SierraCol Energy Limited

Registered number: 12773957

Consolidated Financial Statements
For the year ended 31 December 2021

Table of contents

Page

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.

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Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the non-statutory group financial statements in accordance with UK-adopted international accounting standards for the purpose of services the obligation to the Loan Notes Holders as per instrument dated 15 June 2021 to provide audited consolidated financial statements.

The directors must not approve the non-statutory financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and of the profit or loss of the group for that period. In preparing the non-statutory financial statements, the directors are responsible for:

- selecting suitable accounting policies and then applying them consistently;
- stating whether applicable UK-adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- making judgements and accounting estimates that are reasonable and prudent; and
- preparing the non-statutory financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the group's transactions and disclose with reasonable accuracy at any time the financial position of the group.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME

For year ended 31 December 2021

(Thousands of United States dollars)

	Note		For the year ended 31 December 2021		Period between 28 July and 31 December 2020
Revenue					
Oil and natural gas sales			787,917		22,187
Service revenue			632		-
Total revenues and other income	5	$	**788,549**	$	**22,187**
Operational expenses					
Production and operating expenses	6		(273,230)		(14,970)
Impairment of PP&E	9		(11,916)		-
Impairment of materials	15		(1,599)		-
Exploration expenses			(8,627)		(218)
General and administrative expenses	7		(44,650)		(31,477)
Fair value remeasurement contingent consideration	3		(57,589)		-
Total operational expenses		$	**(397,611)**	$	**(46,665)**
Net income (loss) from operations		$	**390,938**	$	**(24,478)**
Finance costs	8		(57,024)		(974)
Finance income			10,485		(2)
Other expenses			(1,067)		-
Other income			2,360		739
Net income (loss) before tax		$	**345,692**	$	**(24,715)**
Income tax expense	26		(186,090)		435
Net income (loss) for the period		$	**159,602**	$	**(24,280)**
Remeasurement of the net pension liability			2,703		-
Other comprehensive income		$	**2,703**	$	**-**
Total comprehensive income (loss)		$	**162,305**	$	**(24,280)**
Attributable to:					
Shareholders of the Company		$	148,838	$	(24,701)
Non-controlling interest		$	13,467	$	421

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

The financial statements on pages 9 through 46 were approved by the Board of Directors on 25 May 2022, and signed on its behalf by:

Mr Parminder Singh (Signed)
Director

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at 31 December 2021

(Thousands of United States dollars)

	Notes		31 December 2021		31 December 2020
Assets					
Property, plant and equipment	9		906,666		819,111
Other-long term assets	14		4,654		4,652
Goodwill	4		2,650		-
Trade and other receivables	12		1,573		498
Investments	10		21,292		20,025
Non-current assets		$	***936,835***	$	***844,286***
Tax receivables	13		52,601		10,274
Trade and other receivables	12		83,671		43,922
Inventory	15		31,040		31,443
Investments	10		2,816		-
Cash and cash equivalents			119,306		109,485
			289,434		*195,124*
Assets held for sale	11		7,976		-
Current assets		$	***297,410***	$	***195,124***
Total assets		$	**1,234,245**	$	**1,039,410**
Liabilities and shareholders' Equity					
Long-term notes	17		583,778		-
Deferred tax liability	26		76,957		37,964
Decommissioning and environmental liabilities	16		111,968		140,920
Other borrowings	18		-		194,993
Lease liabilities	19		2,976		7,577
Employee benefits	21		137		215
Pension liabilities	20		1,910		1,750
Long-term payables	23		67,901		65,680
Non-current liabilities		$	***845,627***	$	***449,099***
Decommissioning and environmental liabilities	16		3,918		5,360
Lease liabilities	19		4,697		5,134
Derivative financial instruments	25		9,013		-
Income tax payable	26		123,083		52,541
Employee benefits	21		9,659		10,019
Accounts payable and accrued liabilities	22		214,739		110,960
Current liabilities		$	***365,109***	$	***184,014***
Total liabilities		$	**1,210,736**	$	**633,113**
Share capital	28		427		369,910
Accumulated losses			(21,463)		(28,441)
Equity attributable to the shareholders of the Company			(21,036)		*341,469*
Equity attributable to the non-controlling interest			***44,545***		***64,828***
Total equity		$	**23,509**	$	**406,297**
Total liabilities and equity		$	**1,234,245**	$	**1,039,410**

The Company finalised its IFRS 3 Business Combination accounting during the year, which was previously disclosed as provisional. The final purchase price allocation, disclosed in full in Note 3, resulted in revisions to the previously disclosed fair value of Property, Plant and Equipment acquired, the deferred tax liability associated with the fair value uplift, the valuation of the acquired non-controlling interest and a reassessment of the acquisition date fair value of contingent consideration. The final assessment resulted in nil goodwill recognised

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the year ended 31 December 2021

(Thousands of United States dollars)

	Note	Share capital	Share premium	Accumulated losses	Total equity shareholders of the Company	Non-controlling interest	Total equity
28 July 2020 (date of incorporation)		**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Capital contribution from Flamingo Midco Limited		369,910	-	-	369,910	-	369,910
Result from Holder and Andina acquisition		-		(3,740)	(3,740)	68,157	64,417
Dividends paid to non-controlling interests		-	-	-	-	(3,750)	(3,750)
Net loss and comprehensive loss		-	-	(24,701)	(24,701)	421	(24,280)
31 December 2020		**$ 369,910**	**$**	**$ (28,441)**	**$ 341,469**	**$ 64,828**	**$ 406,297**
Capital contributions and result from COG acquisition	28	53,173	3,190	27,186	83,549	-	83,549
Other share capital contributions		4,400	-	-	4,400	-	4,400
Reduction in capital		(427,056)	(3,190)	430,246	-	-	-
Dividends paid to equity holders		-	-	(601,200)	(601,200)	-	(601,200)
Dividends paid to non-controlling interests		-	-	-	-	(33,750)	(33,750)
Cash contribution from parent			-	1,908	1,908	-	1,908
Net income and comprehensive income		-	-	148,838	148,838	13,467	162,305
31 December 2021		**$ 427**	**$ -**	**$ (21,463)**	**$ (21,036)**	**$ 44,545**	**$ 23,509**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

(Thousands of United States dollars)

	Note		For the year ended to 31 December 2021		Period between 28 July and 31 December 2020
Operating Activities					
Net income (loss) before tax			345,692		(24,715)
Adjustments for non-cash items:					
Depreciation, depletion and amortisation	6		97,651		6,293
Property, plant and equipment impairment	9		11,916		-
Inventory impairment	15		1,599		-
Unrealised fair value loss on derivatives	8, 25		9,013		-
Unrealised foreign exchange gain			(4,064)		5,112
Financial income			(134)		2
Financial expenses	8		24,430		974
Accretion of decommissioning liability	8		7,834		-
Prepaid expenses charged to income statement	13		10,768		-
Amortisation of bond issuance cost	8, 17		1,342		-
Fair value remeasurement of net pension liability			(2,703)		-
Fair value remeasurement MIP			1,908		-
Fair value remeasurement contingent consideration	3		57,589		-
Adjustments for non-cash items		**$**	**562,841**	**$**	**(12,334)**
Changes in trade and other receivables			(90,530)		6,547
Changes in inventories			(773)		29
Changes in trade and other payables			(21,463)		32,243
Changes in assets and liabilities		**$**	**(112,766)**	**$**	**38,819**
Income tax payments			(56,281)		-
Net cash flows provided from operating activities		**$**	**393,794**	**$**	**26,485**
Investing activities					
Acquisition of Holder and Andina			-		(532,404)
Expenditures on property, plant and equipment	9		(109,806)		(6,076)
Expenditures on exploration and evaluation assets	9		(5,863)		28
Financial income			134		(30)
Cash acquired from Holder and Andina			-		60,498
Cash acquired from COG	4		5,973		-
Net cash flows used in investing activities		**$**	**(109,562)**	**$**	**(477,984)**
Financing activities					
Long-term notes issuance	17		600,000		-
Notes issuance costs	17		(19,564)		-
Share capital contributions			-		369,910
Dividends paid			(634,950)		(3,750)
Reserve-based lending drawdown			-		194,993
Reserve-based lending repayment	18		(194,993)		-
Interest paid			(23,235)		(169)
Lease payments	19		(5,315)		-
Proceeds from issuance of common shares			4,400		-
Net cash flows used in (provided from) financing activities		**$**	**(273,657)**	**$**	**560,984**
Net increase in cash and cash equivalents			10,575		109,485
Cash and cash equivalents at the beginning of the period			109,485		-
Foreign exchange impact on cash and cash equivalents			(754)		-
Cash and cash equivalents at the end of the period		**$**	**119,306**	**$**	**109,485**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 Suite Lg, 11 St. James's Place, London, England, SW1A 1NP. These consolidated financial statements include the financial statements of the Company and its subsidiaries (**"the Group" or "Group"**).

On 18 December 2020, a transaction between Occidental Petroleum Company (**OPC**) and The Carlyle Group ("**Carlyle**") was effected (**"the Transaction**"), whereby SCE acquired the entire share capital of SierraCol Energy Holder Ltd (formerly Oxycol Holder Ltd, hereinafter "**Holder**") and SierraCol Energy Andina, LLC (formerly Occidental Andina, LLC, hereinafter "**Andina**"), registered in Bermuda and Delaware, respectively, from Oxy Colombia Holdings, Inc. and Occidental International Holdings, Ltd, respectively, both subsidiaries of OPC, and thus acquired the interest of Holder and Andina, and their subsidiaries (and their respective branches in Colombia, SierraCol Energy Arauca, LLC (Colombian branch, "**Arauca Branch**"), SierraCol Energy Andina, LLC (Colombian branch, "**Andina Branch**") and SierraCol Energy Condor, LLC (Colombian branch, "**Condor Branch**"). Before the transaction, both Holder and Andina and their subsidiaries and their branches in Colombia (Arauca Branch, Andina Branch and Condor Branch) were controlled by OPC.

SierraCol Energy Arauca, LLC is 75% owned by Holder and 25% owned by Repsol International Finance B.V. ("**Repsol**"). For consolidation purposes, Repsol's interest is included as a non-controlling interest (**NCI**) in accordance with IFRS 10 within the consolidated statement of changes in equity.

On 4 May 2021, a transaction between Flamingo Midco Limited ("**Midco**", the sole shareholder of SCE) and Andes Colombia Holding Limited ("**Andes**", a UK-based limited liability company ultimately controlled by The Carlyle Group) was effected ("**Andes Transaction**"). In this Andes Transaction, Midco acquired COG Energy Ltd (**COG**), a limited company registered in the Cayman Islands, and its subsidiaries and their respective branches in Colombia, Colombia Energy Development Co. (Colombian branch, "**Cedco**"), Global Energy Management Resources – Colombia Inc. (Colombian Branch, "**Global**"), Cinco Ranch Petroleum Colombia Inc. (Colombian Branch, "**Cinco Ranch**") and Lagosur Petroleum Colombia Inc. (Colombian branch, "**Lagosur**"), from Andes. COG was assigned to SCE and prior to the Andes Transaction, COG and its subsidiaries and their branches in Colombia (Cedco, Global, Cinco Ranch and Lagosur) were controlled by Andes.

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

- 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.
- 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 production 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.
- 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.
- Cinco Ranch is the operator in the Bocachico association contract.
- Lagosur is the operator in the Bolívar association contract.

As of 31 December 2021, the Group had the following interests in oil and gas assets:

Basin	Contract	Group´s interest[1] Capital investments	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 of contract 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	Production
Llanos (Northern)	LLA52	48%	48%	Condor	Condor, ECP	Production
Llanos (Northern)	Villanueva	50%	50%	Perenco	Andina, ANH	Relinquishment of contract 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	Production
Putumayo	Tacacho	50%	50%	Amerisur	Andina, Amerisur	Production
Putumayo	Terecay	50%	50%	Amerisur	Andina, Amerisur	Production
Putumayo	Putumayo-8	50%	50%	Amerisur	Andina, Amerisur	Production
Putumayo	Putumayo-9	50%	50%	Amerisur	Andina, Amerisur	Production

[1] Group’s working interest for (i) capital investments and (ii) production and expenditures is 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 consolidated financial statements (“financial statements”) of the Group for the year ended 31 December 2021 have been prepared in accordance with UK-adopted international accounting standards. These financial statements are non-statutory financial statements prepared for the purpose of servicing the Group’s obligation to the Loan Notes Holders as per instrument dated 15 June 2021 to provide audited consolidated financial statements.

The figures and financial information presented in these financial statements do not constitute statutory financial statements. The statutory financial statements for the period ended 31 December 2021 (the extended period from the date of the Company’s incorporation) have been delivered to the Registrar of Companies (UK Companies House) and included the auditors' report which was unqualified and neither drew attention to any matters by way of emphasis nor contained a statement under either section 498(2) of the 2006 Act (accounting records or returns inadequate or accounts not agreeing with records and returns), or section 498(3) of the 2006 Act (failure to obtain necessary information and explanations).

The significant accounting policies and accounting judgements, estimates and assumptions of the Group are set out below.

These financial statements were authorised for issuance by the Board of Directors on 25 May 2022.

Basis of measurement

These financial 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**).

In the preparation of these financial statements, the Directors have made an assessment of the Group's ability to continue as a going concern. At 31 December 2021, the Group had net current liabilities of $365.1 million, cash balances of $119.3 million and long-term liabilities of $845.1 million, including $600 million of the 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 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 financial 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 is 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 is 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 Company 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 Company 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 Company 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 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 recognises 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 have 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 Company applies the practical expedient described in paragraph 121 of IFRS 15 and does not disclose information on pending performance obligations since it recognises 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 within revenue.

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 a 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 is amortised over proved and probable reserves. Facilities and future decommissioning costs are amortised over total proved and probable reserves. 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 well 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 unit-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 December 2021 no residual values have been estimated.

Cash-generating units (CGU)

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 asset's 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.

Impairment

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 and 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

Financial liabilities of the Group are classified and measured at fair value on initial recognition and subsequently at amortised cost net of directly attributable transaction costs, except for derivatives which are classified and subsequently recognised at fair value through the statement of comprehensive income.

The remaining amount of change in the fair value of the liability is presented in the statement of comprehensive income. The Group's financial liabilities include accounts payable, accrued liabilities, lease liabilities, derivatives and borrowings.

b) Impairment of financial assets

Recognition of impairment provisions under IFRS 9 is based on the expected credit loss (**ECL**) model. The ECL model is applicable to financial assets classified at amortised cost and contract assets under IFRS 15 Revenue from Contracts with Customers. The measurement of ECL reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, time value of money and reasonable and supportable information that is available without undue cost or effort at the reporting date, about past events, current conditions and forecasts of future economic conditions.

The Group applies the simplified approach or the three-stage general approach to determine impairment of receivables depending on their respective nature.

The simplified approach requires expected lifetime losses to be recognised from initial recognition of receivables. This involves determining the expected loss rates using a provision matrix that is based on the Group's historical default rates observed over the expected life of the receivable and adjusted for forward-looking estimates. This is then applied to the gross carrying amount of the receivable to arrive at the loss allowance for the period.

The three-stage approach assesses impairment based on changes in credit risk since initial recognition using the past due criterion and other qualitative indicators such as increase in political concerns or other macroeconomic factors and the risk of legal action, sanction or other regulatory penalties that may impair future financial performance. Financial assets classified as stage 1 have their ECL measured as a proportion of their lifetime ECL that results from possible default events that can occur within one year, while assets in stage 2 or 3 have their ECL measured on a lifetime basis.

Under the three-stage approach, the ECL is determined by projecting the probability of default (**PD**), loss given default (**LGD**) and exposure at default (**EAD**) for each ageing bucket and for each individual exposure. The PD is based on default rates determined by external rating agencies for the counterparties. The LGD is determined based on management's estimate of expected cash recoveries after considering the historical pattern of the receivable, and it assesses the portion of the outstanding receivable that is deemed to be irrecoverable at the reporting period. The EAD is the total amount of outstanding receivable at the reporting period.

These three components are multiplied together and adjusted for forward-looking information, such as crude oil prices, to arrive at an ECL which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof. Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the related financial assets and the amount of the loss is recognised in the statement of comprehensive income.

c) Significant increase in credit risk and default definition

The Group assesses the credit risk of its financial assets based on the information obtained during periodic review of publicly available information, industry trends and payment records. Based on the analysis of the information provided, the Group identifies the assets that require close monitoring.

Furthermore, financial assets that have been identified to be more than 45 days past due for accounts receivable on contractual payments are assessed to have experienced significant increase in credit risk. These assets are grouped as part of stage 2 financial assets where the three-stage approach is applied.

In line with the Group's credit risk management practices, a financial asset is defined to be in default when contractual payments have not been received at least 90 days after the contractual payment period. After being deemed in default, the Group carries out active recovery strategies to recover all outstanding payments due on receivables. Where the Group determines that there are no realistic prospects of recovery, the financial asset and any related loss allowance are written off either partially or in full.

d) Derecognition

Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or when it transfers the financial asset, and the transfer qualifies for derecognition. Gains or losses on derecognition of financial assets are recognised as 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.

e) 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.

f) 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.

g) 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.

h) 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:

Defined contribution plans: 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. 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. Estimates of reserves are reviewed at least annualy 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. 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 Company 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 2021 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. Oxy assets acquisition

On 1 October 2020 it was announced that 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. Management has fair valued the contingent consideration based on the expected cash outflow based on conditions at the acquisition date, 18 December 2020.

The workings of the fair value of the assets and liabilities identified in the assignment agreement are determined as follows:

$ thousands	Holder	Andina	Total
Cash and cash equivalents	32,650	27,848	60,498
Other current assets	32,567	66,949	99,516
Other long-term assets	9,061	15,462	24,523
Property, plant and equipment[(1)]	361,629	460,285	821,914
Total assets	**$ 435,907**	**$ 570,544**	**$ 1,006,451**
Current liabilities	64,247	88,463	152,710
Long-term liabilities	107,787	87,029	194,816
Total liabilities	**$ 172,034**	**$ 175,492**	**$ 347,526**
Net assets	**$ 263,873**	**$ 395,052**	**$ 658,925**
Cash payment			**$ 532,404**
Contingent consideration[(2)]			62,114
Total consideration			**$ 594,518**
NCI[(3)]			64,407
Total acquisition			***$ 658,925***

[(1)] The valuations presented above are based on information on the fair values as at the acquisition date The fair value of property, plant and equipment is based on estimates of future cash flows which are dependent on the Group´s current best estimate of commercially recoverable reserves, along with future commodity prices between $45/bbl and $91/bbl (throughout the asset's economic life) and 12.5% discount rate
[(2)] The contingent consideration was remeasured on 31 December 2021. The fair value of the liability (discounted at 6%) increased as a result of increased forecast commodity prices, from $62 million to $120 million. This remeasurement resulted in an expense to the consolidated statement of comprehensive income of $57.6 million. The first payment of $55 million was transferred on 3 March 2022.
[(3)] NCI was measured based on proportionate share.

An increase of 1% in the discount rate at acquisition date would have decreased the fair value of PP&E by $30.2 million and a decrease of 1% in the discount rate at acquisition would have increased the fair value of PP&E in $32.6 million.

An outstanding action of the transaction with OPC, associated with the transfer of the Put-36 block working interest, will take place once change of control approval from the ANH is obtained and will result in a further estimated cash payment of $7 million. Management expects to complete the process during 2022.

4. COG acquisition

On 4 May 2021, Midco acquired COG, its subsidiaries and their respective branches that are oil and gas operating companies in Colombia (Cedco, Global, Cinco Ranch and Lagosur). Midco transferred its acquired shares in COG to the Company, which issued shares as consideration.

This acquisition has been accounted for as a transaction under common control using the predecessor accounting method.

$ thousands	COG balances as of 4 May 2021
Current assets	10,955
Cash and cash equivalents	5,973
Long-term investments	1,486
Goodwill	2,650
Property, plant and equipment	96,840

$ thousands		COG balances as of 4 May 2021
Total assets	**$**	**117,904**
Current liabilities		20,464
Long-term liabilities		13,891
Total liabilities	**$**	**34,355**
Net assets	**$**	**83,549**
Total consideration[(1)]	**$**	**56,363**

(1) The difference between the cost of the transaction and the carrying value of the net assets has been recorded through equity (included in the consolidated statement of changes in equity).

The purchase consideration was settled by an issue of shares to Midco; this transaction was assigned to SCE as described in Note 28.

5. 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 year ended 31 December 2021 and for the period between 28 July and 31 December 2020:

$ thousands		Year ended 31 December 2021		Period between 28 July and 31 December 2020 (1)
Sale of oil (2)		785,716		22,187
Sale of natural gas		2,201		-
Service revenue		632		-
Total revenues and other income	**$**	**788,549**	**$**	**22,187**

(1) The group's first acquisition completed on 18 December 2020. This acquired business represented the group's first trading activity and, as such, the group's first revenue generation. Revenue in the comparative period therefore represents the revenue generated from contracts with customers between the date of acquisition to the end of 2020.
(2) Revenue for the year ended 31 December 2021 is the net between sales of oil of $786.2 million and the overriding royalty paid of $0.5 million.

The Group has only one operating segment, 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**).

Detail of the oil revenue per customer is as follows:

$ thousands except for barrels and average price		Yeard ended 31 December 2021		Period between 28 July and 31 December 2020
Ecopetrol		747,429		22,187
Goam 1 CI SAS		38,743		-
Total sales of oil (1)	**$**	**786,172**	**$**	**22,187**

(1) Before royalty payment.
(2) In 2021 12,074,076 barrels of oil were sold with an average price of $65.11/bo compared with 454,630 barrels of oil were sold with an average price of $48.80/bo

6. Production and operating expenses

For the year ended 31 December 2021 and for the period between 28 July and 31 December 2020, production and operating expenses are detailed below:

$ thousands		Year ended 31 December 2021		Period between 28 July and 31 December 2020
Depreciation, depletion and amortisation		97,651		6,293
Production costs[1]		14,342		3,192
Well services[2]		46,045		-
Maintenance costs[3]		29,773		-
Support costs[4]		38,788		5,484
Energy costs[5]		41,198		-
Total lifting cost and depreciation	**$**	**267,797**	**$**	**14,969**
Pipeline tariff		5,761		-
Trucking		944		-
Lifting, depreciation and transportation	**$**	**274,502**	**$**	**14,969**
Inventory fluctuation[6]		(1,272)		1
Total Production and Operating Expenses	**$**	**273,230**	**$**	**14,970**

(1) Includes lift cost to surface, process treatment and others.
(2) Well services includes inspection services, materials, chemicals and others related to well services included in the annual development plan.
(3) Maintenance costs includes contractors, materials and other services related to programmed maintenance as well as periodical cost.
(4) Support costs mainly relates to payroll, insurance and communication costs.
(5) Energy costs corresponds to public grid-related cost to operate the fields.
(6) 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.

7. General and administrative expenses

For the year ended 31 December 2021 and for the period between 28 July and 31 December 2020, administrative expenses are summarised below:

$ thousands		Year ended 31 December 2021		Period between 28 July and 31 December 2020
Personnel expenses		31,882		1,475
Professional fees		11,193		-
Flamingo Transaction expenses [1]		2,376		30,002
Separation-related payments		9,254		-
Other services [2]		7,932		-
Taxes		803		-
Bank fees [3]		2,639		-
Recovered costs from partners [4]		(21,429)		-
Total	**$**	**44,650**	**$**	**31,477**

(1) Transaction-related expenses includes professional fees associated with the acquisition and also separation payments, which include TSA and advisory fees. These expenses are considered one-off in nature.
(2) Other services mainly includes computer licenses, catering, subscriptions, insurances, general maintenance, leases and travel expenses
(3) Commissions and other bank expenses.
(4) Corresponds to recovered costs from partners in the Llanos Norte association and LCI collaboration contracts.

8. Finance costs

For the year ended 31 December 2021 and for the period between 28 July and 31 December 2020, finance costs are summarised below:

$ thousands	Year ended 31 December 2021	Period between 28 July and 31 December 2020
Financial expenses (1)	24,430	974
Fair value loss on derivatives (2)	23,418	-
Accretion of decommissioning liability	7,834	-
Bond issuance cost amortization	1,342	-
Total	**$ 57,024**	**$ 974**

(1) Includes accrued and paid interest.

(2) Includes unrealised fair value loss of $9.0 million and realised fair value loss of $14.4 million for the period ended December 2021.

9. Property, plant and equipment

Additions and transfers

For the year ended 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	Land	Buildings	Administrative assets[1]	Exploration assets	Oil and gas assets[2]	Right-of-use assets	Total
Cost							
Balance at 31 December 2020	**$ 4,870**	**$ 16,716**	**$ 21,084**	**$ 9,370**	**$ 754,754**	**$ 12,317**	**$ 819,111**
COG acquisition	-	131	121	4,820	166,867	2,078	174,017
Additions	-	-	20,390	11,418	124,470	-	156,278
ARO change in estimate	-	-	-	-	(46,420)	-	(46,420)
Transfers to assets held for sale[3]	(4,646)	(3,355)	-	-	25	-	(7,976)
Impairment	-	(9,755)	-	-	(2,161)	-	(11,916)
Retirement	-	(126)	(1,243)	-	(230)	-	(1,599)
Right-of-use cancellations[4]	-	-	-	-	-	(1,081)	(1,081)
Balance at 31 December 2021[5]	**$ 224**	**$ 3,611**	**$ 40,352**	**$ 25,608**	**$ 997,305**	**$ 13,314**	**$ 1,080,414**
Accumulated Depreciation							
Balance at 31 December 2020	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
COG acquisition	-	(5)	(81)	(699)	(75,051)	(1,342)	(77,178)
Depreciation	-	(443)	(5,656)	(128)	(554)	-	(6,781)
Amortisation	-	-	-	-	(85,612)	(5,258)	(90,870)
Retirement	-	-	908	-	(419)	592	1,081
Balance at 31 December 2021[5]	**$ -**	**$ (448)**	**$ (4,829)**	**$ (827)**	**$ (161,636)**	**$ (6,008)**	**$ (173,748)**
Net book value at 31 December 2021	**$ 224**	**$ 3,163**	**$ 35,523**	**$ 24,781**	**$ 835,669**	**$ 7,306**	**$ 906,666**

[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] Includes Colón building transfer to assets held for sale.
[4] Corresponds to the cancellation of existing ESP contracts.
[5] This balance corresponds to the movement for the year ended 31 December 2021, the aditions and depreciation from inception to 31 December 2020 are included in the beginning balance.

10. Short and long-term investments

The following table provides details of the long-term investments as of 31 December 2021 and 31 December 2020:

$ thousands		31 December 2021		31 December 2020
Tax certificates[1]		2,816		-
Short-term investments	**$**	**2,816**	**$**	**-**
Cravo Norte abandonment trust portfolio		13,040		13,640
LCI abandonment trust portfolio		6,724		6,385
Tilodirán trust fund		630		-
Alcaraván trust fund		458		-
Boral trust fund		395		-
Los Hatos trust fund		45		-
Long-term investments	**$**	**21,292**	**$**	**20,025**

[1] Certificates can be used to offset future VAT and income tax returns or can be sold in the public market at a discounted rate.

The above assets are held in relation to:

a. the participation of the Group in the trust portfolios maintained for the joint operations of Cravo Norte, the 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 (**CDT**) and treasury bonds (**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).

11. 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 Colón building was classified to this category during the fourth quarter of 2021; management was committed to a plan to sell the asset and a proposal of $8.0 million to purchase the building was received. The sale completed in early 2022 (Note 34). Upon the transfer to held for sale, an impairment charge of $9.8 million was recognised.

12. 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 December 2021		31 December 2020
Trade receivables[1]		78,533		23,236
Others[2]		3,582		2,439
Prepaid expenses[3]		720		9,672
Joint operations		572		8,269
Loans to employees		264		306
Short-term total	**$**	**83,671**	**$**	**43,922**
Loans to employees, Directors and officers		1,573		498
Long-term total	**$**	**1,573**	**$**	**498**

[1] Trade receivables balance as of 31 December 2021 increased to $78.5 million, mainly related to the barrels sale.

[2] Includes $2.1 million of PS1 mandate contract receivable with Cenit, and $1.0 million of advances to "Fundacion El Alcaraván" social entity which develops social investment for SierraCol and others.
[3] Mainly the balances corresponds to insurance premiums paid in connection with the risk management program which have been amortised over the year 2021.

Amortization of prepaid expenses during the year ended 31 December 2021 of $10.7 million were included in consolidated statement of income and comprehensive income.

13. Tax receivables

The following table provides a detail of the taxes receivables as of 31 December 2021 and 31 December 2020:

$ thousands		31 December 2021		31 December 2020
Withholding and Income tax receivable [1]		49,433		10,212
Value added taxes (VAT)		3,168		62
Total	**$**	**52,601**	**$**	**10,274**

[1] Tax receivable of $52.2 million corresponds to the income tax receivable as a result of withholding tax incurred in Colombia for oil sales and the income tax paid in advance during 2021 that should be applied to the 2022 income tax return.

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

14. Other long-term assets

The amount relates to an agreement executed with Ecopetrol in 2010 whereby Arauca and Andina sold their percentage interest in the Caño Limón Coveñas pipeline. As a result of the sale, a transport agreement was entered into with Cenit Transporte y Logistica de Hidrocarburos (a subsidiary of Ecopetrol, "Cenit"). As part of the transport agreement, Cenit provided a mechanism for a certain number of barrels of oil expected to be received by Arauca and Andina from the Caño Limón Coveñas pipeline. This amount is expected to be recovered at the end of the association contract.

15. Inventory

The following table provides a detail of inventory as of 31 December 2021 and 31 December 2020:

$ thousands		31 December 2021		31 December 2020
Crude oil inventory [1]		5,088		4,020
Materials and supplies stock [2]		25,952		27,423
Total	**$**	**31,040**	**$**	**31,443**

[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.
[2] Materials and supplies to be used in drilling campaigns, maintenance of wells, workovers and facilities. During the year a materials and supplies impairment of $1.6 million was recognised.

16. Decommissioning and environmental liabilities

As of 31 December 2021 and 31 December 2020, the estimated future discounted decommissioning liability is summarised below:

$ thousands		Decommissioning		Environmental		Total
Balance at 31 December 2020	**$**	**139,165**	**$**	**7,115**	**$**	**146,280**
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		(2,491)		(122)		(2,613)

$ thousands		Decommissioning		Environmental		Total
Exchange rate effect		1,599		(151)		1,448
Accretion expense		7,473		361		7,834
Balance at 31 December 20201	**$**	**108,481**	**$**	**7,405**	**$**	**115,886**
Short-term	$	2,344	$	1,574	$	**3,918**
Long-term	$	106,137	$	5,831	$	**111,968**

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 estimate of the present value of the decommissioning liability was revised during the period, primarily as a result of the expected timing of decommissioning cashflows moving further out into the future, in line with the economic limit of the assets.

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.

17. Long-term notes

On 14 June 2021, the Company, through one of its subsidiaries, SierraCol Energy Andina, LLC, issued $600 million of the 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		31 December 2021		31 December 2020
Long term notes issued		600,000		-
Capitalised costs (1)		(19,564)		-
Amortization of the costs		1,342		-
Accrued interest		19,300		-
Interest paid		(17,300)		-
Total	**$**	**583,778**	**$**	**-**

(1) Transaction costs primarily related to underwriter, legal and other professional fees.

18. Other borrowings

The following table provides a detail of the revolving debt facility executed on 1 October 2020, balances as of 31 December 2021 and 31 December 2020 are as follows:

$ thousands		31 December 2021		31 December 2020
Revolving debt facility		-		194,993
Beginning Balance		194,993		-
Repayment of principal[(1)]		(194,993)		-
Accrued interest		5,612		169
Interest paid		(5,612)		(169)
Total	**$**	**-**	**$**	**194,993**

[(1)] The facility plus interest of $0.5 million was repaid on 22 June 2021.

19. 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 December 2021 and 31 December 2020:

$ thousands		31 December 2021		31 December 2020
Beginning balance	**$**	**12,711**	**$**	**-**
Acquisition of Holder and Andina		-		12,711
Acquisition of COG		765		-
Terminated leases		(488)		-
New leases		-		-
Interest expense		318		-
Paid interest		(318)		-
Lease payments		(5,315)		-
Balance at 31 December 2021 and 2020	**$**	**7,673**	**$**	**12,711**
Short term lease liability [(1)]	$	4,697	$	5,134
Long term lease liability [(1)]	$	2,976	$	7,577

[(1)] The payment of principal for these leases during the year ended 31 December 2021 is $5.3 million and interest payment is $0.3 million.

As of 31 December 2021, the remaining lease maturities are as follows:

$ thousands		**2022**		**2023**		**Total**
Lease payments	$	4,697	$	2,976	**$**	**7,673**

20. 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, less the fair value of the assets intended to cover such obligations.

$ thousands		31 December 2021		31 December 2020
Current pension liability		6,884		7,962
Long-term pension liability		15,702		20,514
Pension liabilities [(1)]	**$**	**22,586**	**$**	**28,476**
Bogotá pension trust portfolio		(15,891)		(20,658)
Cravo Norte pension trust portfolio		(4,785)		(6,068)

$ thousands		31 December 2021		31 December 2020
Pension funds	**$**	**(20,676)**	**$**	**(26,726)**
Long-term pension liabilities	**$**	**1,910**	**$**	**1,750**

(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 58 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.

Pension liability items are as follows:

$ thousands		31 December 2021
Retirement		13,217
Pension bonds and securities		9,369
Pension liabilities	**$**	**22,586**

Major categories of plan assets are as follows:

		31 December 2021	
$ thousands		Amount	%
Debt instruments			
TES – public sector		6,986	34%
Bonds – financial sector		3,550	17%
Bonds – public sector		2,884	14%
Bonds – real sector		4,286	21%
CDT – financial sector		2,558	12%
Cash and cash equivalents			
Banks		412	2%
Plan assets	**$**	**20,676**	**100%**

(1) TES are issued by the Ministry of Finance and administered by the Banco de la República and allow the government to obtain financing according to a fixed or variable rate; its denomination is in dollars or real value units (UVR) and that must be paid on the agreed terms (example: one, two, five and ten years).
(2 CDT is a document provided by a financial institution detailing the term, deposit amount, interest rate and maturity date of a term deposit.

The following is the summary of the main economic assumptions used in the last actuarial study for pensions:

	31 December 2021	31 December 2020
Discount rate	7.00% - 8.25% per year	4.75% - 6.75% per year
Salary Increase	3.00% per year	3.00% per year
Long-term inflation rate	3.00% per year	3.00% per year
Medical policy increase	3.50% per year	3.50% per year
Retirement Age	Male 62 years – Female 57 years	

The following is the summary of the main demographic hypothesis used in the actuarial study for pensions:

Assumption	
Mortality	Colombian Mortality Table RV2008
Rotation	Rotation Table SOA 2003
Retirement age	62 for men and 57 for women

Table of rates below provides the actuarial assumption of the probability of a person dying in the next 12 months.

	Mortality percentage	
Age	**Male**	**Female**
30	0.08%	0.05%
35	0.11%	0.06%
40	0.16%	0.09%
45	0.23%	0.13%
50	0.34%	0.19%
55	0.51%	0.28%
60	0.77%	0.43%
65	1.27%	0.69%
70	2.11%	1.14%
80	5.37%	3.28%
90	12.79%	9.57%
100	29.40%	28.34%
110	100.00%	100.00%

The sensitivity of the defined benefit obligation to changes in the weighted principal by 50 basis points is:

		31 December 2021		31 December 2020
1. Discount rate ($ thousands)				
a. Discount rate - 50 basis points[1]	$	23,155	$	25,460
b. Discount rate + 50 basis points[1]	$	22,057	$	24,014
c. Price inflation rate - 50 basis points	$	22,005	$	23,949
d. Price inflation rate + 50 basis points	$	23,208	$	25,525
2. Weighted average duration of defined benefit obligation (years)				
a. Discount rate - 50 basis points		8.02-8.49		8.87 -9.63
b. Discount rate + 50 basis points		7.77-8.22		8.58- 9.32
3. Assumptions (%)				
a. Discount rate - 50 basis points		6.50% - 7.75%		4.25% - 6.25%
b. Discount rate + 50 basis points		7.50% - 8.75%		5.25% - 7.25%
c. Price inflation rate - 50 basis points		2.50%		2.50%
d. Price inflation rate + 50 basis points		3.50%		3.50%

[1] According to law, this balance includes pension bonds and securities that were not discounted because they are only impacted by inflation rate.

21. Employee benefits

The following table provides detail of employee benefits as of 31 December 2021 and 31 December 2020:

$ thousands		31 December 2021		31 December 2020
Salaries, bonuses and other benefits		9,163		9,655
Severance[1]		496		364
Short-term benefits and liabilities	**$**	**9,659**	**$**	**10,019**
Severance[1]		137		215
Long-term benefits and liabilities	**$**	**137**	**$**	**215**

[1] This balance includes short-term liabilities for prior period's 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.

22. 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 December 2021 and 31 December 2020:

$ thousands		31 December 2021		31 December 2020
Suppliers and goods and services received		98,466		79,184
Contingent consideration[1]		56,700		-
Accounts payable related to withholding tax		42,320		21,575
Advance from customers[2]		6,473		-
Joint operations		5,833		4,545
Guarantee withholding[3]		4,947		5,317
Overlifting		-		339
Short–Term Total	**$**	**214,739**	**$**	**110,960**

(1) The Sale and Purchase Agreement (SPA) executed between OPC and SCE includes a contingent component of the consideration which is payable to OPC subject to certain production and commodity price targets. The contingent consideration recognised as short-term liability is associated with the first contingent payment period and the remaining value is recognised as a long-term liability. The contingent consideration was remeasured on 31 December 2021; as a result the fair value of the liability discounted at 6% increased, mainly driven by a higher forecast in commodity prices (Note 3). The short-term portion also includes a contingent consideration related to the Bolívar earnout in respect of the Nautilus acquisition whereby COG would have to pay an additional $1.7 million to Nautilus in the event of an extension of Lagosur's exploration and/or production rights to the Bolívar block beyond the current termination date of the contract.

(2) 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.

(3) 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.

23. Long-term payables

The following table provides details of the long-term payables as of 31 December 2021 and 31 December 2020:

$ thousands		31 December 2021		31 December 2020
Contingent consideration[1]		64,703		62,114
Guarantee withholding		3,198		3,006
Contingencies		-		560
Long-term total	**$**	**67,901**	**$**	**65,680**

(1) The second and third contingent payment period are recognised as a long-term liability. It was remeasured on 31 December 2021; as a result the fair value of the liability discounted at 6% increased, mainly driven by a higher forecast in commodity prices (Note 3)

24. Auditors' remuneration

During the period, the Group obtained services from the corporation's auditors and their associates and the corresponding fees are described below:

$ thousands		31 December 2021		31 December 2020
Fees for audit of the parent company and consolidated financial statements		770		-
Audit of the financial statements of the Company's subsidiaries		375		-
Audit-related assurance services		162		-
Tax advisory services		170		-
Other non-audit[1]		1,788		-
Total auditors' remuneration	**$**	**3,265**	**$**	**-**

[1] Includes $1.5 million related to transaction services.

25. 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 Company 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.

	Volume		$/bbl			
Tenor	(bpm)	Average (bpd)	Sold put	Purchased put	Purchased call	Sold Call
1Q 2022	480,000	16,000	40.0	60.0	-	90.0
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

The market value of derivative financial instruments as of 31 December 2021 is $9.0 million. A 2% change in oil price would impact derivative financial instruments liability in $0.8 million.

26. 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 2021 is 31% and will be increased to 35% from 2022 onwards. The standard UK tax rate for 2021 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 year ended 31 December 2021 is as follows:

$ thousands		31 December 2021
Current income tax		139,078
Deferred Income tax		38,489
Dividend tax expense[1],[2]		8,523
Total tax expense	**$**	**186,090**

[1] Dividend tax expense related to Arauca tax dividend under existing jurisdiction law up to the date of this report.

(2) Dividend tax provision reversal initially booked under the assumption that Andina was obligated to withhold the dividend tax. The reversal was booked once the tax migration from the US to the UK was fully accepted which due to the double taxation treaty between Colombia and UK requires no payment.

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

$ thousands		Income tax		Dividend tax		Total
Balance at 31 December 2020	**$**	**19,163**	**$**	**33,378**	**$**	**52,541**
COG acquisition		67		-		67
Additions		139,078		19,676		158,754
Provision reversal		-		(11,154)		(11,154)
Payments		(30,789)		(39,148)		(69,937)
Exchange rate effect		(7,542)		354		(7,188)
Balance at 31 December 2021	**$**	**119,977**	**$**	**3,106**	**$**	**123,083**

Income tax expense conciliation is as follows:

$ thousands		31 December 2021
Income before taxes		345,692
Tax at the UK tax rate of		19%
Income tax expense	**$**	**65,681**
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Difference in overseas tax rates		41,484
Non-deductible expense		(3,064)
Foreign exchange impact on foreign currency denominated tax pools		32,583
Deferred tax		38,489
Dividend’s tax		8,523
Others		2,394
Total income tax expense	**$**	**186,090**

The deferred tax liability recognises the temporary differences using the balance sheet method, including Property, plant and equipment of previous years and additions of 2021, along with the effect of foreign exchange and decommissioning liability accretion as follows:

$ thousands		31 December 2021
Decommissioning and environmental liability		40,050
Trade and other receivables		4,585
Inventories		4,828
Employee benefits		978
Total deferred tax assets	**$**	**50,441**
PP&E		(124,778)
Other		(2,620)
Total deferred tax liability	**$**	**(127,398)**
Net deferred tax liability	**$**	**(76,957)**
Deferred tax expense		
Decommissioning and environmental liability		6,247
Trade and other receivables		8,015
Inventories		4,291
Employee benefits		1,987
Decrease/(increase) in deferred tax assets	**$**	**20,540**
PP&E		25,904
Other		(7,955)
Deferred tax liability	**$**	**17,949**
Deferred income tax expense	**$**	**38,489**

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 31 December 2020		**94,902**	**(12,600)**	**(9,162)**	**(45,017)**	**(2,965)**	**12,806**	**37,964**
COG acquisition		3,972	-	43	(1,280)	-	785	3,520
Activity		25,904	8,015	4,291	6,247	1,987	(10,971)	35,473
Balance at 31 December 2021	**$**	**124,778**	**(4,585)**	**(4,828)**	**(40,050)**	**(978)**	**2,620**	**76,957**

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 December 2021:

$ thousands		Net tax losses
Lagosur		2,506
Global		2,243
Condor		2,113
Cinco Ranch		1,437
Total	$	**8,299**

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

27. SCE subsidiaries

The consolidated financial statements include the financial statements of SCE and its subsidiaries as of 31 December 2021. 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

28. Share Capital

Midco owns 100% of SCE shares.

Common shares	Number		Amount
Balance at 31 December 2020	369,910,003	$	369,910
Proceeds from issuance of common shares	4,400,067		4,400
Midco equity contribution (1)	53,172,858		56,363
Capital reduction (2)	-		(430,246)
Balance at 31 December 2021	**427,482,928**	**$**	**427**

(1) The Andes Transaction was settled using SCE´s equity as consideration (Note 4), shares were issued to Flamingo by the Company in exchange for the full share capital of COG.

(2) This capital reduction was approved by ordinary resolution on 22 June 2021. The capital reduction also cancelled $3.2 million of share premium which was initially created in the shares issued to Midco for the COG acquisition.

29. Related party disclosures

Significant subsidiaries

The financial statements for the year ended 31 December 2021 include the financial statements of the subsidiaries listed in Note 26. Transactions between subsidiaries are eliminated upon consolidation.

Related parties’ transactions

The following transactions were carried out with related parties:

$ thousands		31 December 2021
Management services expense (1)	$	2,000
Loans due from related parties (2)	$	1,191

(1) During the twelve months ended 31 December 2021, the Company booked $2 million in fees for management services received from Carlyle.

(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 12).

Compensation of key management personnel

Key management personnel compensation for the year ended 31 December 2021 was $4.5 million. The amount includes Salaries, wages, and other short-term benefits

The Directors of SCE received no remuneration from the Company; they received compensation from Carlyle.

30. Financial instruments and financial risk management

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 carrying amounts and respective fair values of financial assets and liabilities as of 31 December 2020 are summarised as follows:

$ thousands		Carrying Amount 31 December 2020		Fair Value 31 December 2020
Financial assets at amortised cost				
Cash and cash equivalents	$	109,485	$	109,485
Trade and other receivables		43,922		43,922
Investments		20,025		20,025
Financial liabilities at amortised cost				
Accounts payable and accrued liabilities	$	110,960	$	110,960
Lease liabilities		12,711		12,711

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 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 are 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 96% 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 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 December 2021		31 December 2020
Cash and bank balances	$	119,306	$	109,485
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 December 2021:

$ thousands		31 December 2021	31 December 2020
Less than 1 year		365,109	184,014
1–2 years		67,901	65,680
Greater than 1–2 years		777,726	383,419
Total	**$**	**1,210,736**	**633,113**

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 December 2021, the Group had no foreign exchange derivative contracts in place.

An increase in 5% in the Colombian peso versus the USD exchange rate would impact consolidated income approximately in $7.6 million and a decrease in % in the Colombian peso versus the USD exchange rate would impact consolidated income approximately in ($8.7) million.

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 year ended 31 December 2021 and 31 December 2020:

$ thousands	31 December 2021	31 December 2020
Premium paid	5,737	-
Losses	7,693	-
Anticipated cancellation [1]	975	-
Total	**$ 14,405**	**$ -**

[1] Corresponds to the unwinding of the Natixis hedges originally intended to cover 1H22

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.

31. Capital Management

The Group's objectives when managing capital are to: i) safeguard its ability to continue as a going concern, so that it 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 December 2021	31 December 2020
Current liabilities	(365,109)	(184,014)
Less: current assets	297,410	195,124
Working capital deficit	**$ (67,699)**	**$ 11,110**
Share capital and share premium	**$ 427**	**$ 369,910**

As mentioned in Note 2, the Directors have assessed the Company's ability to fund its operations, including detailed review of the Group's cash flow and liquidity forecast.

32. Commitments and contingencies

Exploratory commitments

The Company 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 km^2 and three exploratory wells	13.1
Putumayo-9	(*) Phase 1) 3D Seismic acquisition 127 $km^2$2 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 km^2 of 3D seismic and to drill two wells,	9.5
Mecaya	(*) Phase 1 and 2) 3D Seismic acquisition 52 km^2 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 km^2	0.5
	Phase 4) One Exploratory well	2.0
Terecay	(*) Phase 1) 2D Seismic acquisition 476 km^2 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
Tacacho	(*) Phase 1) 2D Seismic acquisition 480 km^2 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 km^2 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 or 1.5, respectively
Llanos 52	(*) Phase 1) 3D Seismic acquisition 292 km^2 and two exploratory wells	9.4
	Phase 2) Two exploratory wells or one exploratory well and the withdrawal of 50% of the remaining area	3.0 or 1.5, respectively
Llanos 23	(*) Phase 1 and 2) 3D Seismic acquisition 138 km^2	6.5

(*) 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.

33. Post balance sheet events

The Group is working with Ecopetrol to complete the steps required to end all obligations in connection with the Bocachico Association Contract; the expiration date is 26 January 2024 and management has decided not to request an extension. Therefore, on 7 March 2022, a meeting was held with Ecopetrol in which the relinquishment of this contract was approved. Some abandonment activities are still ongoing, and there is a period of six months to complete these final activities.

On 28 December 2021, the Group signed a sale and purchase agreement to sell the Colón building that was classified as held for sale. 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.

In the first quarter of 2022, the Caño Caranal DT exploratory well was declared dry, and consequently, $18.1 million were expensed during the period.

34. 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.