Pacific Rubiales Energy

Interim Condensed Consolidated Financial Statements
(Unaudited)

For the three and nine months ended September 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 September 30 2012	Three months ended September 30 2011	Nine months ended September 30 2012	Nine months ended September 30 2011
Oil and gas sales	4	$ 870,369	$ 828,285	$ 2,838,073	$ 2,369,343
Cost of operations					
Production and operating costs	5	308,411	326,673	1,046,348	872,141
Depletion, depreciation and amortization		247,782	147,787	646,144	482,826
		556,193	474,460	1,692,492	1,354,967
Earnings before undernoted		314,176	353,825	1,145,581	1,014,376
Expenses					
General and administrative		78,850	37,912	202,371	104,781
Share-based compensation		1,036	1,075	32,049	48,467
		79,886	38,987	234,420	153,248
Earnings from operations		234,290	314,838	911,161	861,128
Finance costs		(26,634)	(24,038)	(66,966)	(70,968)
(Loss) gain from equity investments	15	(37,977)	12,859	(42,082)	1,770
Equity tax		-	-	-	(68,446)
Foreign exchange gain (loss)		3,929	(44,271)	(12,844)	(41,841)
(Loss) gain on risk management	22c	(26,806)	63,027	23,793	55,289
Other expenses		(6,922)	(1,768)	(9,515)	(4,838)
Net earnings before income tax		139,880	320,647	803,547	732,094
Income tax expense	7	(71,063)	(126,927)	(252,041)	(258,592)
Net earnings for the period		$ 68,817	$ 193,720	$ 551,506	$ 473,502
Basic earnings per share	8	$ 0.23	$ 0.71	$ 1.88	$ 1.76
Diluted earnings per share	8	$ 0.23	$ 0.68	$ 1.82	$ 1.68

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 September 30 2012	Three months ended September 30 2011	Nine months ended September 30 2012	Nine months ended September 30 2011
Net earnings for the period		$ 68,817	$ 193,720	$ 551,506	$ 473,502
Other comprehensive (loss) income (nil tax effect)					
Foreign currency translation	15	(2,235)	29,246	19,898	24,334
Fair value adjustments on equity investments	15	(1,808)	-	(40,593)	-
Unrealized (loss) gain on cash flow hedges	22b	(2,269)	(23,971)	61,005	(3,928)
Realized gain on cash flow hedges transferred to earnings	22b	(3,910)	(4,806)	(14,302)	(12,426)
		(10,222)	469	26,008	7,980
Comprehensive income		$ 58,595	$ 194,189	$ 577,514	$ 481,482

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 September 30 2012	As at December 31 2011
ASSETS			
Current			
Cash and cash equivalents		$ 272,773	$ 729,671
Restricted cash		9,294	3,074
Accounts receivables	22a	714,953	774,759
Inventories	10	155,996	181,272
Income tax receivable		40,882	18,694
Prepaid expenses		1,207	2,462
Risk management assets	22b & c	14,106	-
		1,209,211	1,709,932
Non-current			
Oil and gas properties	11	2,948,467	2,483,153
Exploration and evaluation assets	12	700,942	437,901
Intangible assets	13	125,439	144,961
Plant and equipment	14	79,404	80,001
Investments in associates and other assets	15	786,839	492,221
Goodwill	13	187,151	100,636
Risk management assets	22b	1,140	-
Restricted cash		1,478	-
		$ 6,040,071	$ 5,448,805
LIABILITIES			
Current			
Accounts payable and accrued liabilities		$ 849,333	$ 702,895
Risk management liability	22b & c	10,203	67,387
Income tax payable		129,490	367,674
Current portion of long-term debt	16	7,163	4,726
Convertible debenture		2,396	-
Current portion of obligations under finance lease	18	20,472	17,106
		1,019,057	1,159,788
Non-current			
Long-term debt	16	1,096,545	922,418
Obligations under finance lease	18	80,174	87,782
Convertible debenture		-	2,234
Risk management liability	22b	707	5,397
Deferred tax liability	7	276,753	284,462
Equity tax payable	6	20,431	33,522
Asset retirement obligation	17	65,047	45,400
		2,558,714	2,541,003
SHAREHOLDERS' EQUITY			
Common shares	20	2,085,951	2,025,665
Contributed surplus		158,472	145,741
Accumulated other comprehensive income (loss)		26,100	(20,099)
Retained earnings		1,210,834	756,495
		3,481,357	2,907,802
		$ 6,040,071	$ 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 September 30 2012	Three months ended September 30 2011	Nine months ended September 30 2012	Nine months ended September 30 2011
Common shares					
Balance, beginning of period		$ 2,077,669	$ 1,710,705	$ 2,025,665	$ 1,691,838
Issued on exercise of warrants		20	-	97	6,176
Issued on exercise of options		8,262	20,412	60,185	33,103
Issued on conversion of convertible debentures		-	-	4	-
Balance, end of period		2,085,951	1,731,117	2,085,951	1,731,117
Contributed surplus					
Balance, beginning of period		160,588	152,735	145,741	112,339
Exercise of warrants		-	-	-	(1,347)
Exercise of options		(2,116)	(7,975)	(16,742)	(13,624)
Share-based compensation		-	1,075	29,473	48,467
Balance, end of period		158,472	145,835	158,472	145,835
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		36,322	(13,126)	(20,099)	(20,637)
Other comprehensive (loss) income		(10,222)	469	26,008	7,980
Reversal of fair value adjustment on CGX	15	-	-	20,191	-
Balance, end of period		26,100	(12,657)	26,100	(12,657)
Retained earnings					
Balance, beginning of period		1,174,491	534,341	756,495	304,519
Net earnings for the period		68,817	193,720	551,506	473,502
Dividends	9	(32,474)	(25,228)	(97,167)	(75,188)
Balance, end of period		1,210,834	702,833	1,210,834	702,833
Total shareholders' equity		$ 3,481,357	$ 2,623,894	$ 3,481,357	$ 2,623,894

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 September 30 2012	Three months ended September 30 2011	Nine months ended September 30 2012	Nine months ended September 30 2011
OPERATING ACTIVITIES					
Net earnings for the period		$ 68,817	$ 193,720	$ 551,506	$ 473,502
Items not affecting cash:					
Depletion, depreciation and amortization		247,782	147,787	646,144	482,826
Asset retirement obligation accretion	17	353	249	1,015	719
Unrealized loss (gain) on risk management contracts	22c	18,879	(65,608)	(31,720)	(60,221)
Share-based compensation		1,036	1,075	32,049	48,467
Gain on cash flow hedges included in operating expense	22b	(3,910)	(4,806)	(14,302)	(12,426)
Deferred income tax	7	(11,531)	18,539	(94,260)	(68,167)
Accretion on convertible debentures		57	4,251	129	12,274
Unrealized foreign exchange (gain) loss		(11,825)	58,755	17,177	59,218
Loss (gain) from equity investments	15	37,977	(12,859)	42,082	(1,770)
Equity tax		-	-	-	68,446
Unwinding of equity tax discount	6	1,378	1,729	4,411	5,513
Other		(688)	7,098	1,781	8,458
Changes in non-cash working capital	23	69,467	(44,479)	(30,215)	(275,312)
Net cash provided by operating activities		417,792	305,451	1,125,797	741,527
INVESTING ACTIVITIES					
Additions to oil and gas properties and plant and equipment		(275,089)	(204,556)	(665,345)	(585,041)
Additions to exploration and evaluation assets		(96,597)	(61,345)	(295,081)	(219,469)
Investment in equity investments and other assets	15	(171,129)	(34,961)	(444,700)	(67,877)
(Increase) decrease in restricted cash		(5,051)	5,284	(7,597)	5,485
PMD Acquisition	3	(220,300)	-	(220,300)	-
Net cash used in investing activities		(768,166)	(295,578)	(1,633,023)	(866,902)
FINANCING ACTIVITIES					
Advances from debt		328,753	-	373,057	-
Repayment of debt		(246,573)	(2,978)	(259,490)	(94,599)
Proceeds from the exercise of warrants and options		6,166	12,437	43,544	24,308
Dividends paid	9	(32,474)	(25,228)	(97,167)	(75,188)
Net cash provided by (used in) financing activities		55,872	(15,769)	59,944	(145,479)
Effect of exchange rate changes on cash and cash equivalents		977	(9,639)	(9,616)	(8,594)
Change in cash and cash equivalents during the period		(293,525)	(15,535)	(456,898)	(279,448)
Cash and cash equivalents, beginning of the period		566,298	338,863	729,671	602,776
Cash and cash equivalents, end of the period		$ 272,773	$ 323,328	$ 272,773	$ 323,328
Cash and cash equivalents are comprised of:					
Cash		$ 266,362	$ 318,497	$ 266,362	$ 318,497
Short-term money market instruments		6,411	4,831	6,411	4,831
		$ 272,773	$ 323,328	$ 272,773	$ 323,328

See accompanying notes to the interim condensed consolidated financial statements

1. Corporate information

Pacific Rubiales Energy Corp. (the "Company") is an oil and gas company incorporated in Canada and engaged in the exploration, development and production of crude oil and natural gas primarily in South America. 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 Company's Brazilian Depository Receipts ("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 November 6, 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 unaudited interim consolidated financial statements for the three months ended March 31, 2012. 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.

The comparative figures have been reclassified from statements previously presented to conform to the presentation of the current interim consolidated financial statements.

3. Business acquisitions

Acquisition of PetroMagdalena

On July 27, 2012 the Company completed the acquisition of PetroMagdalena Energy Corp. ("PMD"), an oil and gas exploration and production company with working interests in 19 properties in five basins in Colombia. The acquisition was completed pursuant to a plan of arrangement under the British Columbia Business Corporations Act. Under the arrangement, the Company paid C$1.60 for each of the 140,738,004 common shares of PMD not already owned by the Company, for cash consideration of approximately C$225.2 million. Together with the 8,653,516 shares already owned prior to the arrangement, the Company owns 100% of the issued and outstanding PMD shares. In addition, all of the unexercised share purchase warrants were cancelled under the terms of the arrangement for C$0.25 in cash for a total of approximately C$4.8 million. The Company also paid approximately C$0.1 million for all unexercised in-the-money stock options.

The transaction is being accounted for as a business combination with the Company identified as the acquirer. The acquisition has been accounted for on a preliminary basis taking into account the information available at the time these interim consolidated financial statements were prepared. The following table summarizes the consideration paid and the preliminary fair values of the assets acquired and liabilities assumed recognized at the acquisition date.

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

Purchase price		
Cash consideration paid	$	226,598
Fair value of interest held before acquisition (Note 15)		13,639
Total purchase price	**$**	**240,237**

Fair value of assets acquired and liabilities assumed		
Cash and cash equivalents	$	6,298
Net non-cash working capital		(77,182)
Exploration and evaluation assets		90,097
Oil and gas properties		272,243
Plant and Equipment		3,036
Goodwill		86,515
Long-term debt		(48,464)
Asset retirement obligation		(5,443)
Deferred tax liabilities		(86,863)
Net assets acquired	**$**	**240,237**

Cash paid		226,598
Net cash acquired		(6,298)
Net consolidation cash outflow	**$**	**220,300**

The fair values disclosed above are preliminary as at September 30, 2012 due to the complexity of the acquisition and the inherently uncertain nature of valuing exploration assets and oil and gas properties. The fair values of the identifiable assets and liabilities acquired will be completed within 12 months of the acquisition at the latest.

Goodwill arises principally because of the synergies that the Company can realize from managing a portfolio of both acquired and existing fields in Colombia, and the requirement to recognize deferred income tax liabilities for the difference between the assigned fair values and the tax bases of net assets acquired in a business combination. None of the goodwill recognized is expected to be deductible for income tax purposes.

4. 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 Company's operations in Peru and Guatemala are not significant, and the farm-in interests in Peru and Papua New Guinea are subject to regulatory approval as of September 30, 2012. The Company manages its operations to reflect differences in the regulatory environments and risk factors for each country.

As at September 30, 2012, all of the Company's assets are located in Colombia except for $8 million (December 31, 2011: $297 million) in cash and cash equivalents held in Canada and the United States; $215 million (December 31, 2011: $15 million) of non-current assets in Peru; $40 million (December 31, 2011: nil) of non-current assets in Papua New Guinea; $16 million (December 31, 2011: Nil) of non-current assets in Guatemala and $56 million (December 31, 2011: Nil) of cash in Brazil.

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

	Three months ended September 30		Nine months ended September 30	
	2012	2011	2012	2011
North and Central America	$ 371,178	$ 578,237	$ 1,373,977	$ 1,849,826
Europe	195,279	98,625	828,607	98,625
Asia	246,554	99,324	464,470	167,963
Colombia	57,358	52,099	170,068	136,755
Others	-	-	951	116,174
	$ 870,369	$ 828,285	$ 2,838,073	$ 2,369,343

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

5. Production and operating costs

	Three months ended September 30		Nine months ended September 30	
	2012	2011	2012	2011
Oil and gas operating cost	$ 303,564	$ 308,612	$ 1,071,406	$ 859,371
Overlift (Underlift)	4,847	18,061	(25,058)	12,770
Total	$ 308,411	$ 326,673	$ 1,046,348	$ 872,141

6. 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
PMD Acquisition (Note 3)	4,650
Unwinding of discount	1,378
Foreign exchange	(891)
Payment	(11,878)
As at September 30, 2012	$ 42,774
Current	$ 22,343
Non-current	20,431
	$ 42,774

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)

7. 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 September 30		Nine months ended September 30	
	2012	2011	2012	2011
Net earnings before income taxes	$ 139,880	$ 320,647	$ 803,547	$ 732,094
Canadian statutory income tax rate	26.50%	28.25%	26.50%	28.25%
Income tax expense at statutory rate	37,068	90,583	212,940	206,817
Increase (decrease) in income tax provision resulting from:				
Other non-deductible (non-taxable) expenses	680	44,796	(48,362)	12,563
Special tax benefit	-	(13,736)	-	(40,344)
Share-based compensation	275	304	8,493	13,692
Risk management loss (gain)	3,552	(8,903)	(3,153)	(7,810)
Differences in tax rates in foreign jurisdictions	15,523	15,256	61,079	39,446
Losses for which no tax benefit is recorded	13,965	(1,373)	21,044	14,892
Non-deductible equity tax	-	-	-	19,336
Income tax expense	$ 71,063	$ 126,927	$ 252,041	$ 258,592
Current income tax expense	82,594	108,388	346,301	326,759
Deferred income tax recovery:				
Relating to origination and reversal of temporary differences	(11,531)	18,539	(94,260)	(68,167)
Income tax expense	$ 71,063	$ 126,927	$ 252,041	$ 258,592

The Company's deferred tax relates to the following:

	As at September 30	As at December 31
	2012	2011
Tax loss carry forwards	942	-
Oil and gas properties and equipment	(316,182)	(301,495)
Other	38,487	17,033
Deferred tax liability	$ (276,753)	$ (284,462)

The Canadian statutory income tax rate is 26.50% and the Colombian statutory tax rate is 33%.

8. 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 September 30		Nine months ended September 30	
	2012	2011	2012	2011
Net earnings	$ 68,817	$ 193,720	$ 551,506	$ 473,502
Adjust for interest expense on dilutive convertible debentures	-	9,069	-	26,568
Adjusted net earnings	$ 68,817	$ 202,789	$ 551,506	$ 500,070
Basic weighted average number of shares	295,022,739	270,967,710	294,003,027	269,221,625
Effects of dilution	7,850,230	27,445,851	8,980,482	28,317,642
Diluted weighted average number of shares	302,872,969	298,413,561	302,983,509	297,539,267
Basic earnings per share	$ 0.23	$ 0.71	$ 1.88	$ 1.76
Diluted earnings per share	$ 0.23	$ 0.68	$ 1.82	$ 1.68

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)

9. Dividends paid

	Three months ended September 30		Nine months ended September 30	
	2012	2011	2012	2011
Declared and paid	$ 32,474	$ 25,228	$ 97,167	$ 75,188
Dividend per common share	$ 0.11	$ 0.09	$ 0.33	$ 0.28

10. Inventories

	As at September 30 2012	As at December 31 2011
Crude oil and gas	$ 146,027	$ 174,959
Materials and supplies	9,969	6,313
	$ 155,996	$ 181,272

11. 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
Additions	270,960
Transfer from exploration and evaluation assets	34,862
PMD Acquisition (Note 3)	272,243
Change in asset retirement obligation	2,700
Cost as at September 30, 2012	$ 4,511,711

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
Accumulated depletion as at June 30, 2012	1,344,679
Charge for the period	218,565
Accumulated depletion as at September 30, 2012	$ 1,563,244

Net book value	
As at December 31, 2011	$ 2,483,153
As at September 30, 2012	2,948,467

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

12. 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
Additions		96,597
PMD Acquisition (Note 3)		90,097
Transfer to oil and gas properties		(34,862)
As at September 30, 2012	$	700,942

The impairment of $26 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 consolidated statement of income as depletion, depreciation and amortization.

13. Intangible assets and goodwill

Cost		**Goodwill**		**Intangible asset**		**Total**
Cost as at December 31, 2011, March 31, and June 30, 2012	$	100,636	$	190,000	$	290,636
PMD Acquisition (Note 3)		86,515		-		86,515
Cost as at September 30, 2012	$	187,151		190,000	$	377,151
Accumulated amortization						
Accumulated amortization as at December 31, 2011	$	-	$	45,039	$	45,039
Charge for the period		-		6,484		6,484
Accumulated amortization as at March 31, 2012		-		51,523		51,523
Charge for the period		-		6,483		6,483
Accumulated amortization as at June 30, 2012		-		58,006		58,006
Charge for the period		-		6,555		6,555
Accumulated amortization as at September 30, 2012	$	-	$	64,561	$	64,561
Net book value						
As at December 31, 2011	$	100,636	$	144,961	$	245,597
As at September 30, 2012		187,151		125,439		312,590

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

14. 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
Additions	-	4,129	4,129
PMD Acquisition (Note 3)	1,414	1,622	3,036
Reclassification	9,359	(9,359)	-
Cost as at September 30, 2012	$ 37,667	$ 85,045	$ 122,712
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
Charge for the period	2,749	6,606	9,355
Accumulated depreciation as at September 30, 2012	$ 16,078	$ 27,230	$ 43,308
Net book value			
As at December 31, 2011	$ 15,125	$ 64,876	$ 80,001
As at September 30, 2012	21,589	57,815	79,404

Depreciation charge for plant and equipment is included in depletion, depreciation and amortization on the interim consolidated statement of income.

15. 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
Investment	-	-	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
Investment	-	-	-	-	-	29,211	146,246	22,816	198,273
Reclassified to accounts receivable	-	-	-	-	-	-	-	(114,198)	(114,198)
(Loss) Income 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
Investment	27,253	-	70,000	-	-	127	35,202	45,169	177,751
Income (loss) from equity investments	5,462	(401)	205	(7,660)	(503)	(35,080)	-	-	(37,977)
PMD Acquisition (Note 3)	-	-	-	-	-	-	-	(13,639)	(13,639)
Foreign currency translation	(1,525)	-	34	-	(744)	-	-	-	(2,235)
As at September 30, 2012	192,034	10,349	112,111	34,748	129,020	33,433	181,448	93,696	786,839

<u>Investments in associates</u>

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 and Ecopetrol have certain contracts with ODL for a total commitment of $225 million from 2012 to 2016 for the financing of ODL, in accordance with each partner's respective share interest.

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. During the three months ended in September 30, 2012, the Company acquired an additional 70 million newly issued common shares of PII for $1.00 per share for $70 million in aggregate. The Company may subscribe for a further 50 million newly issued common shares at $1.00 per share over the next 6 months, in tranches of at least $20 million. The Company would 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 September 30, 2012, the Company's interest in PII is 47.55% and the remaining is held by Blue Pacific Assets Corp. ("Blue Pacific"), see note 21 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 September 30, 2012, the Company's interest in Pacific Coal was 14% and the investment was estimated at $9.2 million (December 31, 2011: $20 million), based on the last traded price on the TSX of C$0.20 (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")

On June 30, 2012 the Company acquired 85,714,285 units under a private placement agreement with CGX for C$30 million. 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 36% (41% on a fully 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 reclassified to the cost of investment. The Company began applying the equity method in accounting for the profit or loss of CGX when it became an associate. During the three months ended September 30, 2012, the Company recorded a loss of $35 million against the CGX investment, representing the Company's share of CGX's net loss for the period. As at September 30, 2012 the investment in CGX, estimated using the last traded price of C$0.24 (December 31, 2011: C$1.05) per common share, was $34.6 million (December 31, 2011: $60.6 million).

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

Other Assets

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 $81 million in cash and is still subject to a commitment of $150 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 September 30, 2012 the balance of loans outstanding to the Company under the agreement is $32 million (December 31, 2011: $102.3 million). Interest of $3.2 and $5.2 million was paid on the loan during the three and nine months ended September 30, 2012.

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

16. Interest-bearing loans and borrowings

	Maturity	Currency	Interest Rate	As at September 30 2012	As at December 31 2011
Senior notes - 2011	2021	USD	7.25%	$ 645,694	$ 620,836
Senior notes - 2009	2016	USD	8.75%	89,688	110,865
Revolving credit facility - US Dollar	2015	USD	LIBOR + 3%	269,154	190,717
Revolving credit facility - COP	2015	COP	DTF + 2.5%	24,420	-
Bank loans (1)	2024	COP	DTF + 4.2%	49,999	-
Bank loans	2016	COP	DTF + 2.65%	23,999	-
Promissory note (2)	2015	COP	7.96%	754	-
Promissory note (2)	2012	COP	6.03%	-	4,726
				$ 1,103,708	$ 927,144
Current portion				$ 7,163	$ 4,726
Non-current portion				1,096,545	922,418
				1,103,708	927,144
Convertible debenture				2,396	2,234
				$ 1,106,104	$ 929,378

(1) 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)
(2) Unsecured, repayable in equal monthly installments.

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 September 30, 2012 was $91.5 million (December 31, 2011: $114 million). For the three and nine months ended September 30, 2012, $2.1 million and $6.3 million respectively (2011: $10.5 million and $31 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.

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

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 September 30, 2012 was $712 million (December 31, 2011: $687 million). For the three and nine months ended September 30, 2012, $14 million and $41.9 million respectively (2011: nil) in interest expense related to the 2011 Senior Notes have been recorded in the interim consolidated statement of income.

Revolving credit facility

During September 2012 the Company closed a $400 million revolving credit facility (the “US Dollar Facility”) and a Colombian peso equivalent of $300 million revolving credit facility (the “Peso Facility”). The US Dollar Facility carries an interest rate of LIBOR plus 3% and matures on September 21, 2015, with any unused facility subject to a commitment fee of 0.95%. Upon closing the Company drew down $273 million on the US Dollar Facility. The balance of $193 million on the existing revolving credit facility due April 26, 2013 was repaid using proceeds from the US Dollar Facility, and that revolving credit facility terminated.

The Peso Facility has an interest rate based on the DTF and matures on September 21, 2015, as well as a commitment fee of 0.40% on any unused facility. As of September 30, 2012, the Company has drawn $24.4 million from the Peso Facility.

Both the US Dollar Facility and the Peso Facility are subject to covenants that require the Company to maintain (1) a debt to EBITDA ratio of less than 3.5; and (2) interest coverage ratio of greater than 2.5. The Company was compliant with the covenants during the period.

Convertible debentures

The Company has outstanding convertible unsecured subordinated debentures due August 29, 2013 (the “Debentures”). As at September 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 September 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.

17. 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 period		6,821
Accretion expense		300
As at March 31, 2012		52,521
Arising during the period		3,668
Accretion expense		362
As at June 30, 2012		56,551
PMD Acqusition (Note 3)		5,443
Arising during the period		2,700
Accretion expense		353
As at September 30, 2012	$	65,047

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 $83 million (December 31, 2011: $60 million). The future decommissioning costs are discounted using the risk free rate between 2.82% and 3.31% (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)

18. 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 gas facility, 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 September 30 2012	As at December 31 2011
Within 1 year	$ 32,718	$ 30,105
Year 2	29,829	29,625
Year 3	23,644	27,706
Year 4	18,606	22,386
Year 5	12,197	14,618
Thereafter	27,303	31,849
Total minimum lease payments	144,297	156,289
Amounts representing interest	(43,651)	(51,401)
Present value of net minimum lease payments	$ 100,646	$ 104,888
Current portion	$ 20,472	$ 17,106
Non-current portion	80,174	87,782
Total obligations under finance lease	$ 100,646	$ 104,888

For the three and nine months ended as at September 30, 2012, interest expense of $3.2 million and $10 million respectively (2011: $2.2 million and $5.9 million) was incurred on these finance leases.

19. 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
LNG Project	$ -	$ -	$ 50,328	$ 50,328	$ 50,328	$ 402,621	$ 553,605
Investment Acquisitions	208,097	208,097	110,333	-	-	-	526,527
ODL commitment	7,737	50,541	50,541	50,541	50,541	15,551	225,452
Minimum work commitments	89,216	126,091	37,769	-	-	-	253,076
OBC investment commitment	9,526	67,566	-	-	-	-	77,092
Operating leases	8,406	23,848	10,100	9,994	7,053	23,387	82,788
Transportation and processing commitments	6,643	21,232	16,858	11,964	7,736	4,022	68,455
Transmission line project	12,233	35,381	-	-	-	-	47,614
Total	$ 341,858	$ 532,756	$ 275,929	$ 122,827	$ 115,658	$ 445,581	$ 1,834,609

The Company has various guarantees in place in the normal course of business. As at September 30, 2012, the Company has issued letters of credit and guarantees for exploration and operational commitments for a total of $232 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 September 30, 2012.

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

20. 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
Issued on exercise of options	362,500		8,262
Issued on exercise of warrants	2,000		20
As at September 30, 2012	295,231,613	$	2,085,951

(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
Exercised during the period	(362,500)		16.71
Forfeited during the period	(11,744)		25.76
Balance, September 30, 2012	25,235,665	$	16.87

The weighted average share price at the time the stock options were exercised during the three and nine months ended September 30, 2012 was C$24.63 and C$28.05 respectively (2011: C$26.26 and C$27.47).

(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	1.06
166,667		5.70	May 9, 2017	4.61
316,001		6.30	July 10, 2017	4.78
4,254,600		7.38	February 11, 2013	0.37
10,000		10.86	July 30, 2014	1.83
2,303,900		13.09	October 12, 2014	2.03
4,094,500		14.08	February 9, 2015	2.36
18,000		19.00	March 16, 2015	2.46
2,793,500		20.56	April 23, 2015	2.56
15,250		20.09	May 17, 2015	2.63
5,000		24.41	June 22, 2015	2.73
46,000		27.58	September 29, 2015	3.00
250,000		34.43	February 2, 2016	3.34
3,853,256		25.76	March 16, 2016	3.46
53,000		28.01	May 3, 2016	3.59
12,000		25.59	May 26, 2016	3.65
160,000		22.05	September 27, 2016	3.99
21,000		24.68	October 24, 2016	4.07
5,336,700		22.75	January 20, 2017	4.31
70,500		29.10	March 30, 2017	4.50
25,235,665	$	16.87		2.60

(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
Exercised during the period	(2,000)		7.80
Forfeited during the period	(4,684)		7.80
Balance, September 30, 2012	-	$	-

The weighted average share price at the time when the warrants were exercised during the three and nine months ended September 30, 2012 was C$22.76 and C$28.03 respectively (2011: C$26.94).

(d) Deferred share units

The Company established the Deferred Share Unit Plan (the “DSU Plan”) for its non-employee directors during the nine months ended September 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 September 30, 2012, 106,995 DSUs were outstanding with a fair value of $2.5 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.

21. 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.

b) As at September 30, 2012, the Company had trade accounts receivable of $4.5 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 Generation. Revenue from Proelectrica in the normal course of the Company's business was $8.1 million and $27.1 million for the three and nine months ended September 30, 2012 (2011: $7.1 million and $17.4 million).

c) During the three and nine months ended September 30, 2012, the Company paid $13.8 million and $30.1 million (2011: $12 million and $36.3 million) to Transportadora del Meta S.A.S. ("Transmeta") in crude oil transportation costs. In addition the Company has accounts receivable of $2.6 million to September 30, (December 31, 2011: $3.2 million) from Transmeta and accounts payable of $5.3 million (December 31, 2011: $5.5 million) to Transmeta as at September 30, 2012. Transmeta is controlled by a director of the Company.

d) Loans receivable in the aggregate amount of $346 (December 31, 2011: $490) are due from three management directors and three officers of the Company as at September 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 nine months ended September 30, 2012, the Company paid $3.8 million and $11.1 million (2011: $1.2 million and $5 million) in fees as set out under the transportation agreements. As at September 30, 2012 the Company has no accounts payable to Petroleum Aviation Services S.A.S., (December 31, 2011: $0.2 million).

f) During the three and nine months ended September 30, 2012, the Company paid $35.5 million and $80.9 million to ODL (2011: $31.1 million and $55.6 million) for crude oil transport services under the pipeline agreement, and has accounts payable of $21.2 million to ODL as at September 30, 2012 (December 31, 2011: $1 million). The Company received $0.4 million and $0.8 million from ODL during the three and nine months ended September 30, 2012 (2011: Nil and $1.6 million) with respect to certain administrative services and rental equipment and machinery.

g) 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 September 30, 2012 the balance of loans outstanding to the Company under the agreement is $32 million, (December 31, 2011: $102.3 million). The Company has account receivable of $2.1 million as of September 30, 2012 (2011: Nil) with respect to certain administrative services and rental equipment and machinery. Interest of $3.2 million and $5.2 million was paid on the loans during the three and nine months ended September 30, 2012.

h) The Company has accounts receivable of $0.5 million as at September 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 September 30, 2012, the Company has accounts payable of $0.1 million (December 31, 2011: $0.4 million) to Helicopteros Nacionales de Colombia ("Helicol") with respect to air transportation services and paid during the three and nine months ended September 30, 2012 $0.1 million and $2.2 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)

22. Other financial assets and liabilities

(a) Credit Risk

		As at September 30 2012		As at December 31 2011
Trade receivable	$	247,312	$	229,005
Advances / deposits		139,186		93,684
Recoverable VAT		101,742		301,169
Other receivables		40,369		52,797
Receivable from joint ventures		187,504		78,613
Allowance for doubtful accounts		(1,160)		(961)
Loan to OBC (current, note 15)		-		20,452
	$	714,953	$	774,759
Loan to OBC (non-current, note 15)		32,060		81,806
	$	747,013	$	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 $98 million and $53 million or 40% and 21% of trade accounts receivable (2011: $89.7 million and $15.2 million or 61% and 10% of trade accounts receivable). Revenues from these customers for the three and nine months ended September 30, 2012 were $242 million and $368 million or 28% and 13% of net revenue (2011: $105 million and $264 million or 11% and 28% 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 September 30, 2012

Asset

Instrument	Term		Notional amount	Floor-ceiling (COP/$)		Fair value
Currency collar	October to December 2012	$	138,450	1815-1975	$	3,580
Currency collar	January to December 2013		415,000	1825-1930		9,126
		$	553,450		$	12,706
			Current		$	11,566
			Non-current			1,140
			Total		$	12,706

Liabilities

Instrument	Term		Notional amount	Floor-ceiling (COP/$)		Fair value
Currency collar	January to December 2013	$	140,000	1825-1887	$	(1,154)
		$	140,000		$	(1,154)
			Current		$	(447)
			Non-current			(707)
			Total		$	(1,154)

(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 nine months ended September, 2012, $2.3 million loss and $61 million gain respectively (2011: $24 million and $3.9 million unrealized losses) of unrealized loss and gain were initially recorded in other comprehensive income, and $3.9 million and $14.3 million (2011: $4.8 million and $12.4 million unrealized gains) 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 nine months ended September 30, 2012, $0.8 million and $18.2 million (2011: $36.5 million and $41.4 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 September 30, 2012

Asset

Instrument	Term	Volume (bbl)	Floor/ceiling or strike price ($/bbl)	Benchmark		Fair value
Zero cost collars	October 2012 to June 2013	6,716,646	70-75 / 121.50	WTI	$	2,540
	Total				$	2,540
	Current					2,540
	Total				$	2,540

Liabilities

Instrument	Term	Volume (bbl)	Floor/ceiling or strike price ($/bbl)	Benchmark		Fair value
Call option	October to December 2012	3,210,000	120	WTI	$	(404)
Sold put	October to December 2012	3,210,000	61.5-64	WTI		(108)
Swap	October 2012	3,515,000	(14.46) / (19.44)	WTI		(9,244)
	Total				$	(9,756)
	Current					(9,756)
	Total				$	(9,756)

(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)
	Short-term				$	(39,883)
	Total				$	(39,883)

For the three and nine months ended September 30, 2012, the Company recorded a loss of $26.8 million and a gain of $23.8 million (2011: gain of $63 million and $55.3 million) on commodity price risk management contracts in net earnings. Included in these amounts were $18.9 million of unrealized loss and $31.7 million of unrealized gain (2011: unrealized gain of $65.6 million and $60.2 million) representing the change in the fair value of the contracts, $7.9 million and $8.9 million (2011:$2.6 million and $4.9 million) of realized loss resulting from premiums paid.

If the forward WTI crude oil price estimated at September 30, 2012 had been $1/bbl higher or lower, the unrealized gain or loss on these contracts would change by approximately $3 million (2011: $1.9 million).

23. Supplemental disclosure on cash flows

Changes in non-cash working capital:

	Three months ended September 30				Nine months ended September 30			
		2012		2011		2012		2011
Decrease (Increase) in accounts receivable	$	31,132	$	(88,989)	$	165,405	$	(419,985)
Increase in income taxes receivable		(3,943)		(7,747)		(18,518)		(7,497)
Increase in accounts payable and accruals		52,523		43,689		22,507		170,256
(Increase) Decrease in inventories		(76,029)		(69,277)		17,247		(129,504)
Increase (Decrease) in income taxes payable		66,209		78,063		(217,927)		106,142
(Increase) Decrease in prepaid expenses		(425)		(218)		1,071		5,276
	$	69,467	$	(44,479)	$	(30,215)	$	(275,312)

Other cash flow information:

	Three months ended September 30				Nine months ended September 30			
		2012		2011		2012		2011
Cash income taxes paid	$	19,175	$	30,553	$	608,048	$	263,375
Cash interest paid		27,962		672		62,580		30,856
Cash interest received		1,262		817		2,974		1,569

24. Subsequent events

a) The company has reached an agreement with Karoon Gas Australia Ltd. to acquire a 35% net working interest in the following offshore exploration blocks in Brazil: S-M-1101, S-M-1102, S-M-1037 and S-M-1165, and an option to acquire a 35% interest in SM-1166. The transaction agreement consists of a $40 million cash payment made on October 1, 2012, as consideration for the assignment, plus a carry of well costs of up to $70 million for each of the Kangaroo and Cassowary/Emu exploration wells for a total well carry cost of up to $140 million. After meeting up to the first $70 million costs for each of the first two wells, the Company will fund 35% of all costs thereafter.

The Company may elect to participate in the third well of the three well exploration commitment program, the Bilby well. If the option is exercised, the Company must carry up to the first $70 million in costs for the Bilby well and the 35% contribution of all costs thereafter. All three wells are expected to be drilled during 2013. Karoon will remain the operator of the Karoon Blocks until the completion of the three well exploration program and then the Company will be entitled to request for the operatorship, subject to the Company meeting all regulatory and other legal requirements to the satisfaction of the Agencia Nacional de Petroleo (“ANP”).

b) During October 2012 the Company entered into an agreement and consent with Pacific Coal, Blue Advanced Colloidal Fuels Corp. ("Blue ACF"), Alpha Ventures Finance Inc. ("Alpha"), and an unrelated party whereby the Company acquired from Pacific Coal a right to a 5% equity interest in Blue ACF for cash consideration of $5 million. Blue ACF is a company engaged in developing colloidal fuels, and is currently 100% owned by Alpha which is controlled by Blue Pacific. As part of the purchase Pacific Coal has also assigned to the Company the right to acquire up to an additional 5% equity interest in Blue ACF for an additional investment of up to $5 million. The Company currently has a 14% equity interest in Pacific Coal.