88
5,000		24.41	June 22, 2015	2.98
46,000		27.58	September 29, 2015	3.25
250,000		34.43	February 2, 2016	3.59
3,865,000		25.76	March 16, 2016	3.71
53,000		28.01	May 3, 2016	3.84
12,000		25.59	May 26, 2016	3.91
160,000		22.05	September 27, 2016	4.25
21,000		24.68	October 24, 2016	4.32
5,462,700		22.75	January 20, 2017	4.56
70,500		29.10	March 30, 2017	4.75
25,609,909	$	16.87		2.90

(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 and June 30, 2012	6,684	$	7.80

The weighted average share price at the time when the warrants were exercised during the three and six months ended June 30, 2012 was nil and C$29.39 respectively (2011: N/A).

The following table summarizes information about the warrants outstanding and exercisable at June 30, 2012:

Outstanding & excercisable	Exercise price (C$)	Expiry date	Remaining contractual life (year)
6,684	C$ 7.80	July 12, 2012	0.03

(d) Deferred share units

The Company established the Deferred Share Unit Plan (the “DSU Plan”) for its non-employee directors during the six months ended June 30, 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 June 30, 2012, 68,322 DSUs were outstanding with a fair value of $1.4 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.

   In addition, the Company paid $0.2 million and $0.4 million to Blue Pacific during the three and six months ended June 30, 2012 (2011: $0.5 million and $1.1 million) for air transportation services.

b) As at June 30, 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 $10 million and $19 million for the three and six months ended June 30, 2012 (2011: $6.3 million and $10.2 million).

c) During the three and six months ended June 30, 2012, the Company paid $6 million and $16.3 million (2011 $13.4 million and $24.3 million) to Transportadora Del Meta S.A.S. ("Transmeta") in crude oil transportation costs. In addition the Company has accounts receivable of $2.8 million (December 31, 2011: $3.2 million) from Transmeta and accounts payable of $8.9 million (December 31, 2011: $5.5 million) to Transmeta as at June 30, 2012. Transmeta is controlled by a director of the Company.

d) Loans receivable in the aggregate amount of $374 (December 31, 2011: $490) are due from three management directors and three officers of the Company as at June 30, 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 and six months ended June 30, 2012, the Company paid $3.8 million and $7.3 million (2011: $2.4 million and $3.8 million) in fees as set out under the transportation agreements. As at June 30, 2012 the Company has accounts payable of $0.1 million to Petroleum Aviation Services S.A.S. (December 31, 2011: $0.2 million).

f) During the three and six months ended June 30, 2012, the Company paid $17.7 million and $45.4 million to ODL (2011: $14.4 million and $20.3 million) for crude oil transport services under the pipeline take or pay agreement, and has accounts payable of $5.6 million to ODL as at June 30, 2012 (December 31, 2011: nil). The Company received $0.1 million and $0.4 million from ODL during the three and six months ended June 30, 2012 (2011: $0.3 million and $0.6 million) with respect to certain administrative services and rental equipment and machinery.

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 June 30, 2012 the balance of loans outstanding to the Company under the agreement is $160.7 million (December 31, 2011: $102.3 million). Interest of nil and $1.9 million was paid on the loans during the three and six months ended June 30, 2012.

h) The Company has accounts receivable of $0.5 million as at June 30, 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 June 30, 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 and six months ended June 30, 2012 $1 million and $1.7 million for this service (2011: nil). Helicol is controlled by a director of the Company.

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

21. Other financial assets and liabilities

(a) Accounts receivable

		As at June 30 2012		As at December 31 2011
Trade receivable	$	131,523	$	229,005
Advances / deposits		111,777		93,684
Recoverable VAT		180,412		301,169
Other receivables		45,904		52,797
Receivable from joint ventures		121,494		78,613
Allowance for doubtful accounts		(993)		(961)
Loan to OBC (current, note 14)		134,650		20,452
	$	724,767	$	774,759
Loan to OBC (non-current, note 14)		25,648		81,806
	$	750,415	$	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. 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 $80 million and $15.5 million respectively or 61% and 12% of trade accounts receivable (2011: $106 million and $59 million or 46% and 26% of trade accounts receivable). Revenues from these customers for the three and six months ended June 30, 2012 were $156 million and $178 million or 15% and 9% of net revenue (2011: $172 million and $207 million or 18% and 13% 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 June 30, 2012

Asset

Instrument	Term		Notional amount	Floor-ceiling (COP/$)		Fair value
Currency collar	July to December 2012	$	325,200	1805-1975	$	7,819
Currency collar	January to December 2013		300,000	1825-1930		5,917
		$	625,200		$	13,736
			Current		$	11,951
			Non-current			1,785
			Total		$	13,736

Liabilities

Instrument	Term		Notional amount	Floor-ceiling (COP/$)		Fair value
Currency collar	January to December 2013	$	135,000	1825-1887	$	(740)
		$	135,000		$	(740)
			Current		$	(116)
			Non-current			(624)
			Total		$	(740)

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

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 and six months ended June, 2012, $13.1 million and $63.3 million respectively (2011: $12.9 million and $20 million) of unrealized gains were initially recorded in other comprehensive income, and $5.3 million and $10.4 million (2011: $7.1 million and $7.6 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, 2012, $11.1 million and 17.4 million (2011: $3 million and $4.9 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.

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

As at June 30, 2012

Asset

Instrument	Term	Volume (bbl)	Floor/ceiling or strike price ($/bbl)	Benchmark		Fair value
Zero cost collars	July to December 2012	6,233,292	70-75 / 121.50	WTI	$	12,068
Swap	July 2012	1,900,000	(14.35)	WTI		3,366
	Total				$	15,434
	Current					15,434
	Total				$	15,434

Liabilities

Instrument	Term	Volume (bbl)	Floor/ceiling or strike price ($/bbl)	Benchmark		Fair value
Call option	August to December 2012	5,350,000	120	WTI	$	(1,135)
Sold put	August to December 2012	5,350,000	61.5-64	WTI		(2,636)
	Total				$	(3,771)
	Current					(3,771)
	Total				$	(3,771)

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

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)
	Current				$	(39,883)
	Total				$	(39,883)

For the three and six months ended June 30, 2012, the Company recorded a gain of $42.7 million and $50.6 million (2011: gain of $84.9 million and loss of $7.7 million) on commodity price risk management contracts in net earnings. Included in these amounts were $42.7 million and $51.5 million of unrealized gain (2011: unrealized gain of $86.2 million and unrealized loss of $5.4 million) representing the change in the fair value of the contracts, nil and $1 million of realized loss resulting from premiums paid (2011:$1.3 million and $2.5 million of realized losses).

If the forward WTI crude oil price estimated at June 30, 2012 had been $1/bbl higher or lower, the unrealized gain or loss on these contracts would change by approximately $3 million (2011: $5.8 million).

22. Supplemental disclosure on cash flows

Changes in non-cash working capital:

	Three months ended June 30				Six months ended June 30			
		2012		2011		2012		2011
Decrease (Increase) in accounts receivable	$	49,850	$	(313,381)	$	134,273	$	(330,996)
(Increase) Decrease in income taxes receivable		(5,699)		509		(14,575)		250
(Decrease) Increase in accounts payable and accruals		(7,779)		84,378		(30,016)		126,567
Decrease (Increase) in inventories		118,830		(24,484)		93,276		(60,227)
(Decrease) Increase in income taxes payable		(439,194)		(31,623)		(284,136)		28,079
Decrease in prepaid expenses		675		672		1,496		5,494
	$	(283,317)	$	(283,929)	$	(99,682)	$	(230,833)

Other cash flow information:

	Three months ended June 30				Six months ended June 30			
		2012		2011		2012		2011
Cash income taxes paid	$	545,431	$	166,191	$	588,873	$	232,822
Cash interest paid		32,371		29,949		34,618		30,184
Cash interest received		1,192		241		1,712		752

23. Subsequent events

a) On July 27, 2012 the Company completed the acquisition of all issued and outstanding common shares of PetroMagdalena Energy Corp. Under the arrangement, shareholders of PetroMagdalena received C$1.60 in cash for each common share of PetroMagdalena held. In addition, holders of PetroMagdalena's share purchase warrants received C$0.25 in cash for each unexercised warrant held. The total purchase price was approximately $230 million.

b) On July 24, 2012 the Company signed a binding letter of agreement with Petrolera Monterrico S.A. Sucursal Colombia for $23.5 million cash to acquire a 40% participating interest in the onshore Portofino exploration block in Colombia. In addition, the Company will pay Canacol Energy Ltd. $3.7 million to assume the operatorship of the block. This transaction is subject to Colombian regulatory approval. As part of the agreement, there is an additional carry obligation, recoverable from the proceeds of production, to finance certain production facilities and other activities required for the development of the block of up to $45 million.