SierraCol energy

SierraCol Energy Limited

Condensed Consolidated Financial Statements
For the three-month interim period ended 31 March 2022

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PricewaterhouseCoopers LLP ("**PwC**") review report. To read it, please download and open the correspondent file in the "Financial statements (inclusive of independent review report)" section. Please note that that document needs to be downloaded and viewed in a pdf reader.

PricewaterhouseCoopers LLP ("**PwC**") review report.

Statement of directors' responsibilities in respect of the financial statements

The directors confirm that these condensed interim financial statements for the three months ended 31 March 2022, which are prepared specifically for the purpose of fulfilling an obligation to the Loan Note Holders as per instrument dated 15 June 2021, have been prepared in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting'.

CONDENSED CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME (Reviewed, unaudited)

For the interim periods ended 31 March 2022 and 2021

(Thousands of United States dollars)

	Note		Three-months ended 31 March 2022		Three-months ended 31 March 2021
Revenue					
Oil and natural gas sales			285,576		168,791
Service revenue			381		2
Total revenues and other income	3	**$**	**285,957**	**$**	**168,793**
Operational expenses					
Production and operating expenses	4		(71,033)		(71,620)
Exploration expenses	5		(18,856)		(2,947)
General and administrative expenses	6		(10,249)		(11,380)
Fair value remeasurement contingent consideration	20		(3,882)		-
Total operational expenses		**$**	**(104,020)**	**$**	**(85,947)**
Net income from operations		**$**	**181,937**	**$**	**82,846**
Finance costs	7		(51,782)		(7,763)
Finance income			252		21,280
Other expenses			(298)		(167)
Other income			2,767		336
Net income before tax		**$**	**132,876**	**$**	**96,532**
Income tax expense	22		(46,241)		(41,472)
Net income for the period		**$**	**86,635**	**$**	**55,059**
Total comprehensive income		**$**	**86,635**	**$**	**55,059**
Attributable to:					
Shareholders of the Company		$	77,835	$	45,399
Non-controlling interest		$	8,800	$	9,660

The accompanying notes are an integral part of these interim consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (Reviewed, unaudited)
As at 31 March 2022 and 31 December 2021
(Thousands of United States dollars)

	Note		31 March 2022 (Reviewed, Unaudited)		31 December 2021 (Audited)
Assets					
Property, plant and equipment	8		894,964		906,666
Other long-term assets			4,654		4,654
Goodwill			2,650		2,650
Trade and other receivables	11		1,530		1,573
Investments	9		22,712		21,292
Non-current assets		$	***926,510***	$	***936,835***
Tax receivables	12		70,080		52,601
Trade and other receivables	11		92,296		83,671
Inventory	13		33,586		31,040
Investments	9		1,595		2,816
Cash and cash equivalents			178,427		119,306
			375,984		*289,434*
Assets held for sale	10		-		7,976
Current assets		$	***375,894***	$	***297,410***
Total assets		$	**1,302,494**	$	**1,234,245**
Liabilities and shareholders' equity					
Long-term notes	15		582,354		583,778
Deferred tax liability	22		49,949		76,957
Decommissioning and environmental liabilities	14		113,086		111,968
Lease liabilities	16		1,327		2,976
Employee benefits	18		145		137
Pension liabilities	17		2,510		1,910
Long-term payables	20		27,108		67,901
Non-current liabilities		$	***776,479***	$	***845,627***
Decommissioning and environmental liabilities	14		4,007		3,918
Lease liabilities	16		3,790		4,697
Derivative financial instruments	7		25,212		9,013
Income tax payable	22		197,116		123,083
Employee benefits	18		7,491		9,659
Interest payable	15		11,000		-
Accounts payable and accrued liabilities	19		181,005		214,739
Current liabilities		$	***429,621***	$	***365,109***
Total liabilities		$	**1,206,100**	$	**1,210,736**
Share capital	24		427		427
Retained earnings/ (Accumulated losses)			56,372		(21,463)
Equity attributable to the shareholders of the Company			***56,799***		***(21,036)***
Equity attributable to the non-controlling interest			***39,595***		***44,545***
Total equity		$	**96,394**	$	**23,509**
Total liabilities and equity		$	**1,302,494**	$	**1,234,245**

The accompanying notes are an integral part of these interim consolidated financial statements.

The financial statements 6 through 36 were approved by the Board of Directors on 25 May 2022 and signed on its behalf by:

Mr Parminder Singh (Signed)
Director

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (Reviewed, unaudited)
For the interim periods ended 31 March 2022 and 2021
(Thousands of United States dollars)

	Share capital	Share premium	Accumulated losses	Total equity shareholders of the Company	Non-controlling interest	Total equity
1 January 2021	**$ 369,910**	**$ -**	**$ (28,020)**	**$ 341,890**	**$ 64,407**	**$ 406,297**
Dividends paid to non-controlling interests	-	-	-	-	(5,000)	(5,000)
Other share capital contributions	4,400	-	-	4,400	-	4,400
Net income and comprehensive income	-	-	45,399	45,399	9,660	55,059
31 March 2021	**374,310**	**-**	**17,379**	**391,689**	**69,067**	**460,756**
31 December 2021	**$ 427**	**$ -**	**$ (21,463)**	**$ (21,036)**	**$ 44,545**	**$ 23,509**
Dividends paid to non-controlling interests	-	-	-	-	(13,750)	(13,750)
Net income and comprehensive income	-	-	77,835	77,835	8,800	86,635
31 March 2022	**$ 427**	**$ -**	**$ 56,372**	**$ 56,799**	**$ 39,595**	**$ 96,394**

The accompanying notes are an integral part of these interim consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (Reviewed, unaudited)
For the interim periods ended 31 March 2022 and 2021
(Thousands of United States dollars)

	Note		Three-months ended 31 March 2022		Three-months ended 31 March 2021
Operating Activities					
Net income before tax			132,876		96,687
Adjustments for non-cash items:					
Depreciation, depletion and amortisation	8		29,554		26,287
Property, plant and equipment impairment	4		144		-
Inventory impairment	4		(341)		155
Write-off of E&E assets	5		18,076		-
Unrealised fair value loss on derivatives	7		16,198		-
Unrealised foreign exchange loss (gain)			6,776		(19,490)
Financial income			(253)		(41)
Financial expenses	7		9,051		3,033
Accretion of decommissioning liability	7		1,632		1,550
Prepaid expenses charged to income statement	11		2,454		2,259
Amortisation of bond issuance cost	15		576		-
Fair value remeasurement contingent consideration	20		3,882		-
Adjustments for non-cash items		**$**	**220,625**	**$**	**110,440**
Changes in trade and other receivables			(1,903)		(54,124)
Changes in inventories			(2,205)		1,943
Changes in trade and other payables			(109,980)		(17,355)
Changes in assets and liabilities		**$**	**(114,088)**	**$**	**(69,536)**
Income tax payments			(19,438)		(27,437)
Net cash flows provided from operating activities		**$**	**87,099**	**$**	**13,609**
Investing activities					
Expenditures on property, plant and equipment	8		(9,297)		(7,300)
Expenditures on exploration and evaluation assets	8		(3,195)		(376)
Financial income			253		41
Net cash flows used in investing activities		**$**	**(12,239)**	**$**	**(7,635)**
Financing activities					
Dividends paid			(13,750)		(5,000)
Lease payments	16		(1,295)		(1,424)
Interest paid			-		(2,410)
Proceeds from issuance of common shares			-		4,400
Net cash flows used in financing activities		**$**	**(15,045)**	**$**	**(4,434)**
Net increase in cash and cash equivalents			59,815		1,541
Cash and cash equivalents at the beginning of the period			119,306		109,485
Foreign exchange impact on cash and cash equivalents			(694)		-
Cash and cash equivalents at the end of the period		**$**	**178,427**	**$**	**111,026**

The accompanying notes are an integral part of these interim consolidated financial statements.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Reviewed)

1. Reporting entity

SierraCol Energy Limited (**"the Company" or SCE**) is a private limited company, limited by shares, incorporated in the United Kingdom and registered in England on 28 July 2020 and is engaged, via several of its subsidiaries, in the exploration and the acquisition, development and production of hydrocarbons in Colombia. The Company is located at 1st St James's Market, London, United Kingdom SW1Y 4AH. These consolidated financial statements include the financial statements of the Company and its subsidiaries (**"the Group" or "Group"**).

The Company through its subsidiaries aims to carry out exploration, production and sale of oil and gas, as described below:

- SierraCol Energy Arauca LLC (Arauca) is the operator partner for the Cravo Norte, Rondón, Chipirón and Cosecha association contracts signed with Ecopetrol S.A. ("**Ecopetrol**", **ECP**). The aforementioned contracts are located in the Arauca basin and all are in the production stage.
- SierraCol Energy Andina LLC (Andina) is the capex operator partner for the La Cira Infantas (**LCI**) and Teca-Cocorná collaboration agreements signed with Ecopetrol; both contracts are located in the Middle Magdalena basin and are in the exploitation phase. In addition, Andina is a non-operator partner in the Cravo Norte, Rondón and Chipirón contracts which Arauca operates. Recently, Andina entered into exploration and production (**E&P**) contracts with Amerisur located in the Putumayo area (Mecaya, Tacacho, Terecay, Put-9 and Put-8) as a non-operator partner. The Amerisur contracts in the Putumayo area are in the exploration phase.
- SierraCol Energy Condor LLC (Condor) is the operator partner in the Llanos 52 and Llanos 39 E&P contracts signed with the National Hydrocarbons Agency (**ANH**); currently the contracts are in the exploration phase.
- Cedco is the operator of Río Verde, Los Hatos, Llanos 23 E&P contracts signed with the ANH and Alcaraván association contract signed with Ecopetrol all are in the production stage.
- Cinco Ranch Petroleum Colombia Inc. (Cinco Ranch) was the operator in the Bocachico association contract, terminated on 6 March 2022, some abandonment activities are still ongoing.
- Lagosur Petroleum Colombia Inc.(Lagosur) is the operator in the Bolívar association contract, this contract is in production stage.

As of 31 March 2022, the Group had the following interests in oil and gas assets:

Basin	Contract	Group´s interest[1] Capital Investments	Group´s interest[1] Production and expenditures	Operator	Partners	Stage
Middle Mag.	La Cira Infantas	52%	48%[2]	Ecopetrol	Andina, ECP	Production
Middle Mag.	Teca - Cocorná	60%	40%	Ecopetrol	Andina, ECP	Production
Middle Mag.	Bolívar	100%	100%	Lagosur	Lagosur, ECP	Production
Middle Mag.	Bocachico	100%	100%	Cinco Ranch	Cinco Ranch, ECP	Relinquishment in progress
Llanos (Northern)	Cravo Norte	50%	45%[2]	Arauca	Arauca, Andina, ECP	Production
Llanos (Northern)	Rondón	50%	50%	Arauca	Arauca, Andina, ECP	Production
Llanos (Northern)	Chipirón	70%	70%	Arauca	Arauca, Andina, ECP	Production
Llanos (Northern)	Cosecha	70%	70%	Arauca	Arauca, ECP	Production
Llanos (Northern)	LLA39	50%	50%	Condor	Condor, ECP	Exploration
Llanos (Northern)	LLA52	48%	48%	Condor	Condor, ECP	Exploration
Llanos (Northern)	Villanueva	50%	50%	Perenco	Andina, ANH	Relinquishment in progress
Llanos (Central)	Rio Verde	100%	100%	Cedco	Cedco	Production
Llanos (Central)	Alcaraván	100%	100%	Cedco	Cedco	Production
Llanos (Central)	Los Hatos	100%	100%	Cedco	Cedco	Production
Llanos (Central)	LLA23	100%	100%	Cedco	Cedco	Production
Putumayo	Mecaya	50%	50%	Amerisur	Andina, Amerisur	Exploration
Putumayo	Tacacho	50%	50%	Amerisur	Andina, Amerisur	Exploration
Putumayo	Terecay	50%	50%	Amerisur	Andina, Amerisur	Exploration
Putumayo	Putumayo-8	50%	50%	Amerisur	Andina, Amerisur	Exploration
Putumayo	Putumayo-9	50%	50%	Amerisur	Andina, Amerisur	Exploration

[1] Group's working interest for (i) capital investments and (ii) production and expenditures are defined per the association contract.
[2] Group's share is affected by crude oil benchmark in accordance with the Price Premium Adjustments (PPA) adjustment clause.

2. Basis of preparation and significant accounting policies

Basis of preparation

The condensed consolidated interim financial statements ("**Interim statements**") of the Company and its subsidiaries (collectively referred to as "the Group") for the three-months ended 31 March 2022, which are prepared specifically for the purpose of fulfilling an obligation to the Loan Note Holders as per instrument dated 15 June 2021, have been prepared in accordance with IAS 34 Interim financial reporting adopted by the UK.

Basis of measurement

These interim statements have been prepared on a historical cost basis, except for certain financial assets and liabilities, which are measured at fair value with changes in fair value recorded in profit or loss (**FVTPL**).

The interim statements have been prepared assuming that the Group is a going concern and that the Group will realize its assets and discharge its liabilities in the normal course of business.

In the preparation of these interim financial statements, the Directors have made an assessment of the Group's ability to continue as a going concern. At 31 March 2022, the Group had net current liabilities of $429.6 million, cash balances of $178.5 million and long-term liabilities of $776.4 million, including $600 million in respect of long-term notes. Trading in the first quarter of 2022 has been positively impacted by higher commodity prices driven by geopolitical events. Notwithstanding the current higher commodity prices, the Group closely monitors and manages its liquidity risk by producing regular cash flow forecasts to ensure it has sufficient funds to meet forecast cash requirements. The cash flow forecasts model different scenarios including, but not limited to, changes in commodity prices and production rates. The going concern assessment included consideration of a severe but plausible downside scenario that modelled a reduction in future production rates and a shock to global oil prices followed by a period of sustained lower prices. The cash flow forecasts extend beyond a period of 12 months from the date of signing these interim financial statements. The Directors concluded that the Group has sufficient means to continue as a going concern.

Principles of consolidation

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern an entity's financial and operating policies to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are considered. The results of subsidiaries acquired or disposed of during the period are included in the interim statements from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Company.

These interim statements include the financial statements of SCE and its controlled subsidiaries. Intercompany balances, transactions, revenues, and expenses are eliminated on consolidation.

The purchase method of accounting is used to account for acquisitions of subsidiaries and assets that meet the definition of a business under IFRS 3. The cost of an acquisition is measured at fair value. The fair value of the consideration paid is allocated the cost to the acquired identifiable assets and liabilities on the basis of their fair values; any excess if allocated to goodwill and recognises any excess of acquired assets and liabilities over the consideration paid ("a bargain purchase") in profit or loss immediately. Acquisition-related costs, other than share issue costs, are expensed as period costs.

The Company also uses the predecessor accounting method when acquiring a company or group of companies under common control.

The cost of the acquired assets and liabilities are stated at predecessor carrying values, and fair value measurement is not required. No new goodwill arises in this method of accounting. Any difference between the consideration given and the aggregate carrying value of the assets and liabilities of the acquired entity at the date of the transaction is included in equity in retained earnings or a separate reserve.

Joint operations

Oil and gas operations are usually conducted by the Group as co-licensees in unincorporated joint operations with other companies.

Under IFRS 11, a joint operation is an arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. The Group recognises its proportionate share of assets, liabilities, revenues and expenses in the joint operation.

Foreign currency translation

The United States dollar is the functional currency of the Company and all its subsidiaries.

The Group converts monetary assets and liabilities denominated in a currency other than the functional currency at the exchange rate in effect at the reporting date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised immediately in the consolidated statement of comprehensive income. Non-monetary assets and liabilities denominated in a currency other than the functional currency are converted at the exchange rate prevailing on the transaction date. Revenues and expenses are converted at transaction date exchange rates. All differences are recognised in the interim consolidated statement of comprehensive income in foreign exchange as appropriate.

Fair value measurements

When measuring the fair value of an asset or a liability, the Group uses observable market data as much as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- **Level 1**: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- **Level 2:** inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (e.g. prices) or indirectly (e.g. derived from prices).
- **Level 3**: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Assuming that the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognizes transfers between the fair value hierarchy levels at the end of the reporting period during which the change has occurred.

Revenue recognition

Revenues from the sale of crude oil and gas are recognised when the title, risk and control over the oil and gas has been transferred to the buyer. Payments for the sale of the oil and gas are received at the end of the following month or in advance. Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for oil and gas products in the normal course of business, net of discounts, customs duties, sales, taxes, and royalties. Revenue measurement is based on the considerations established in the contracts with customers.

The Group applies the practical expedient described in paragraph 121 of IFRS 15 and does not disclose information on pending performance obligations since it recognizes revenue from continuing operations by the amount that corresponds to the value of the performance obligation with the customer that the Group has completed to date (the oil delivered, and the services rendered).

Service revenues correspond to ad hoc services that are billed monthly related to the use of the equipment; payment is made 30 days after invoicing.

Transportation costs

Transportation costs include trucking and pipeline tariffs to transport crude oil from the wellhead to the point of title transfer and from the wellhead to offloading stations. Transportation costs are recognised simultaneously with revenue and are presented within Production and operating expenses in the statements of income.

Exploration and Evaluation (E&E) assets

The E&E assets represent expenditures in connection with the exploration and evaluation phase that are recognised as assets according to the accounting policies of the Group.

Costs directly associated with an exploration well are initially capitalised as work in progress asset until the well is completed, and the results have been evaluated. These costs include employee remuneration, materials, rig costs and payments made to contractors. If potential commercial quantities of hydrocarbons are not found, the exploration well costs are written off. If hydrocarbons are found and, subject to further appraisal activity, are likely to be capable of commercial development, the costs are capitalised. Upon internal approval for development and recognition of proved or sanctioned probable reserves, the relevant expenditure is transferred to PP&E. If development is not approved and no further activity is expected to occur, then the costs are expensed. The determination of whether potentially economic oil and natural gas reserves have been discovered is usually made within one year of well completion, but can take longer, depending on the complexity of the geological structure.

Geological and geophysical exploration costs are recognised as an expense as incurred.

Property, plant and equipment (PP&E)

PP&E owned by the Group is stated at cost, less accumulated depreciation and accumulated impairment losses. The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into the location and condition necessary for it to be capable of operating in the manner intended by management, the initial estimate of any decommissioning obligation, if applicable and, for assets that necessarily take a substantial period of time to get ready for their intended use, directly attributable general or specific finance costs.

The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. Oil and gas assets, excluding construction in progress, are depleted using a unit-of-production method. The cost of producing wells and the related facilities and future decommissioning costs are amortised over proved and probable reserves on a unit of production basis. The unit-of-production rate for the depletion of facilities takes into account expenditures incurred to date, together with estimated future capital expenditure expected to be incurred relating to undeveloped reserves. Information on the carrying amounts of the Group's oil and gas assets, together with the amounts recognised in the income statement as depreciation, depletion and amortisation is contained in Note 9.

The impact of changes in estimated proved reserves is dealt with by amortising the remaining carrying value of the asset over the expected future production. Other PP&E is depreciated on a straight-line basis over its expected useful life.

The Group utilises the successful efforts method where it recognises an asset when its commercial viability and technical feasibility have been determined.

Recognition and measurement

The Group recognises PP&E if it is probable that it obtains future economic benefits associated with the asset and the cost of the item can be reliably measured. The items of PP&E are measured at cost less the accumulated depreciation and accumulated impairment losses.

The initial cost of an asset includes expenses that are directly attributable to the acquisition of the asset to make it suitable for its use as well as the costs of dismantling, removing the items and restoring the site on which they are located. The capitalised value of right-of-use assets (lease contracts) is also included in PP&E.

The cost of the additions or upgrades to existing assets shall be capitalised if its useful life increases by more than a year or its original specifications such as capacity, efficiency or economical operation. The works of wells services activities are capitalised only if the proven reserves are increased.

The costs incurred in repair and maintenance of the existing assets are recorded as expenses of the period. The costs incurred in major maintenance are capitalised.

Amortisation

Oil and gas assets are depleted using the units of production method (UOP). Land is not depleted. Other PP&E is depreciated using the straight-line method, according to the estimated useful life of each asset, as follows:

Asset class	Useful life in years
Buildings	15-33
Administrative assets	5-15

The depreciation and residual values methods are revised in each fiscal year and adjusted if necessary. As of 31 March 2022 and 31 December 2021 no residual values have been estimated.

Cash-generating units (CGU) and Impairment

The Group assesses assets or groups of assets, called cash-generating units (CGUs), for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or CGU may not be recoverable; changes in the Group's business plans, plans to dispose rather than retain assets, changes in the Group's assumptions about commodity prices, evidence of physical damage and significant downward revisions of estimated reserves are taken into account. If any such indication of impairment exists, the Group makes an estimate of the assets or CGU's recoverable amount. Individual assets are grouped into CGUs for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. A CGU's recoverable amount is the higher of its fair value less costs of disposal and its value in use. Where the carrying amount of a CGU exceeds its recoverable amount, the CGU is considered impaired and is written down to its recoverable amount. Various assumptions regarding market conditions, such as oil prices, natural gas prices and cost inflation rates are used by the Group. Future cash flows also include an estimate of the costs associated with the Group's planned reduction in carbon emissions. Cash flow analyses are based on current legislation in the jurisdictions in which we operate and do not model any change in legislation with respect to climate change or carbon emissions. In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the asset group that are not reflected in the discount rate and are discounted to their present value. Where discounted cash flow analyses are used to calculate fair value less costs of disposal, estimates are made about the assumptions that a market participant would use when pricing the asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to the lower of its recoverable amount and the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Impairment reversals are recognised in profit or loss. After a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate the recoverable amount of the group of CGUs to which the goodwill relates should be assessed. In assessing whether goodwill has been impaired, the carrying amount of the group of CGUs to which goodwill has been allocated is compared with its recoverable amount. Where the recoverable amount of the group of CGUs is less than the carrying amount (including goodwill), an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period. Determination as to whether and by how much, an asset, CGU, or group of CGUs containing goodwill is impaired involves management estimates on highly uncertain matters such as the effects of inflation and deflation on operating expenses, discount rates, capital expenditure, production profiles, reserves and resources and future commodity prices.

Leases

The Group leases various offices, facilities, machinery and equipment. Lease contracts are typically entered into for fixed periods of one to five years but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at on which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance expenses. Both are recognised at the commencement date based on the present value of lease payments over the lease term. The finance expense is charged to the consolidated statement of comprehensive income over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is subsequently depreciated using the straight-line method from the initial date until the end of the lease term, unless the lease transfers the ownership of the underlying asset to the Group at the end of the lease term or the cost of the right-of-use asset reflects that the Group is going to exercise a purchase option. In such case, the right-of-use asset shall be depreciated throughout the useful life of the underlying asset, which is determined on the same basis as those in PP&E.

Additionally, the right-of-use asset is periodically reduced by impairment losses, if applicable and it is adjusted for certain new measurements of the lease liability.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments, less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee is going to exercise that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.
Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

The Group does not recognise right-of-use assets and lease liabilities for short-term leases and low value assets. The Group recognises lease payments associated with such leases as a current expenditure during the term of the lease. Low-value assets include IT equipment, tools and small office furniture items.

Cash and cash equivalents

Cash and cash equivalents consist of cash held in banking institutions and cash on hand.

Inventory

Inventories are assets that are:

a) held to be sold under normal operational conditions;
b) in the production process aimed to be sold; and
c) in the form of materials or supplies, to be consumed in the production process, or the provision of services.

The Group handles the following inventories:

a) crude oil inventory; and
b) materials and supplies stock

Crude oil inventory is measured based on the cost per barrel of production, determined by the sum of operational costs and depreciation, depletion and amortisation divided by the total number of produced barrels. Cost per barrel is then used to measure the crude inventory volumes.

The cost of materials and supply stock is measured based on the weighted average valuation method and includes the expenditures for the acquisition of inventories and other costs incurred in the transportation and distribution to final location.

Inventories are measured at the lower of cost and net realisable value. Underlifts and overlifts are valued at market value and are included in accrued income and prepayments and accrued liabilities, respectively. Changes in crude oil inventories, underlifts and overlifts are adjusted through cost of sales.

Assets held for sale

Assets held for sale are classified as held for sale if carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is met when the sale is highly probable and the asset is available for immediate sale in its present condition. For the sale to be highly probable management must have implemented a plan to sell the asset. The asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value and the sale should be expected to be completed within one year from the date of classification. Non-current assets classified as held for sale are measured at the lower of the carrying amount and fair value less costs to sell, with impairments recognised in the consolidated statement of comprehensive income/(loss) in the period measured. Non-current assets held for sale are presented in current assets and liabilities within the balance sheet. Assets held for sale are not depleted, depreciated or amortised. Income and expenses related to discontinued operations are classified as income/(loss) from discontinued operations within the consolidated statement of comprehensive income/(loss) and the consolidated statement of cash flows.

Financing income and cost

Interest comprises interest on bank deposits and loans. Interest income and cost are recognised in the statement of comprehensive income as they accrue using the effective interest method.

Financial instruments

a) Classification and measurement

Financial assets

It is the Group's policy to initially recognise financial assets at fair value plus transaction costs, except in the case of financial assets recorded at FVTPL which are expensed in the statement of comprehensive income and trade receivables, which do not exhibit a significant financing component, at the transaction price.

Classification and subsequent measurement are dependent on the Group's business model for managing the asset and the cash flow characteristics of the asset. On this basis, the Group may classify its financial instruments at amortised cost, fair value through the statement of comprehensive income and fair value through other comprehensive income (**FVTOCI**).

The Group's financial assets include cash and cash equivalents, deposits, long-term investments, accounts receivable and if any, derivative financial instruments (risk management contracts). They are included in current assets, except for maturities greater than 12 months after the reporting date. Interest income from these assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in the statement of comprehensive income and presented in finance income/costs.

Financial liabilities

The Group derecognises a financial liability when it is extinguished (i.e. when the obligation specified in the contract is discharged or cancelled or expires). When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised immediately in the statement of comprehensive income.

b) Modification

When the contractual cash flows of a financial instrument are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial instrument, the Group recalculates the gross carrying amount of the financial instrument and recognises a modification gain or loss immediately within finance income/costs – net at the date of the modification. The gross carrying amount of the financial instrument is recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial instrument's original effective interest rate.

c) Offsetting of financial assets and financial liabilities

Offsetting can be applied when there is a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right is not contingent on future events and is enforceable in the normal course of business, and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

d) Derivatives

The Group may use derivative financial instruments to manage economic exposure to market risk relating to commodity prices, foreign exchange rates and interest rates. However, such contracts are not accounted for as designated hedges. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and subsequently remeasured to their fair value at the end of each reporting period. Any gains or losses arising from changes in the fair value of derivatives are recognised within finance income/costs for the period.

e) Fair value of financial instruments

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Group establishes fair value using valuation techniques. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, and discounted cash flow analysis. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Group, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments.

Inputs to valuation techniques reasonably represent market expectations and measure the risk-return factors inherent in the financial instrument. The Group calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognised for future operating losses.

Employee benefits and post-employment benefits

Employee benefits including wages, salaries, bonuses, social security contributions and sick leave are accrued in the period in which the associated services are rendered by employees of the Group. Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees or employment termination.

Benefits to employees in the short term and long term, and post-employment, which are recognised in accordance with IAS 19, are as follows:

<u>Defined contribution plans:</u> the defined contribution plans' values are undiscounted and recognised when the employee has rendered his services during the accounting period, as liability, after deducting any already satisfied value.

Other long-term employee benefits: the Group recognises the long-term benefits for its obligations with each of its workers as a consequence of their acquired right, according to the current law and the existing employment agreements, in the liability against the profit or loss of the period.

Defined benefit plans: the Group recognises as defined benefit plans its obligations with each one of its workers as a consequence of their acquired right, in accordance with the current law and the existing employment agreements.

Remeasurements of the defined benefit liability and asset, comprising actuarial gains and losses, and the return on plan assets are recognised within other comprehensive income in the period in which they occur and are not subsequently reclassified to profit and loss. The defined benefit pension plan surplus or deficit recognised on the balance sheet for each plan comprises the difference between the present value of the defined benefit obligation (using a discount rate) and the fair value of plan assets out of which the obligations are to be settled directly. Fair value is based on market price information and, in the case of quoted securities, is the published bid price. Defined benefit pension plan surpluses are only recognised to the extent they are recoverable, either by way of a refund from the plan or reductions in future contributions to the plan. Contributions to defined contribution plans are recognised in the income statement in the period in which they become payable.

Termination benefits: The Group recognises the benefits for the termination of the labour contract without just cause, as a liability and as an expense.

Decommissioning and environmental liabilities

The Group recognises the estimated fair value of decommissioning liabilities associated with E&E and oil and gas assets in the period in which they are incurred, normally when the asset is purchased or developed. The fair value is capitalised and amortised over the same period as the underlying asset. The Group estimates the liability based on the estimated costs to abandon and reclaim the wells and well sites that are required to be abandoned under the terms of the exploration and development contracts. Wells and well sites that the Group has acquired, constructed, drilled, completed workovers on, or performed enhancements to are included in the estimate. This estimate is evaluated on a yearly basis and any adjustment to the estimate is applied prospectively. The liability is estimated by discounting expected future cash flows required to settle the liability using a risk-free rate. The liability accretes for the effect of time value of money until it is expected to settle and is recognised within finance expenses. Actual decommissioning liabilities settled during the period reduce the decommissioning liability.

Environmental liabilities are recognised when the Group has a present legal or constructive obligation as a result of past events and the amount can be reliably estimated. These liabilities are in addition to the decommissioning liabilities due to government regulations that require the Group to perform additional mitigation of environmental issues attributed to water usage and deforestation from oil and gas activities. In addition, the timing of the expected settlement of the environmental liabilities differs from the timing of the expected settlement of the decommissioning liabilities. These are measured at the present value of the expenditures expected to be required to settle the obligation using a discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as a financial expense.

Tax

The tax expense represents the sum of the dividend tax withholding, income tax currently payable and deferred tax. Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the reporting date.

Income taxes

Income tax expense comprises current and deferred income taxes. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current income tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous periods.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the primary financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred income tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income tax is measured at the tax rates that are expected to be applied to temporary differences when they are reversed, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred income tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different taxable entities, but they intend to settle current tax liabilities and assets on a net basis, or their tax assets and liabilities will be realised simultaneously.

Critical accounting estimates and judgements

The preparation of the financial statements in accordance with the principles of IFRS, as described in the basis of preparation paragraph, requires management to make judgements, estimates and assumptions that impact the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as at the reporting date as well as the reported amounts of revenue and expenses during the periods presented. Such estimates relate primarily to unsettled transactions and events as of the date of the financial statements and actual results could differ materially from estimated amounts.

i. Oil and gas accounting – reserves determination

The process of estimating reserves is complex and requires significant estimates based on available geological, geophysical, engineering and economic data. To estimate the economically recoverable crude oil and natural gas reserves and related future net cash flows, the Group incorporates many factors and assumptions including the expected reservoir characteristics, future commodity prices and costs and assumed effects of regulation by governmental agencies. Reserves are used to calculate the depletion of the capitalised oil and gas costs and for fair value purposes, further, estimates of reserves are reviewed at least annually and are subject to review by third party experts.

ii. Determination of CGUs

The determination of CGUs requires judgement in defining a group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. CGUs are determined by similar geological structure, shared infrastructure, geographical proximity, commodity type and similar exposure to market risks. The determination of asset allocations into CGUs requires significant judgement with respect to the integration between assets, existence of active markets, similar exposure to market risks, shared infrastructure and the way management monitors operations.

iii. Asset fair value calculations

In assessing the fair value of oil and gas properties, each CGU's carrying amount is compared to its recoverable amount, defined as the greater of its fair value less cost of disposal and value in use. Due to the nature of the Group’s assets, fair value less cost of disposal is the basis for the recoverable amount. In assessing fair values, the estimated future cash flows are discounted to their present value using an after-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Fair value amount is generally computed by reference to the present value of the future cash flows expected to be derived from production of proved and probable reserves.

In addition to estimates of oil and gas reserves as discussed above, key input estimates used in the determination of future cash flows for assessing asset fair value include the following:

a) *Petroleum and natural gas prices* – forward price estimates of the petroleum and natural gas prices are used in the cash flow model. Commodity prices have fluctuated in recent years due to global and regional factors including supply and demand fundamentals, inventory levels, exchange rates, weather, and economic and geopolitical factors.

b) *Discount rate* – the discount rate used to calculate the net present value of cash flows is based on estimates of an approximate industry peer group weighted average cost of capital. Changes in the general economic environment and/or rates of return expected by market participants could result in significant changes to this estimate.

iv. Exploration and evaluation assets

The application of the Group's accounting policy for E&E expenditures requires judgement in determining the likelihood of a future economic benefit existing when activities have not reached a stage at which technical feasibility and commercial viability can be reasonably determined. Factors such as drilling results, future capital programmes, future operating expenses, and estimated reserves and resources are considered. In addition, management uses judgement to determine when E&E assets are reclassified to oil and gas assets. In making this determination, various factors are considered, including the existence of reserves, and whether appropriate approvals have been received from regulatory bodies and the Group's internal approval process.

v. Decommissioning and environmental liabilities

The ultimate decommissioning and restoration costs are estimates; cost can vary in response to many factors including changes to legal, contractual and regulatory requirements. The expected timing and amount of expenditure can also change in response to changes in reserves, production curves, commitments, laws and regulations, timing and likelihood of the settlement of the obligation, discount rates, and future interest rates. Additionally, the impact of climate change and the energy transition could bring forward the date of decommissioning of the Group's producing oil and gas assets, thereby increasing the net present value of the associated provision. As a result, significant adjustments to the provisions established could affect future financial results. The Group uses a risk-free discount rate based on forecasted Colombia inflation and interest rates and risk premiums.

Environmental liabilities are an addition to the decommissioning liabilities; some regulations require the Group to perform additional mitigation against the environmental issues related to water usage and deforestation from oil and gas activities performed. Timing of expected settlement of the environmental liabilities differs from the timing of expected settlement of the decommissioning liabilities.

Changes in accounting policies

New standards, interpretations and amendments adopted by the Group

Certain new accounting standards and interpretations have been published that are not mandatory for reporting periods commencing on 1 January 2022 and have not been adopted early by the Group. Accordingly, these standards are not expected to have a material impact on the Group.

Amendments to IFRS 9, IAS 39, IFRS 7 and IFRS 16 Interest Rate Benchmark Reform – Phase 2 were adopted on 1 January 2021. None of the Group's hedging relationships or financial instruments were impacted by the changes.

3. Revenue and other income

The Group recognises revenue from crude oil sales, gas sales and services.

The following table provides the disaggregation of revenue from contracts with customers for the period ended 31 March 2022 and 2021:

$ thousands		Three-months ended 31 March 2022		Three-months ended 31 March 2021
Sale of oil[1]		285,149		168,403
Sale of natural gas		427		388
Service revenue		381		2
Total revenues and other income	**$**	**285,957**	**$**	**168,793**

The Group has only one operating segment (all operations are in Colombia), which is also the single reporting segment. All operations are classified as continuing operations. The Board of Directors monitors the operating results of its operating segment for the purpose of making decisions and performance assessments. The Board of Directors acts as the "chief operating decision maker" (**CODM**).

Details of the oil revenue as of 31 March 2022 and 2021 per customer are as follows:

$ thousands except for barrels and average price		Three-months ended 31 March 2022		Three-months ended 31 March 2021
Ecopetrol		267,031		168,403
Goam 1 CI SAS		18,318		-
Total sales of oil[1]	**$**	**285,349**	**$**	**168,403**

[1] Before royalty payment.

4. Production and operating expenses

For the interim periods ended 31 March 2022 and 2021, production and operating expenses are detailed below:

$ thousands		Three-months ended 31 March 2022		Three-months ended 31 March 2021
Energy costs[1]		11,543		9,760
Support costs		10,516		10,037
Well services[2]		9,138		14,116
Maintenance costs		6,427		6,933
Production costs		2,761		1,905
Total lifting cost	**$**	**40,385**	**$**	**42,751**
Pipeline tariff		2,291		2,338
Trucking		353		-
Lifting cost and transportation	**$**	**43,029**	**$**	**45,089**
Depreciation, depletion and amortisation		29,554		26,287
Impairment of PP&E		144		-
Impairment of materials		(341)		155
Inventory fluctuation[3]		(1,353)		89
Total Production and Operating Expenses	**$**	**71,033**	**$**	**71,620**

[1] Energy costs corresponds to public grid-related cost to operate the fields.
[2] Well services include inspection services, materials, chemicals and others related to the well services included in the annual development plan.
[3] This amount relates to the valuation effect of the crude oil inventory as a result of recognising fluctuation of the production cost during the period.

5. Exploration expenses

For the interim periods ended 31 March 2022 and 2021, exploration expenses are summarised below:

$ thousands		Three-months ended 31 March 2022		Three-months ended 31 March 2021
Dry hole cost[1]		18,076		33
Seismic[2]		294		2,560
Overhead		486		354
Total	**$**	**18,856**	**$**	**2,947**

[1] Caño Caranal DT exploratory well Drilled and declared dry in Q1 2022.
[2] Exploration seismic expenses for the Putumayo and Condor Blocks. In Q1 2021 the higher value corresponds to the Putamyo-8 Seismic.

6. General and administrative expenses

For the interim periods ended 31 March 2022 and 2021, administrative expenses are summarised below:

$ thousands		Three-months ended 31 March 2022		Three-months ended 31 March 2021
Personnel expenses		8,274		10,699
Professional fees		4,436		3,453
Services[(1)]		3,062		1,796
Bank fees[(2)]		481		-
Taxes		216		99
Recovered costs from partners[(3)]		(6,220)		(4,667)
Total	**$**	**10,249**	**$**	**11,380**

[(1)] Services mainly includes computer licenses, catering, subscriptions, insurances, general maintenance, leases and travel expenses

[(2)] Commissions and other bank expenses.

[(3)] Corresponds to recovered costs from partners in the Llanos Norte association and LCI collaboration contracts.

7. Finance costs

For the interim periods ended 31 March 2022 and 2021, finance costs are summarised below:

$ thousands		Three-months ended 31 March 2022		Three-months ended 31 March 2021
Fair value loss on derivatives[(1)]		33,747		3,180
Financial expenses[(2)]		9,051		3,033
Foreign exchange loss[(3)]		6,776		
Accretion of decommissioning liability		1,632		1,550
Bond issuance cost amortisation		576		-
Total	**$**	**51,782**	**$**	**7,763**

[(1)] Includes unrealised fair value loss of $16.1 million and realised fair value loss of $17.5 million for the period ended March 2022 and realised fair value loss of $3.1 million for the period ended March 2021. 2022 result is impacted by higher oil prices environment compared with the ISDAs terms.

[(2)] Includes accrued and paid interest, this item includes accrued interest for the bonds of $9.0 million as of 31 March 2022.

[(3)] The comparative period 31 March 2021 foreign exchange result was a gain.

8. Property, plant and equipment

For the interim periods ended 31 March 2022 and 31 December 2021, PP&E additions are mainly related to production and development assets, environmental costs, civil works and production facilities for the Cravo Norte, La Cira Infantas, Chipirón, Rondón, Cosecha, Teca Cocorná, Rio Verde, Alcaraván, Los Hatos, Llanos 23 and Bolívar contracts.

Management completed a review of potential indicators of impairment at the reporting date and identified no indicators of impairment. The detailed PP&E movement is as follows:

$ thousands		Lands		Buildings		Administrative assets[1]		Exploration assets[3]		Oil and gas assets[2]		Right-of-use assets		Total
Cost														
Balance at 1 January 2021	**$**	**4,870**	**$**	**16,716**	**$**	**21,084**	**$**	**9,370**	**$**	**754,754**	**$**	**12,317**	**$**	**819,111**
Additions		-		-		-		376		16,150		-		16,526
Transfers		-		53		841		-		(894)		-		-
Balance at 31 March 2021	**$**	**4,870**	**$**	**16,769**	**$**	**21,925**	**$**	**9,746**	**$**	**770,010**	**$**	**12,317**	**$**	**835,637**
Balance at 31 December 2021	**$**	**224**	**$**	**3,611**	**$**	**40,352**	**$**	**25,608**	**$**	**997,305**	**$**	**13,314**	**$**	**1,080,414**
Additions		-		65		541		9,584		27,285		-		37,475
ARO change in estimate		-		-		-		-		107		-		107
Transfers		-		-		-		(258)		258		-		-
Impairment		-		-		-		-		(343)		-		(343)
Exploration expenditure written off		-		-		-		(18,076)		-		-		(18,076)
Right-of-use cancellations[4]		-		-		-		-		-		(1,311)		(1,311)
Balance at 31 March 2022	**$**	**224**	**$**	**3,676**	**$**	**40,893**	**$**	**16,858**	**$**	**1,024,612**	**$**	**12,003**	**$**	**1,098,266**
Accumulated Depreciation														
Balance at 1 January 2021	**$**	**-**	**$**	**-**	**$**	**-**	**$**	**-**	**$**	**-**	**$**	**-**	**$**	**-**
Depreciation		-		(89)		(680)		-		-		-		(769)
Amortisation		-		-		-		-		(24,147)		-		(24,147)
Retirement		-		-		-		-		-		(1,371)		(1,371)
Balance at 31 March 2021	**$**	**-**	**$**	**(89)**	**$**	**(680)**	**$**	**-**	**$**	**(24,147)**	**$**	**(1,371)**	**$**	**(26,287)**
Balance at 31 December 2021	**$**	**-**	**$**	**(448)**	**$**	**(4,829)**	**$**	**(827)**	**$**	**(161,636)**	**$**	**(6,008)**	**$**	**(173,748)**
Depreciation		-		(96)		(1,651)		-		-		-		(1,747)
Amortisation		-		-		-		-		(26,996)		(811)		(27,807)
Transfers		-		-		-		827		(827)		-		-
Retirement		-		-		-		-		-		-		-
Balance at 31 March 2022	**$**	**-**	**$**	**(544)**	**$**	**(6,480)**	**$**	**-**	**$**	**(189,459)**	**$**	**(6,819)**	**$**	**(203,302)**
Net book value at 31 March 2022	**$**	**224**	**$**	**3,132**	**$**	**34,413**	**$**	**16,858**	**$**	**835,153**	**$**	**5,184**	**$**	**894,964**

(1) Includes computer and communication equipment, office equipment, vehicles and other equipment.
(2) Includes materials inventory and supplies, constructions in progress, development assets, pipelines and also asset retirement obligation (ARO).
(3) Include the disposal of Caño Caranal DT exploratory well Drilled and declared dry in Q1 2022.
(4) Corresponds to the cancellation of Floor 6th lease in the Semana's Building.

9. Short and long-term investments

The following table provides details of the long-term investments as of 31 March 2022 and 31 December 2021:

$ thousands		31 March 2022		31 December 2021
Tax certificates[1]		1,595		2,816
Short-term investments	**$**	**1,595**	**$**	**2,816**
Cravo Norte abandonment trust portfolio		13,908		13,040
LCI abandonment trust portfolio		7,173		6,724
Tilodirán trust fund		675		630
Alcaraván trust fund		489		458
Boral trust fund		419		395
Los Hatos trust fund		48		45
Long-term investments	**$**	**22,712**	**$**	**21,292**

(1) 2022 March balance includes new tax certificates of $1.5 million related to VAT returns from 4th and 5th bimester 2021. December balance was sold with a premium 0.05% and used to pay vendors.

The above assets correspond to either of the below:

a. the participation of the Group in the trust portfolios maintained for the joint operations of Cravo Norte, Bogotá office and LCI, for the future settlement of abandonment liabilities. The trust funds are managed by a qualified third party (Fiduprevisora S.A.) and are invested in portfolio alternatives (including bonds of the manufacturing sector, bonds of entities supervised by the Superintendency of Financial Entities in Colombia, term deposit certificates and TES as agreed with the trust fund managers; or
b. trust funds maintained to meet the future abandonment obligations in the Rio Verde (Tilodirán and Boral), Alcaraván and Los Hatos contracts.

Trust fund valuation is completed at market value (level 2), which is informed by the Trust managers (Fiduprevisora, Fidubogotá and Credicorp).

10. Assets held for sale

The carrying amount of the Colon building classified as held for sale on 31 December 2021 is $8.0 million with no associated liabilities. The transaction was completed with a public deed on 25 January 2022. The full consideration was received in two payments:

- first payment of $0.7 million on 10 January 2022; and
- second payment of $7.5 million on 7 February 2022.

11. Trade and other receivables

Trade and other receivables include receivables that consist primarily of oil sale receivables related to the Group's oil sales and the joint operations receivables associated with oil licences. Other receivables correspond to VAT, loans to employees, advances to suppliers and services to third parties:

$ thousands	31 March 2022	31 December 2021
Trade receivables	83,406	78,533
Prepaid expenses[1]	4,907	720
Joint operations	3,255	572
Others	448	3,582

$ thousands		31 March 2022		31 December 2021
Loans to employees		280		264
Short-term total	**$**	**92,296**	**$**	**83,671**
Loans to employees, Directors, and officers		1,530		1,573
Long-term total	**$**	**1,530**	**$**	**1,573**

(1) Insurance premiums paid in connection with the risk management program (Energy package, Cyber, D&O and environmental) which have been amortised over the periods.

Amortisation of prepaid expenses during the first quarter 2022 of $2.5 and first quarter 2021 of $2.3 million were included in the interim consolidated statement of income and comprehensive income.

12. Tax receivables

The following table provides a detail of the taxes receivables as of 31 March 2022 and 31 December 2021:

$ thousands		31 March 2022		31 December 2021
Withholding and Income tax receivable[1]		67,611		49,433
Value added taxes (VAT)		2,469		3,168
Total	**$**	**70,080**	**$**	**52,601**

(1) Tax receivable of $53.5 and $49.4 million correspond to the income tax receivable as a result of withholding tax incurred in Colombia for oil sales and the income tax paid in advance. In Q2 2022 $45.1 million were applied to the income tax return for the taxable year 2021.

All tax receivables are expected to be received within the next 12 months and are thus recognised as current assets.

13. Inventory

The following table provides a detail of inventory as of 31 March 2022 and 31 December 2021:

$ thousands		31 March 2022		31 December 2021
Crude oil inventory [1]		6,083		5,088
Materials and supplies stock [2]		27,503		25,952
Total	**$**	**33,586**	**$**	**31,040**

(1) Crude oil inventory consists of crude oil in field tanks and in transit at the balance sheet date and is valued at the lower of cost, using the weighted average cost method, and net realisable value. The increase of $1 million corresponds to higher 81,043 bbls in stock as of 31 March 2022, due to better production performance.
(2) Materials and supplies to be used in drilling campaigns, maintenance of wells, workovers and facilities.

14. Decommissioning and environmental liabilities

As of 31 March 2022, the estimated future discounted decommissioning liability is summarised below:

$ thousands		Decommissioning		Environmental		Total
Balance at 1 January 2021	**$**	**139,165**	**$**	**7,115**	**$**	**146,280**
Accretion expense		1,550		-		1,550
Usage of provision		(27)		-		(27)
Exchange rate effect		1,286		-		1,286
Balance at 31 March 2021		**141,974**		**7,115**		**149,089**
COG acquisition		9,372		2,000		11,372
Additions of the period		344		90		434
Change in estimate		(46,981)		(1,888)		(48,869)
Usage of provision		(2,464)		(122)		(2,586)
Exchange rate effect		313		(151)		162

$ thousands		Decommissioning		Environmental		Total
Accretion expense		5,923		361		6,284
Balance at 31 December 2021	**$**	**108,481**	**$**	**7,405**	**$**	**115,886**
Additions of the period		-		-		-
Change in estimate		42		66		108
Usage of provision		(532)		(11)		(543)
Exchange rate effect		(449)		459		10
Accretion expense		1,513		119		1,632
Balance at 31 March 2022	**$**	**109,055**	**$**	**8,038**	**$**	**117,093**
Short-term	**$**	**2,369**	**$**	**1,638**	**$**	**4,007**
Long-term	**$**	**106,686**	**$**	**6,400**	**$**	**113,086**

Asset retirement obligations represent the present value of decommissioning and environmental liability costs related to oil and gas properties, expected to be incurred between 2022 and 2054 in Colombia.

The total undiscounted and uninflated amount of cash flows required to settles the Group's decommissioning liability is approximately $381 million as of 31 December 2021.

Cash flows are expected to occur in either COP or US dollar. Discount and inflation rates are selected in association with the currencies in which the liabilities are expected to be settled. Future decommissioning costs and environmental liabilities are discounted to arrive at the present value using:

a risk-free rate between 3.75% and 4.65% and an inflation rate between 2.24% and 2.64% for cash flows expected to be settled in US dollar; and
a risk-free rate between 4.17% and 5.39% and an inflation rate between 2.96% and 3.08% for cash flows expected to be settled in COP.

An increase in 1% in the risk-free rate would decrease the decommissioning liability in $19.2 million and a decrease in 1% in the risk-free rate would increase the decommissioning liability in $25.1 million.

15. Long-term notes

On 14 June 2021, the Company, through one of its subsidiaries, SierraCol Energy Andina, LLC, issued $600 million of Senior Notes with a 6.00% coupon (**"the Notes"**). The interest is payable semi-annually in arrears on 15 June and 15 December each year and will mature on 15 June 2028, unless redeemed or repurchased earlier. The Notes were rated by Fitch as B+ and by Moody's as B1.

The Notes rank equal in right of payment with all the Group's existing and future senior debt and are guaranteed by the Company's principal subsidiaries.

$ thousands		2022		2021
Beginning Balance	**$**	**583,778**	**$**	**-**
Accrued interest		9,000		-
Amortisation of the costs		576		-
Interest notes payable[(1)]		(11,000)		-
Balance at 31 March 2022	**$**	**582,354**	**$**	**-**
Long term notes issued		-		600,000
Capitalised costs		-		(19,564)
Amortisation of the costs		-		1,342
Accrued interest		-		19,300
Interest paid		-		(17,300)
Balance at 31 March 2022 and 31 December 2021	**$**	**582,354**	**$**	**583,778**

[(1)] Accrued interest included as short-term payable.

16. Lease liabilities

In the normal course of business, the Group has entered into arrangements and incurred obligations that will impact the Group's future operations and liquidity. These commitments include leases for office space, facilities, machinery, equipment and others.

The following table provides detail of lease liabilities as at 31 March 2022 and 2021:

$ thousands		2022		2021
Beginning balance	**$**	**7,673**	**$**	**12,711**
Terminated leases		(1,311)		-
Interest expense		50		84
Paid interest		(50)		(84)
Lease payments		(1,245)		(1,340)
Balance at 31 March 2022 and 2021	**$**	**5,117**	**$**	**11,371**
COG acquisition		-		765
Terminated leases		-		(488)
Interest expense		-		234
Paid interest		-		(234)
Lease payments		-		(3,975)
Balance at 31 March 2022 and 31 December 2021	**$**	**5,117**	**$**	**7,673**
Short term lease liability(1)	**$**	**3,790**	**$**	**4,697**
Long term lease liability(1)	**$**	**1,327**	**$**	**2,976**

(1) The payment of principal for these leases during the period ended 31 March 2022 is $1.2 million and interest payment of $0.1 million.

As of 31 March 2022, the remaining lease maturities are as follows:

$ thousands		**2022**		**2023**		**Total**
Lease payments	$	3,790	$	1,327	**$**	**5,117**

17. Pension liabilities

The liability presented below corresponds to the net value of the pension benefit obligation calculated annually by an independent actuary (Mercer) using the projected unit credit method and updated quarterly with the results of the pension funds and the fair value of the assets intended to cover such obligations.

$ thousands		31 March 2022		31 December 2021
Current pension liability		7,313		6,884
Long-term pension liability		16,857		15,702
Pension liabilities(1)	**$**	**24,170**	**$**	**22,586**
Bogotá pension trust portfolio		(16,752)		(15,891)
Cravo Norte pension trust portfolio		(4,908)		(4,785)
Pension funds	**$**	**(21,660)**	**$**	**(20,676)**
Long-term pension liabilities	**$**	**2,510**	**$**	**1,910**

(1) This benefit applies to eligible employees who met the conditions established in the Colombian legislation before passing Law 100/93. The Group pays the contributions according to its share of each association contract for which the 59 employees who have obtained a pension worked. The benefit plan provides for the payment of between 13 and 14 pension instalments (depending on the legal regime) per year, as well as pre-paid healthcare, educational aid and contributions to the fund of employees (FODESI). Some of the pensioners also get an additional benefit related to the mandatory health care plan which is covered by the Group.

18. Employee benefits

The following table provides a detail of employee benefits as of 31 March 2022 and 31 December 2021:

$ thousands		31 March 2022		31 December 2021
Salaries, bonuses and other benefits		7,305		9,163
Severance[(1)]		186		496
Short-term benefits and liabilities	**$**	**7,491**	**$**	**9,659**
Severance[(1)]		145		137
Long-term benefits and liabilities	**$**	**145**	**$**	**137**

[(1)] This balance includes short-term liabilities for prior periods severance package; this is settled for those employees who belong to the labour regime that predates Law 50/90 and did not embrace the regime change, to whom this social benefit is settled for all the time worked based on the last earned salary.

Employee salaries, bonuses and short-term benefits are included in production and administrative expenses in the consolidated statement of comprehensive income.

19. Short-term accounts payable and accrued liabilities

Accounts payable primarily consists of capital, operating and administrative expenses incurred but not yet settled. All accounts payable and accrued liabilities are expected to be settled within one year.

The following table provides details of the short-term accounts payable and accrued liabilities as of 31 March 2022 and 31 December 2021:

$ thousands		31 March 2022		31 December 2021
Suppliers and goods and services received		94,793		98,466
Contingent consideration[(1)]		46,700		56,700
Accounts payable related to withholding tax[(2)]		23,528		42,320
Advance from customers[(3)]		7,838		6,473
Guarantee withholding[(4)]		5,213		4,947
Joint operations		2,933		5,833
Short–Term Total	**$**	**181,005**	**$**	**214,739**

[(1)] On 1 October 2020 it was announced that Occidental Petroleum Company (**"OPC"**) and Carlyle had entered into an agreement associated with the sale of OPC onshore assets in Colombia to Carlyle for a total consideration of approximately $825 million. Customary closing adjustments resulted in a cash payment of $532.4 million on the completion date (18 December 2020) and further amounts payable subject to a gross production base target and average realised prices across three contingent payment periods. As of 31 December 2021, the balance corresponds to the first definitive payment of the contingent consideration to OPC. $55 million was paid on 3 March 2022. As of 31 March 2022, $45 million were reclassified from long-term liabilities which corresponds to second payment of the estimated contingent consideration. The remaining $1.7m balance relates to a separate, previous acquisition transaction

[(2)] Main variance between periods came from payment of the dividend tax withholding.

[(3)] The Company, through one of its subsidiaries in Colombia, has entered into certain sales contracts with a trader for the sale of crude oil. The buyer prepays certain volumes.

[(4)] Branches withhold a portion of certain service provider contracts (as agreed in the contracts) in order to guarantee full compliance of social security and other responsibilities of the vendors with local communities and other risks. The branches classify as a current portion of this liability the amount to be reimbursed to the vendors during the 12-month period following the reporting date, in those cases in which the vendors have complied with the provisions of the contracts. These withholdings are subject to refund once the contract with the vendor is terminated.

20. Long-term payables

The following table provides details of the long-term payables as of 31 March 2022 and 31 December 2021:

$ thousands	31 March 2022	31 December 2021
Contingent consideration[(1)]	23,585	64,703
Guarantee withholding	3,523	3,198

$ thousands		31 March 2022		31 December 2021
Long – Term Total	**$**	**27,108**	**$**	**67,901**

(1) Variance corresponds to the reclassification to short-term. As of March 2022, the balance corresponds to the estimated third payment of the contingent consideration remeasurement, which resulted in $3.9 million expense to the consolidated statements of comprehensive income.

21. Financial risk management contracts

The Company, through its subsidiary in Switzerland, has entered into certain financial derivative contracts to manage its exposure to market risks associated with fluctuations in the crude oil price. The Group has not applied hedge accounting for these financial derivative contracts. As a result, all derivative contracts are classified at fair value through profit or loss and are recorded in the consolidated statement of financial position at fair value.

The following is a summary of the risk management contracts in place as of 31 March 2022:

	Volume		$/bbl			
Tenor	(Bpm)	Average (Bpd)	Sold Put	Purchased Put	Purchased Call	Sold Call
1H 2022	720,000	23,867	37.5-45.0	50.0-55.0	-	75.0-91.0
2Q3Q 2022	240,000	7,869	35.0	55.0	-	90.0
TY 2022	40,000	1,316	41.0	56.0	-	-

The market value of derivative financial instruments as of 31 March 2022 is $25.2 million and 31 December 2021 is $9.0 million.

22. Income Tax Expense

The Group is subject to taxation in the UK and in Colombia. UK holding entities are subject to UK tax law obligations including Company tax returns submissions. All branches located in Colombia, are subject to Colombian tax law.

The Company does not expect to pay any UK taxes.

The standard Colombian income tax rate for 2022 is 35%. The standard UK tax rate for 2022 is 19%. In the Spring Budget of 2021, the UK Government announced that the rate of corporation tax will increase from 1 April 2023 to 25% on profits over £250,000. UK and Colombia operate under a tax treaty where taxable profits are not subject to additional taxes than the source of operations.

Tax expense for the 31 March 2022 is as follows:

$ thousands		31 March 2022		31 March 2021
Current income tax		73,249		26,463
Deferred Income tax		(27,008)		8,500
Dividend tax expense		-		6,511
Total tax expense	**$**	**46,241**	**$**	**41,474**

The movement in income tax payable during the reported period is as follows:

$ thousands		Income tax		Dividend tax		Total
1 January 2021	**$**	**19,163**	**$**	**33,378**	**$**	**52,541**
Additions		26,463		6,511		32,974
Payments		(14,563)		(25,374)		(39,937)
Exchange rate effect		(3,373)		(570)		(3,943)
31 March 2021	**$**	**27,690**	**$**	**13,945**	**$**	**41,635**
At 31 December 2021	**$**	**119,977**	**$**	**3,106**	**$**	**123,083**
Additions		73,249		-		73,249
Payments		(5,732)		-		(5,732)

$ thousands		Income tax		Dividend tax		Total
1 January 2021	**$**	**19,163**	**$**	**33,378**	**$**	**52,541**
Additions		26,463		6,511		32,974
Payments		(14,563)		(25,374)		(39,937)
Exchange rate effect		(3,373)		(570)		(3,943)
31 March 2021	**$**	**27,690**	**$**	**13,945**	**$**	**41,635**
At 31 December 2021	**$**	**119,977**	**$**	**3,106**	**$**	**123,083**
Exchange rate effect		6,516		-		6,516
31 March 2022	**$**	**194,010**	**$**	**3,106**	**$**	**197,116**

Income tax expense conciliation is as follows:

$ thousands		31 March 2022		31 March 2021
Income before taxes		132,876		96,687
Tax at the UK tax rate of		19%		19%
Income tax expense	**$**	**25,246**	**$**	**18,371**
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Difference in overseas tax rates		21,260		11,603
Non-deductible expense		(202)		10,671
Foreign exchange impact on foreign currency denominated tax pools		26,945		(11,792)
Deferred tax		(27,008)		8,500
Dividend tax		-		6,511
Others		-		(2,389)
Total income tax expense	**$**	**46,241**	**$**	**41,474**

The deferred tax liability recognises the temporary differences using the balance sheet method, including Property, plant and equipment of previous years and additions of Q1 2022, along with the effect of foreign exchange and decommissioning liability accretion as follows:

$ thousands		31 March 2022		31 March 2021
Decommissioning and environmental liability		40,245		133,135
Trade and other receivables		7,147		(74,251)
Inventories		5,455		7,408
Employee benefits		1,044		3,361
Total deferred tax assets	**$**	**53,891**	**$**	**69,653**
PP&E		(99,454)		(102,224)
Other		(4,386)		(13,893)
Total deferred tax liability	**$**	**(103,840)**	**$**	**(116,117)**
Net deferred tax liability	**$**	**(49,949)**	**$**	**(46,464)**
Deferred tax expense				
Decommissioning and environmental liability		(195)		(88,118)
Trade and other receivables		(2,562)		86,851
Inventories		(627)		1,754
Employee benefits		(66)		(397)
Decrease/(increase) in deferred tax assets	**$**	**(3,450)**	**$**	**90**
PP&E		(25,324)		7,322
Other		1,766		1,088
Deferred tax liability	**$**	**(23,558)**	**$**	**8,410**
Deferred income tax expense	**$**	**(27,008)**	**$**	**8,500**

Movement in deferred tax balances are as follows:

$ thousands		PP&E	Trade and other receivables	Inventories	Decommissioning and environmental liability	Employee benefits	Other	Total
Balance at 1 January 2021		**94,902**	**(12,600)**	**(9,162)**	**(45,017)**	**(2,965)**	**12,806**	**37,964**
Activity		7,322	86,851	1,754	(88,118)	(396)	1,087	8,500
Balance at 31 March 2021	**$**	**102,224**	**74,251**	**(7,408)**	**(133,135)**	**(3,361)**	**13,893**	**46,464**
Balance at 31 December 2021	**$**	**124,778**	**(4,585)**	**(4,828)**	**(40,050)**	**(978)**	**2,620**	**76,957**
Activity		(25,324)	(2,562)	(627)	(195)	(66)	1,766	(27,008)
Balance at 31 March 2022	**$**	**99,454**	**(7,147)**	**(5,455)**	**(40,245)**	**(1,044)**	**4,386**	**49,949**

The deferred tax asset generated by Lagosur, Cinco Ranch, Global and Condor branches is not recognised, given that there is reasonable uncertainty of future profits.

Loss - carry forwards

The Condor, Cedco, Lagosur, Global and Cinco Ranch Colombian branches, due to the fiscal losses, have no impact in current and presumptive income tax, therefore there is no income tax expense. The following table provides a summary of the value of tax losses and excess of presumptive income as of 31 March 2022:

$ thousands		Net tax losses
Lagosur		2,585
Global		2,377
Cinco Ranch		1,457
Condor		416
Total	$	**6,835**

The benefit consists of the possible use of these tax losses against the profits that each of these branches may generate in the future.

23. SCE subsidiaries

The consolidated financial statements include the financial statements of SCE and its subsidiaries as of 31 March 2022. The following is a list of SCE's direct and indirect subsidiaries:

Subsidiary	Direct or Indirect	Country of Incorporation	Principal Activities	Ownership	Address
Flamingo Swissco AG (“Swissco”)	Direct	Switzerland	Financial and consulting services	100%	C/O Transforma AG, Gartenstrase 4, 6400 Zug
SierraCol Energy Holder Ltd (“Holder”)	Direct	Bermuda	Holding	100%	Citco (Bermuda) Limited, O'Hara House, 3 Bermudiana Road, Hamilton, HM08, Bermuda
SierraCol Energy Arauca LLC (“Arauca”)	Indirect	Delaware, United States	Oil and gas	75%	C/O The Company Trust, Company Trust Center, 1209 Orange Street, Wilmington, Delaware 19801
SierraCol Energy Crude Sales	Indirect	Delaware, United States	Oil and gas	75%	C/O The Company Trust, Company Trust Center, 1209 Orange Street, Wilmington, Delaware 19801
SierraCol Energy Condor LLC (“Condor”)	Indirect	Delaware, United States	Oil and gas	100%	C/O The Company Trust, Company Trust Center, 1209 Orange Street, Wilmington, Delaware 19801
SierraCol Energy Andina, LLC (“Andina”)	Direct	Delaware, United States	Oil and gas	100%	C/O The Company Trust, Company Trust Center, 1209 Orange Street, Wilmington, Delaware 19801

Subsidiary	Direct or Indirect	Country of Incorporation	Principal Activities	Ownership	Address
COG Energy Limited (COG)	Direct	Cayman Islands	Holding	100%	C/O Maples Corporate Services Limited, Ugland House, 121 South Church Street, PO BOX 309, Cayman Islands
Colombia Energy Development Co. (CEDCO)	Indirect	Cayman Islands	Oil and gas	100%	C/O Maples Corporate Services Limited, Ugland House, 121 South Church Street, PO BOX 309, Cayman Islands
Lagosur Petroleum Colombia Inc. ("Lagosur")	Indirect	Panamá	Oil and gas	100%	PH Arifa, Boulevard Oeste, Santa Maria Business District
Cinco Ranch Petroleum Colombia Inc. ("Cinco Ranch")	Indirect	Panamá	Oil and gas	100%	PH Arifa, Boulevard Oeste, Santa Maria Business District
Global Energy Management Resources ("Global")	Indirect	Panamá	Oil and gas	100%	PH Arifa, Boulevard Oeste, Santa Maria Business District

24. Share capital

Midco owns 100% of SCE shares.

Common shares	Number		Amount ($ thousands)
Balance at 1 January 2021	369,910,003	$	369,910
Proceeds from issuance of common shares	4,400,067		4,400
Midco equity contribution	53,172,858		56,363
Capital reduction	-		(430,246)
31 December 2021 and 31 March 2022	**427,482,928**	**$**	**427**

25. Related party disclosures

Related parties' transactions

The following transactions were carried out with related parties:

$ thousands		31 March 2022		31 March 2021
Management services expense[(1)]	$	500	$	937
Loans due from related parties[(2)]	$	1,111	$	1,191

[(1)] During the three months ended 31 March 2022 and 2021, the Company booked $0.5 million and $0.9 million, respectively in fees for management services received from The Carlyle Group.

[(2)] This amount represents a loan receivable from a member of Executive Management. The amount is included within long-term trade and other receivables (Note 11).

26. Financial instruments and financial risk management

The carrying amounts and respective fair values of financial assets and liabilities as of 31 March 2022 are summarised as follows:

$ thousands		Carrying Amount 31 March 2022		Fair Value 31 March 2022
Financial assets at amortised cost				
Cash and cash equivalents	$	178,427	$	178,427
Trade and other receivables		92,296		92,296
Investments		24,307		24,307
Financial liabilities at amortised cost				
Accounts payable and accrued liabilities	$	180,755	$	180,755
Derivative financial instruments		25,212		25,212
Lease liabilities		5,117		5,117

$ thousands	Carrying Amount 31 March 2022	Fair Value 31 March 2022
Long-term notes	582,354	582,354
Interest payable	11,000	11,000

The carrying amounts and respective fair values of financial assets and liabilities as of 31 December 2021 are summarised as follows:

$ thousands		Carrying Amount 31 December 2021		Fair Value 31 December 2021
Financial assets at amortised cost				
Cash and cash equivalents	$	119,306	$	119,306
Trade and other receivables		83,671		83,671
Investments		24,108		24,108
Financial liabilities at amortised cost				
Accounts payable and accrued liabilities	$	214,739	$	214,739
Derivative financial instruments		9,013		9,013
Lease liabilities		7,673		7,673
Long-term notes		583,778		583,778

The Group's financial instruments have been assessed in accordance with the fair value hierarchy described above. Long-term investments are classified as Level 2. There has been no reclassification of financial instruments into or out of each fair value hierarchy during the period ended 31 March 202 and 31 December 2021. Assessment of the significance of a particular input to the fair value measurement requires judgement and may affect the placement within the fair value hierarchy level.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's financial risk management framework and monitors risk management activities. Management identifies and analyses the risks facing the Group and may make use of financial instruments to mitigate risks identified.

The Group has exposure to the following risks from its use of financial instruments: credit risk, liquidity risk, foreign currency risk, commodity price risk and interest rate risk. Information about the Group's exposure to each of the above risks, and the Group's objectives, policies and processes for measuring and managing risk is presented below.

Credit risk

Credit risk is the risk that the Group will not be able to collect amounts owed to it as they fall due. The Group has credit risk on cash and cash equivalents, short and long-term investments and trade and other receivables. The Group manages the credit exposure related to short and long-term investments by selecting counterparties based on credit ratings and monitors all investments.

Crude oil production is sold using market-based prices adjusted for quality differentials and for transportation costs when sold at the wellhead. The Group currently has contracts in place with two main counterparties. Management does not anticipate non-performance by any of the counterparties and therefore any expected credit loss is immaterial and not booked.

The Group’s largest customer accounted for approximately 94% of net sales. The highest amount of trade receivables outstanding is with the same customer which is the most important oil and gas company in the country. There is no other significant concentration of customer credit risk.

The Group's policy to mitigate credit risk associated with the above-mentioned areas of risk is to establish marketing relationships with large purchasers and negotiate early payment or weekly payments on oil delivery. Historically, the Group has not experienced any collection issues with its crude oil customers. As of 31 March 2022 and 31 December 2021, none of the crude oil receivables are impaired or past due.

Impairment of financial assets

The Group has two types of financial assets that are subject to the expected credit loss model:

- cash and cash equivalents; and
- accounts receivable.

Cash and cash equivalents

$ thousands		31 March 2022		31 December 2021
Cash and bank balances	$	178,427	$	119,306
AAA (Fitch ratings)				

Trade and other receivables

The Group applies IFRS 9's simplified approach, which uses a lifetime expected loss allowance for all trade receivables, to measure the expected credit losses. All other receivables are short term, and therefore expected credit losses are measured over the remaining life of term.

To measure the expected credit losses, receivables have been grouped based on shared credit risk characteristics and the days past due.

Account receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, among others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of over 90 days.

Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, within reasonable means, sufficient liquidity to meet its liabilities when due, under both normal and unusual conditions.

The Group prepares annual capital expenditure budgets, which are monitored regularly and updated as necessary. Crude oil production is monitored daily to provide current cash flow estimates and the Group utilises authorisations for expenditures on projects to manage capital expenditures.

The following table provides a maturity analysis for the Group's current and non-current liabilities as of 31 March 2022 and 31 December 2021:

$ thousands		31 March 2022		31 December 2021
Less than 1 year		429,621		365,109
1–2 years		27,108		67,901
Greater than 1–2 years		749,371		777,726
Total	**$**	**1,206,100**	**$**	**1,210,736**

Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate as a result of changes in foreign currency exchange rates. The Group is exposed to foreign currency fluctuations as certain expenditures are denominated in Colombian pesos. As of 31 March 2022 and 31 December 2021, the Group had no foreign exchange derivative contracts in place.

Commodity price risk

Commodity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in commodity prices. Commodity prices for crude oil are impacted by world economic events that dictate the levels of supply and demand. From time to time the Group attempts to mitigate commodity price risk using financial derivatives (Note 25).

The table below summarises the expense paid on the commodity risk management contracts that were in place during the interim periods ended 31 March 2022 and 2021:

$ thousands		31 March 2022		31 March 2021
Premium paid		1,718		
Losses		15,831		3,180
Total	**$**	**17,549**	**$**	**3,180**

Interest rate risk

Interest rate risk is the risk that future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates. The Group is exposed to interest rate cash flow risk on its investments.

The Group's exposure to interest rate risk is considered low because the Group has debt at a fixed rate.

27. Capital management

The Group's objectives when managing capital are to: i) safeguard its ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders; and ii) maintain an optimal capital structure to reduce the cost of capital.

The Group's working capital, calculated as current liabilities less current assets, and share capital are summarised in the following table:

$ thousands		31 March 2022		31 December 2021
Current liabilities		(429,621)		(365,109)
Less: current assets		375,984		297,410
Working capital deficit	**$**	**(53,637)**	**$**	**(67,699)**
Share capital and share premium	**$**	**427**	**$**	**427**

28. Commitments and contingencies

Exploratory commitments

The Group has net "Exploratory Commitments" for the contracts listed below, which are not included in the financial statements as liabilities:

Contract	Concept	$ million
Putumayo-8	(*) Phases 1 and 2) 3D Seismic acquisition 112 km² and three exploratory wells	13.1
Putumayo-9	(*) Phase 1) 3D Seismic acquisition 127 km²2 and two exploratory wells Phase 2) Two exploratory wells	10.6
Putumayo-36	(*) This license, which we will acquire from Oxy pending ANH approval, is currently in the preliminary phase of the exploration period in which the applicable prior consultation process with the local communities must first be completed. The license has outstanding investment commitments to acquire 105.6 km² of 3D seismic and to drill two wells,	9.5
Mecaya	(*) Phase 1 & 2) 3D Seismic acquisition 52 km² The exploration program is currently suspended while the required consultations with communities in the area are carried out	2.0
	Phase 3) 3D Seismic acquisition 31.25 km²	0.5
	Phase 4) One Exploratory well	2.0
Terecay	(*) Phase 1) 2D Seismic acquisition 476 km² The exploration program is currently suspended due to force majeure	4.0
	Phase 2) Two exploratory wells	5.5
	Phase 3) Two exploratory wells	5.5

Contract	Concept	$ million
Tacacho	(*) Phase 1) 2D Seismic acquisition 480 km² The exploration program is currently suspended due to force majeure.	4.1
	Phase 2) Two exploratory wells	5.5
	Phase 3) Two exploratory wells	5.5
Llanos 39	(*) Phase 1) 3D Seismic acquisition 370 km² and two exploratory wells	10.4
	Phase 2) Two exploratory wells or one exploratory well and the withdrawal of 50% of the remaining area	3.0
	One exploratory well and the withdrawal of 50% of the remaining area	1.5
Llanos 52	(*) Phase 1) 3D Seismic acquisition 292 kms2 and two exploratory wells	9.4
	Phase 2) Two exploratory wells	3.0
	One exploratory well and the withdrawal of 50% of the remaining area	1.5
Llanos 23	(*) Phase 1 and 2) 3D Seismic acquisition 138 km²	6.5
Cosecha	Two exploratory wells (one of which "new play") Financial commitment not defined	-

(*) After the end of the current phase the Group can decide to continue with the next phase. Letters of credit are issued to support current phase commitments.

Other commitments

The Group is involved in various claims and litigation arising in the normal course of business. Since the outcome of these matters is uncertain, there can be no assurance that such matters will be resolved in the Group's favour. The Group does not currently believe that the outcome of adverse decisions in any pending or threatened proceedings related to these and other matters or any amount which it may be required to pay by reason thereof would have a material impact on its financial position, results of operations, or cash flows.

29. Post balance sheet events

The Group does not have activities or dealings with Russia, Belarus or Ukraine. However, the ongoing situation could result in scarcity or interruptions in the supply for certain goods or services, oil price volatility, among others. The Group will continue to assess potential impacts.

Management has evaluated subsequent events for disclosure through 25 May 2022 the date the financial statements were approved by the Directors and determined there were no other subsequent events outside of the normal course of business requiring adjustment to or disclosure in the financial statements.

30. Ultimate controlling party

SCE is controlled by its immediate parent entity Midco. The ultimate parent company of Midco is Carlyle through CIEP Andes Holdco S.a r.l. and CIEP II Flamingo S.a r.l. (Carlyle’s funds) which owns 99.14% of the ordinary shares of Flamingo (Jersey) Limited, with the remainder being owned by management.