

Pan Andean Resources Limited

Reports and Company Financial Statements for the year ended 31 March 2014

Company Number: 02231725

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PAN ANDEAN RESOURCES LIMITED

**REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2014**

CONTENTS

	PAGE
DIRECTORS AND OTHER INFORMATION	2
DIRECTORS' REPORT	3 - 4
STATEMENT OF DIRECTORS' RESPONSIBILITIES	5
INDEPENDENT AUDITORS' REPORT	6 - 7
STATEMENT OF COMPREHENSIVE INCOME	8
BALANCE SHEET	9
STATEMENT OF CHANGES IN EQUITY	10
CASH FLOW STATEMENT	11
NOTES TO THE FINANCIAL STATEMENTS	12 - 26

PAN ANDEAN RESOURCES LIMITED

DIRECTORS AND OTHER INFORMATION

CURRENT DIRECTORS

Ronald Pantin
Carlos Perez
Peter Volk

SECRETARY

Peter Volk

REGISTERED OFFICE

125 Old Broad Street
London EC2N 1AR

AUDITORS

Deloitte & Touche
Chartered Accountants and Statutory Audit Firm
Deloitte & Touche House
Earlsfort Terrace
Dublin 2
Ireland

SOLICITORS

McCarthy Tétrault
Registered Foreign Lawyers & Solicitors
26th Floor
125 Old Broad Street
London EC2N 1AR
United Kingdom

BANKERS

Bank of Ireland
Allied Irish Bank
Banco Crédito del Perú
CorpBanca Helm

COMPANY NUMBER

02231725

PAN ANDEAN RESOURCES LIMITED

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 March 2014.

PRINCIPAL ACTIVITIES, BUSINESS REVIEW AND FUTURE DEVELOPMENTS

The main activity of Pan Andean Resources Limited ("Pan Andean") and its branches in Colombia and Peru was Hydrocarbon exploration and developments in Colombia and Peru.

On 14 April 2010, Pan Andean was acquired by Petrominerales, a publicly-traded Canadian exploration and development company in a demerger acquisition agreement. Under the terms of acquisition, Pan Andean agreed by means of a Demerger agreement to transfer to Hydrocarbon Exploration plc, a UK registered company, all of the mining interests and other assets of Pan Andean except for its interests in projects in Colombia and Peru.

Pan Andean delisted from AIM (Alternative Investment Market) as a result of the transaction. On 25 May 2010 Pan Andean Resources plc re-registered as a private limited company and changed its name to Pan Andean Resources Limited.

On November 28, 2013, the acquisition of Petrominerales Ltd was completed by Pacific Rubiales Energy. Petrominerales Ltd Canada and Pacific Rubiales Energy Canada subsequently amalgamated on January 1, 2014, and Pacific Rubiales Energy Canada became the parent of Pan Andean Resources Limited. No change has occurred to the existing Pan Andean Resources Limited structure since acquisition.

The Directors are reviewing the structure of the Company's explorations projects as part of an overall review of assets held by the parent Group. This review may result in a restructuring of the group's assets and liabilities held in Branches in Peru and Columbia during the coming year. Please refer to going concern section of basis of preparation.

Prior to 1 April 2013, the result and assets and liabilities of the Company's branches in Peru and Columbia were accounted for separately and not included with the results of the Company. From the 1 April 2013, the Directors have included the financial information of the Colombian and Peruvian branches together with the result of the UK Company. The financial statements for the of the Company for the year ended 31 March 2013 have been re-stated on the same basis and the opening reserves and net assets position have been restated by way of a prior year adjustment. Details of the adjustments made are set out in note 20 to the financial statements.

RESULTS AND DIVIDENDS

The loss for the year after taxation transferred to reserves was £552,063 (2013: loss of £7,520,119).

The directors do not propose that a dividend be paid (2013: £Nil).

SUPPLIER PAYMENT POLICY

It is the Company's normal practice to agree terms of transactions, including payment terms, with suppliers and provided the suppliers perform in accordance with the agreed terms, payment is made accordingly. In the absence of agreed terms it is the Company's policy that payment is made between 30 – 40 days.

DIRECTORS' AND THEIR INTERESTS IN THE SHARES OF THE COMPANY

The current directors are set out on page 2 and were all appointed on acquisition of Pan Andean UK by Pacific Rubiales Energy on November 28, 2013, the same date in which the previous directors of the company resigned (Jorge Posasa, Corey Ruttan, Geir Ytreland and Jaime Valanzuela). The directors holding office at 31 March 2014 did not hold any interest in the ordinary shares of the company.

The current directors were appointed on acquisition of the entity by Pacific Rubiales Energy.

PAN ANDEAN RESOURCES LIMITED

DIRECTORS' REPORT (CONTINUED)

GOING CONCERN

The directors have given careful consideration to the appropriateness of the going concern basis in the preparation of the financial statements. Due to the acquisition of the entity by Pacific Rubiales Energy, it is expected that the group will re-structure certain of its assets acquired as part of the acquisition of Petrominerales, which includes the assets and liabilities held by the Columbian and Peruvian Branches of this company. If the branches held by the company are divested as part of the group re-structure, it is expected the Pan Andean Resources Limited would then be liquidated. Although no formal decision has been made in this regard, the Directors are unable to confirm that the company will continue in operational existence for a period of 12 months from the date of approval of these financial statements and accordingly have prepared these financial statements on a basis other than that of a going concern. Further information is set out in Note 2 to the financial statements.

FINANCIAL RISK MANAGEMENT

Details of the Company's financial risk management policies are set out in Note 15.

PROPERTY, PLANT AND EQUIPMENT

In the opinion of the directors, the Company's property, plant and equipment have a value in excess of the balance sheet figure. Details of movements in these assets are shown in Note 10 to the financial statements.

CHARITABLE AND POLITICAL DONATIONS

The company made no political or charitable contributions during the year.

SUBSEQUENT EVENTS

There were no subsequent events as at and for the year ending 31 March 2014.

AUDITORS

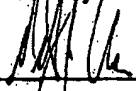
Each of the persons who is a director of the company at the date of approval of this report confirms that:

- 1) so far as the director is aware there is no relevant audit information of which the company's auditors are unaware; and
- 2) the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act, 2006.

A resolution to re-appoint the auditors, Deloitte & Touche, will be proposed at the annual general meeting.

Approved by the Board and signed on its behalf by:


Date: 12/5/15

PAN ANDEAN RESOURCES LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. The directors are required to prepare financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PAN ANDEAN RESOURCES LIMITED

We have audited the financial statements of Pan Andean Resources Limited for the year ended 31 March 2014 which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement and the related notes 1 to 20. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and as applied in accordance with the provisions of the Companies Act, 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act, 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2014 and of the company's loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act, 2006.

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PAN ANDEAN RESOURCES LIMITED

Separate opinion in relation to IFRSs issued by IASB

As explained in Note 1(ii) to the financial statements, the company in addition to complying with its legal obligation to apply IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the company financial statements comply with IFRSs as issued by the IASB.

Opinion on other matter prescribed by the Companies Act, 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Emphasis of matter – Financial statements prepared other than on a going concern basis

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in Note 2 to the financial statements, which explains that the financial statements have been prepared on a basis other than that of a going concern.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act, 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Kevin Sheehan (Senior Statutory Auditor)
for and on behalf of Deloitte & Touche
Chartered Accountants and Statutory Auditors

Deloitte & Touche House
Earlsfort Terrace
Dublin 2

Date: 12 May 2015

PAN ANDEAN RESOURCES LIMITED

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2014**

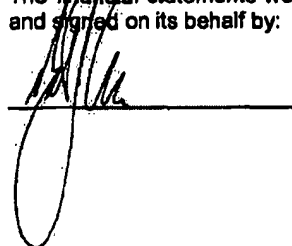
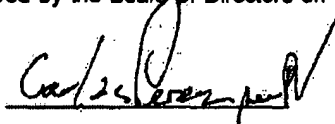
	<i>Notes</i>	2014 £	2013 £ (Restated)
Impairment charge	3	(311,290)	(7,532,583)
Administrative expenses		(48,699)	(116,998)
OPERATING LOSS		<u>(359,989)</u>	<u>(7,649,581)</u>
Investment revenue	4	-	687
Finance costs	4	(19,074)	128,775
Other expenses	12	(173,000)	
LOSS BEFORE TAXATION	5	<u>(552,063)</u>	<u>(7,520,119)</u>
Tax	6	-	-
LOSS AND TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR		<u>(552,063)</u>	<u>(7,520,119)</u>

PAN ANDEAN RESOURCES LIMITED

BALANCE SHEET AS AT 31 MARCH 2014

	Notes	2014 £	2013 £ (Restated)
ASSETS:			
NON CURRENT ASSETS			
Intangibles	9	200,268	11,440
CURRENT ASSETS			
Receivables	12	558,984	673,523
Cash and cash equivalents	13	13,655	21,293
		<u>572,639</u>	<u>694,816</u>
TOTAL ASSETS		<u>772,907</u>	<u>706,256</u>
LIABILITIES:			
CURRENT LIABILITIES			
Trade and other payables	14	(509,904)	(705,218)
Intercompany payables	8 and 14	(12,420,446)	(12,621,294)
		<u>(12,930,350)</u>	<u>(13,326,512)</u>
LONG-TERM LIABILITIES			
Asset retirement obligations		(139,838)	(265,796)
NET LIABILITIES		<u>(12,297,284)</u>	<u>(12,886,052)</u>
EQUITY			
Called-up share capital	16	1,276,898	1,276,898
Retained deficit		(16,163,446)	(15,611,383)
Translation Reserve		2,589,264	1,448,433
TOTAL EQUITY DEFICIT		<u>(12,297,284)</u>	<u>(12,886,052)</u>

The financial statements were approved by the Board of Directors on 12/5/15
and signed on its behalf by:

PAN ANDEAN RESOURCES LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2014**

	Called-up Share Capital £	Share Based Payment Reserve £	Retained Deficit £	Translation Reserve £	Total £
At 31 March 2012 as Reported	(1,276,898)	(25,920)	1,772,074	(809,227)	(339,971)
Impact of Restatement (Note 20)	-	25,920	6,319,190	(1,096,066)	5,249,044
Loss for the year	-	-	7,520,119	456,860	7,976,979
At 31 March 2013 (Restated)	(1,276,898)	-	15,611,383	(1,448,433)	12,886,052
Loss for the year	-	-	552,063	(1,140,831)	(588,769)
At 31 March 2014	(1,276,898)	-	16,163,446	(2,589,264)	12,297,284

Share based payment reserve

The share based payment reserve arose on the grant of share options to prior employees and directors under the share option plan. However, since Pan Andean is no longer a publicly listed company and has no active employees, the share based payment reserve was taken through retained earnings.

Retained deficit

Retained deficit comprises accumulated profit and losses in the current year and prior years.

As stated in Note 20 the comparative period presented in these financial statements were restated to include the consolidation of the Colombian and Peruvian branches of the entity, which were previously not consolidated in the presentation as they were treated as subsidiaries.

PAN ANDEAN RESOURCES LIMITED

**CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2014**

	Notes	2014 £	2013 £ (Restated)
CASH FLOW FROM OPERATING ACTIVITIES			
Loss before tax		(552,063)	(7,520,119)
Impairment and depreciation charges		311,290	7,532,583
Write-off of receivables		173,000	-
		<u>(67,773)</u>	<u>12,464</u>
MOVEMENTS IN WORKING CAPITAL			
Change in trade and other payables		(195,314)	349,252
Change in group receivables and VAT		114,540	(207,840)
NET CASH GENERATED BY/(USED IN) OPERATING ACTIVITIES		<u>(148,547)</u>	<u>153,883</u>
CASH FLOW FROM INVESTING ACTIVITIES			
Acquisitions of Exploration Assets and PP&E		(500,118)	(7,532,583)
NET CASH GENERATED BY/(USED IN) INVESTING ACTIVITIES		<u>(500,118)</u>	<u>(7,532,583)</u>
CASH FLOW FROM FINANCING ACTIVITIES			
Change in Intercompany Payables		641,028	6,900,336
NET CASH GENERATED BY/(USED IN) FINANCING ACTIVITIES		<u>641,028</u>	<u>6,900,336</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS			
		(7,638)	(478,364)
Cash and cash equivalents at beginning of the financial year		21,293	499,957
Effect of exchange rate changes on cash held in foreign currencies		-	-
Cash and cash equivalents at end of the financial year	13	<u>13,655</u>	<u>21,293</u>

PAN ANDEAN RESOURCES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2014

1. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted by the Company are summarised below.

(i) Basis of preparation

The financial statements have been prepared on a historical cost basis, except for certain financial instruments that have been measured at fair value. The Company financial statements are presented in sterling pounds.

Prior to 1 April 2013, the result and assets and liabilities of the Company's branches in Peru and Columbia were accounted for separately and not included with the results of the Company. From the 1 April 2013, the Directors have included the financial information of the Colombian and Peruvian branches together with the result of the UK Company. The financial statements for the of the Company for the year ended 31 March 2013 have been re-stated. Details of the adjustments made are set out in note 20 to the financial statements.

(ii) Statement of compliance

The financial statements of Pan Andean Resources Limited (formerly Pan Andean Resources Plc) have been prepared in accordance with International Financial Reporting Standards (IFRSs). The financial statements have been prepared in accordance with IFRSs issued by the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC), as adopted by the European Union.

(iii) Operating Loss

Operating Loss represents revenue less cost of sales and administration expenses. It is stated before investment revenue and finance costs.

(iv) Investment in Subsidiaries

Investments in subsidiaries are stated at cost, less accumulated impairment losses.

(v) Foreign currencies

The presentation currency of the Company financial statements is sterling pounds. As the company, including its branches, operate in a global oil & gas industry in which the primary risks and revenues are denominated in US Dollars, the directors consider that the functional currency of the company is US Dollars.

In preparing the financial statements of the Company, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. The companies branches prepare their accounts in US Dollars, and most of their assets and liabilities are US dollar denominated, and in particular the loans from group companies. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the income statement for the year, other than when a monetary item forms part of a net investment in a foreign operation, then exchange differences on that item are recognized in equity. Accordingly, exchange differences arising on the retranslation of the entities branches and on non-monetary items are recognized directly in equity.

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(vi) Intangible fixed assets

Exploration and evaluation assets

Exploration expenditure relates to the initial search for deposits with economic potential in Peru, and Colombia. Evaluation expenditure arises from a detailed assessment of deposits that have been identified as having economic potential.

The costs of exploration rights and costs incurred in exploration and evaluation activities are capitalised as part of exploration and evaluation assets.

Exploration costs are capitalized until technical feasibility and commercial viability of extraction of reserves are demonstrable. Exploration costs include an allocation of administration and salary costs as determined by management.

Prior to reclassification to oil and gas interests, exploration and evaluation assets are assessed for impairment, and any impairment loss recognized immediately in the income statement.

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount may exceed its recoverable amount.

(vii) Provisions

General

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

PAN ANDEAN RESOURCES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2014**

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(viii) Financial Instruments

Financial assets and financial liabilities are recognized in the Company's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at banks and at hand and short-term deposits with an original maturity of three months or less. For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above.

Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into.

Trade receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognized in the Income Statement when there is objective evidence that the asset is impaired.

Trade payables

Trade payables are initially measured at fair value, and are subsequently measured at amortized cost using the effective interest rate method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2014

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(ix) Taxation

Current income tax

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

Current tax assets and current tax liabilities are only offset if a legally enforceable right exists to set off the amounts, and the Company intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the income statement.

Deferred income tax

Deferred income tax is provided using the balance sheet method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled by the parent, investor or venturer and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

PAN ANDEAN RESOURCES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2014**

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(ix) Taxation (continued)

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

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

(x) Critical accounting judgments and key sources of estimation uncertainty

Critical judgments in applying the Group's accounting policies

In the process of applying the Company's accounting policies above, management has made the following judgments that have the most significant effect on the amounts recognized in the financial statements (apart from those involving estimations, which are dealt with below).

Deferred tax assets

The assessment of availability of future taxable profits involves judgment. A deferred tax asset is recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized.

Key sources of estimation uncertainty

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period.

(xi) Asset retirement obligations

An asset retirement obligation is recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made.

A corresponding amount equivalent to the asset retirement obligation is also recognized as part of the cost of the related oil and gas properties or exploration and evaluation assets. The amount recognized is the estimated cost of decommissioning, discounted to its present value. Changes in the estimated timing or costs of decommissioning, or in the discount rate, are recognized prospectively by recording an adjustment to the asset retirement obligation, and a corresponding adjustment to the properties. The unwinding of the discount on the decommissioning cost is included as a finance cost.

International Financial Reporting Standards (IFRS)

The company did not adopt any new International Financial Reporting Standards (IFRS) or Interpretations in the year that had a material impact on the Financial Statements. The following standards and interpretations also become effective since the last Annual Report but had no material impact on the Financial Statements:

PAN ANDEAN RESOURCES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2014**

Amendments to IFRS 10, IFRS 12 and IAS 28 (Dec 2015)	Investment Entities: Applying the Consolidation Exception	01-Jan-16
Amendments to IAS 1 (Dec 2015)	Disclosure Initiative	01-Jan-16
Annual Improvements to IFRSs: 2012-2014 Cycle	Annual Improvements to IFRSs: 2012-2014 Cycle	01-Jan-16
Amendments to IFRS 10 and IAS 28 (Sept 2014)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	01-Jan-16
Amendments to IAS 27 (Aug 2014)	Equity Method in Separate Financial Statements	01-Jan-16
IFRS 9	Financial Instruments	01-Jan-18
Amendments to IAS 16 and IAS 41 (Jun 2014)	Agriculture: Bearer Plants	01-Jan-16
IFRS 15	Revenue from Contracts with Customers	01-Jan-17
Amendments to IAS 16 and IAS 38 (May 2014)	Clarification of Acceptable Methods of Depreciation and Amortisation	01-Jan-16
Amendments to IFRS 11 (May 2014)	Accounting for Acquisitions of Interests in Joint Operations	01-Jan-16
IFRS 14	Regulatory Deferral Accounts	01-Jan-16
Annual Improvements to IFRSs: 2011-13 Cycle (Dec 2013)	Annual Improvements to IFRSs: 2011-13 Cycle	01-Jul-14
Annual Improvements to IFRSs: 2010-12 Cycle (Dec 2013)	Annual Improvements to IFRSs: 2010-12 Cycle	01-Jul-14
Amendments to IAS 19 (Nov 2013)	Defined Benefit Plans: Employee Contributions	01-Jul-14
Amendments to IAS 39 (Jun 2013)	Novation of Derivatives and Continuation of Hedge Accounting	01-Jan-14
Amendments to IAS 36 (May 2013)	Recoverable Amount Disclosures for Non-Financial Assets	01-Jan-14
IFRIC 21	Leases	01-Jan-14
Amendments to IFRS 10, IFRS 12 and IAS 27 (Oct 2012)	Investment Entities	01-Jan-14
Annual Improvements to IFRSs: 2009-2011 Cycle (May 2012)	Annual Improvements to IFRSs: 2009-2011 Cycle ³⁾	01-Jan-13
Amendments to IFRS 1 (March 2012)	Government Loans	01-Jan-13
Amendments to IAS 32 (Dec 2011)	Offsetting Financial Assets and Financial Liabilities	01-Jan-14
Amendments to IFRS 7 (Dec 2011)	Disclosures – Offsetting Financial Assets and Financial Liabilities	01-Jan-13
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	01-Jan-13
Amendments to IAS 1 (June 2011)	Presentation of Items of Other Comprehensive Income	01-Jul-12
IAS 19 (revised June 2011)	Employee Benefits	01-Jan-13
IFRS 13	Fair Value Measurement	01-Jan-13
IFRS 12	Disclosure of Interests in Other Entities ⁴⁾	01-Jan-13
IFRS 11	Joint Arrangements	01-Jan-13
IFRS 10	Consolidated Financial Statements	01-Jan-13
IAS 28 (revised May 2011)	Investments in Associates and Joint Ventures	01-Jan-13
IAS 27 (revised May 2011)	Separate Financial Statements	01-Jan-13
Amendments to IAS 12 (Dec 2010)	Deferred Tax: Recovery of Underlying Assets	01-Jan-12
Amendments to IFRS 1 (Dec 2010)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters	01-Jul-11

The above standards have no material impact on the Company financial statements in the period of initial application.

PAN ANDEAN RESOURCES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2014 (CONTINUED)**

2. GOING CONCERN

The Company reported a loss for the year of £552,063 (2013: loss of £7,520,119) and had net liabilities of £12,297,284 (2013: £12,886,052) at the balance sheet date.

The directors have given careful consideration to the appropriateness of the going concern basis in the preparation of the financial statements. Due to the acquisition of the entity by Pacific Rubiales Energy, it is expected that the group will re-structure certain of its assets acquired as part of the acquisition of Petrominerales,. This review will include the assets and liabilities held by the Columbian and Peruvian Branches of this company. If the branches held by the company are divested as part of the group re-structure, it is expected the Pan Andean Resources Limited would then be liquidated. Although no formal decision has been made in this regard, the Directors are unable to confirm that the company will continue in operational existence for a period of 12 months form the date of approval of these financial statements and accordingly have prepared these financial statements on a basis other than that of a going concern. The change in basis of preparation has not resulted in additional asset write downs and costs association with a potential wind-up of the company have not been provided, but are not expected to be significant.

3. IMPAIRMENT CHARGE

The impairment charge related to the write down of exploration costs related to the licenses in Columbian and Peruvian branches. The company's exploration activities in Columbia resulted in no mineral or hydrocarbon finds and the total expenditure to date in Columba has been fully written off. The company's exploration activities in Peru have yet to be fully evaluated. The remaining capitalized exploration costs of £200,268 (Note 9) relate to one exploration drill well, the final outcome of which has yet to be fully evaluated. All other exploration costs in respect of Peru have not yielded successful outcomes and the related costs have been fully impaired.

4. FINANCE COSTS AND INVESTMENT REVENUE

	2014	2013
	£	£
Bank interest and similar charges	(12,956)	71,919
Foreign Exchange	(6,118)	53,856
	<hr/>	<hr/>
	(19,074)	128,775
	<hr/>	<hr/>
	2014	2013
	£	£
Interest earned	-	687
	<hr/>	<hr/>

PAN ANDEAN RESOURCES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2014**

5. LOSS BEFORE TAXATION

**2014
£**

**2013
£**

The loss before taxation is stated after charging:

Directors' remuneration

-

-

Auditors' remuneration

9,500

10,000

The analysis of auditors' remuneration is as follows:

Fee payable to the Company's auditors
for the audit of the annual accounts

9,500

10,000

Fee payable to the groups' auditors in
respect of non – audit services

-

-

9,500

10,000

6. TAX

**2014
£**

**2013
£**

Current tax

-

-

Deferred tax:

-

-

Income tax expense reported in the income statements

-

-

A reconciliation between tax expense and the product of accounting profit multiplied by the standard rate of tax is as follows:

**2014
£**

**2013
£**

Gain (Loss) before tax

(552,063)

(7,520,119)

Income tax calculated at 23%

126,974

1,729,627

Effects of:

Tax losses carried forward

(126,974)

(1,729,627)

Current tax

-

-

No charge to corporation tax arises in the current year or the prior year primarily due to losses incurred.

The company has not recognized any deferred tax asset as of 31 December 2014 (nil in 2013) due to uncertainty in relation to recoverability from future income streams.

7. DIRECTORS' REMUNERATION

No remuneration was paid to directors during the current year or prior year.

PAN ANDEAN RESOURCES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2014**

8. RELATED PARTY AND OTHER TRANSACTIONS

At 31 March 2014, the following amounts were due to the company from/to group undertakings:

	2014 £	2013 £
<u>Amounts due to group undertakings</u>		
Petrominerales Colombia Corp. Panamá	25,592	28,003
Petrominerales Ltd Bermuda	1,141,943	1,306,670
Petrominerales Peru SA	1,509,918	1,226,747
Petrominerales Ltd Colombia	9,186,096	9,880,614
Pacific Rubiales Energy	556,897	179,260
	<hr/>	<hr/>
Amounts due to group undertakings (Note 14)	12,420,446	12,621,294
	<hr/>	<hr/>
<u>Amounts receivable from Joint venture partners</u>		
Veraz Petroleum Peru	281,393	195,363

Key Management Compensation

No remuneration was paid to key management personnel during the current or prior years.

9. INTANGIBLE ASSETS

	2014 £	2013 £
Exploration and evaluation assets:		
Cost:		
Opening balance	13,957,606	6,425,023
Additions	500,118	7,532,583
	<hr/>	<hr/>
Closing balance	14,457,724	13,957,606
	<hr/>	<hr/>
Impairment:		
Opening balance	(13,946,166)	(6,413,583)
Charge for the year	(311,290)	(7,532,583)
	<hr/>	<hr/>
Closing balance	(14,257,456)	(13,946,166)
	<hr/>	<hr/>
Net book value:		
Closing balance	200,268	11,440
	<hr/>	<hr/>
Opening balance	200,268	11,440
	<hr/>	<hr/>

The company's exploration activities in Columbia resulted in no mineral or hydrocarbon finds and the total expenditure to date in Columbia has been fully written off. The company's exploration activities in Peru have yet to be fully evaluated. The remaining capitalized exploration costs of £200,268 relate to one exploration drill well, the final outcome of which has yet to be fully evaluated. All other exploration costs in respect of Peru have not yielded successful outcomes and the related costs have been fully written off.

PAN ANDEAN RESOURCES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2014**

10. PROPERTY, PLANT AND EQUIPMENT

	£	2014 £	2013
Cost:			
Opening balance		1,629	1,629
Additions for the Year		-	-
Closing balance		<u>1,629</u>	<u>1,629</u>
Impairment:			
Opening balance		(1,629)	(1,629)
Charge for the year		-	-
Closing balance		<u>(1,629)</u>	<u>(1,629)</u>
Net book value:			
Closing balance		-	-
Opening balance		-	-

PAN ANDEAN RESOURCES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2014**

11. INVESTMENTS

The company's interest in subsidiary company's at 31 March 2014 is as follows :

Direct	Total allotted capital	Country of incorporation and operation	% Ownership	Nature of business
Pan Andean Oil & Gas Limited	200 ordinary shares of 1p each	England	100	Dormant

The company operates through 2 branches in Columbia and Peru, the result, assets and liabilities of which are reported as part of these financial statements. Details of the establishment of the branches is as follows:

Pan Andean Resources plc (Peru). Branch	10,000 ordinary shares of \$1 each	Peru	100	Exploration and Production
Pan Andean Resources plc (Colombia) . Branch	50,000 ordinary shares of \$1 each	Colombia	100	Exploration and Production

12. GROUP AND OTHER RECEIVABLES

	2014	2013
	£	£
<i>Group Receivables</i>	281,393	195,363
<i>VAT Receivables</i>	155,355	417,508
<i>Other</i>	122,236	60,652
	558,984	673,523

Receivables represent values due from certain joint venture partners for blocks in which Pan Andean Resources limited is the operator as well as VAT receivables. During 2014 the company wrote down \$173,000 of uncollectible receivables.

13. CASH AND CASH EQUIVALENTS

	2014	2013
	£	£
<i>Cash and cash equivalents</i>	13,655	21,293
	13,655	21,293

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. The fair value of cash and short-term deposits is £ nil(2013: £ nil).

The Company only deposits cash surpluses with major banks of high quality credit standing.

PAN ANDEAN RESOURCES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2014**

14. TRADE AND OTHER PAYABLES

	2014 £	2013 £
Trade payables and accruals	509,904	705,218
Intercompany payables (Note 8)	12,420,446	12,621,294
	<u>12,930,350</u>	<u>13,326,512</u>

It is Company normal practice to agree terms of transactions, including payment terms, with suppliers and provided suppliers perform in accordance with the agreed terms, payment is made accordingly. In the absence of agreed terms it is the group's policy that payment is made between 30 – 40 days. The carrying value of trade and other payables approximates to their fair value.

15. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's financial instruments comprise cash balances, and various items such as trade receivables and trade payables which arise directly from trading operations.

The Company and its branches undertake certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuation arise.

The Company holds cash as a liquid resource to fund the obligations of the group. The Company's cash balances are held in US dollar.

The Company does not enter into any derivative transactions, and it is the Company's policy that no trading in derivatives shall be undertaken.

The main financial risks arising from the Company's financial instruments are as follows:

Interest Rate Risk

The Company has in the past used short term bank borrowings to finance operations. The Company had no outstanding bank borrowings at the year-end or prior year end. The company and its branches are financed by its parent company Pacific Rubiales Energy through loans from group companies. As such interest rate risk is low.

Liquidity Risk

As regards liquidity, the Company's exposure is low as the Company has sufficient funds to discharge its liabilities and is not planning to incur any significant costs or liabilities in the future.

PAN ANDEAN RESOURCES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2014**

15. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Foreign Currency Risk

Although the Company is based in the UK, it has investments in overseas subsidiaries which operate in Peru and Colombia primarily denominated in US dollars. The Company is exposed at any point in time to exchange rate fluctuations.

The carrying amounts of the Company's significant foreign currency denominated monetary assets and liabilities at the reporting dates are as follows:

Company	Assets		Liabilities	
	2014	2013	2014	2013
	£	£	£	£
US \$	498,847	621,024	12,884,589	13,319,332

Capital Management

The capital structure of the Company is monitored and funded by its parent Pacific Rubiales if needed.

16. CALLED-UP SHARE CAPITAL

	2014 £	2013 £
Company		
Authorised:		
1,000,000,000 ordinary shares of 1p each	10,000,000	10,000,000
Allotted Called-Up and Fully Paid:		
Ordinary shares of 1p each:		
Opening and closing balance	1,276,898	1,276,898

17. COMMITMENTS

At 31 March 2014, commitments amounting to £Nil (2013: £Nil) existed in respect of minimum expenditure guarantees under committed work programmes.

18. CONTROLLING PARTY

The Company's immediate controlling party is Petrominerales Bermuda Ltd. a Company registered in Bermuda. The Company's ultimate controlling party and the head of the largest and smallest group into which the results of the company are consolidated is Pacific Rubiales Energy, a company registered in Canada. Copies of the consolidated statements of Pacific Rubiales Energy are available from www.pacificrubiales.com.

PAN ANDEAN RESOURCES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2014**

19 LEGAL CLAIMS AND CONTINGENCIES

Prior to the acquisition of the company by Petrominerales, legal proceedings were initiated against one of the company's former subsidiaries, Endeavour Oil & Gas Inc. ("Endeavour"), by Hunt Oil Company ("HOC"), the operator of one of Endeavour's oil wells. HOC sought the payment of allegedly unpaid joint interest bills. In June of 2013, this legal proceeding was settled at a cost of US \$350,000 (£194,490) to Pan Andean. This amount was paid in full during 2014. Additionally, a judicial claim was received in January 2011 from Compañía Consultora de Petróleo S.A., which alleges that Pan Andean did not fulfill its obligations. This legal proceeding is ongoing, but has been accrued for due to the possibility of loss, for a total of US \$289,170.

20 COMPARATIVE PERIOD RESTATEMENT

The comparative period presented in these financial statements were restated to include the consolidation of results, assets and liabilities of the Colombian and Peruvian branches of the entity, which were previously reported on separately.

	2013 As reported	2013 Adjustments (1)	2013 Restated
Intangible assets	-	11,440	11,440
Receivables	445,840	227,683	673,523
Cash and cash equivalents	-	21,293	21,293
Trade and other payables	(379,228)	(325,990)	(705,218)
Intercompany payables	-	(12,621,294)	(12,621,294)
Asset retirement obligations	-	(265,796)	(265,796)
Called-up share capital	(1,276,898)	-	(1,276,898)
Share based payment reserve	(25,920)	25,920	-
Retained deficit	2,045,433	13,565,950	15,611,383
Translation reserve	(809,227)	(639,206)	(1,448,433)

(1) Consolidation of Peru and Colombian branches of the entity

Intangible assets represent certain Peruvian costs eligible for capitalization incurred for exploration and evaluation assets which the company is actively exploring.

Receivables represents amounts due from joint venture partners of the branches, as well as VAT.

Cash and Cash Equivalents relate to the balances in accounts managed and consolidated by the branches

Trade and other Payable represent certain payables and accruals for general and administrative expenses incurred by the branches.

Intercompany payables represent the amounts of intercompany due from the branches to other entities.

Asset retirement obligations are set up in the branches for certain properties that have been disrupted and therefore require the set-up of the prediction for reclamation.

Share based payment reserve has been eliminated through retained earnings as the company is no longer listed and has no employees.

Retained Deficit changes relate to the both the 2013 restatement of net income for the branches depicted below, and also the retained earnings impact of previous year of operations of the branches.

Translation Reserve relate to the booking of foreign exchange on intercompany balances due to the foreign exchange methodology used by the company.

PAN ANDEAN RESOURCES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2014**

	2013 As reported	2013 Adjustments (1)	2013 Restated
Impairment and DDA Charge	(158,689)	(7,373,894)	(7,532,583)
Administrative Expenses	(115,286)	(1,712)	(116,998)
Investment Revenue	687	-	687
Finance Costs	(71)	128,846	128,775

(1) Consolidation of Peru and Colombian branches of the entity

Impairment and DDA Charge relates to the impairment certain Peruvian and Colombian branch exploration and evaluation properties with low level of prospectivity or returned to the governing bodies during the relevant periods, resulting in an impairment.

Administrative expenses relates to certain administrative costs incurred by the branches.

Finance costs related to the branches include both small interest income and expense values, offset by foreign exchange gains and losses on values denominated in foreign currency.

Tax values relates to the adjustment of a deferred income tax asset that was brought down to nil, as no prospectively existed.