

COMPANY REGISTRATION NUMBER: 5173588

PETROLATINA ENERGY PLC
ANNUAL REPORT AND FINANCIAL STATEMENTS
For the year ended 31 December 2008

Contents

	<i>Page</i>
Group Overview and Achievements to date	3
Chairman's Statement	5
Chief Executive Officer's Statement	7
Board of Directors	10
Corporate Information	12
The Directors' Report	13
Directors' Responsibilities	17
Corporate Governance Report	18
Director's Remuneration Report	19
Independent Auditor's Report to the shareholders	22
Consolidated income statement	24
Consolidated balance sheet	25
Consolidated cash flow statement	26
Consolidated statement of changes in equity	27
Notes to the financial statements	28
Company financial statements	56

Group Overview and Achievements to date

PetroLatina Energy Plc (“PELE” or the “Company”) is a petroleum exploration and production company focused on Latin America, an area in which the management team has decades of operating experience and in which they have pursued a long-term strategy of discovering and developing reserves.

The Company held as at 31 December 2008, interests in 5 contracts in Colombia, and, in Guatemala, a 20 per cent. carried interest in 3 wells and a 20 per cent. working interest in 2 licence areas. Subsequent to the year end, the Company has been awarded and finalised the terms of a further contract with Colombia’s hydrocarbon regulatory agency in respect of the Putumayo-4 block in the Putumayo Basin of southern Colombia.

PELE’s balanced portfolio of contracts comprises a base of production, development drilling and workover opportunities and several high-potential exploration projects.

The Company intends to continue increasing the asset value of its portfolio focused in Latin America by utilising the cash flow from current production to advance certain projects whilst looking for partners for other projects, which should allow their value to be realised more quickly.

Ryder Scott Company, LP (“Ryder Scott”), the petroleum consultancy firm, independently audited PELE’s portfolio of contracts and reserves and reported that as at 31 December 2007 proved plus probable reserves (“2P reserves”) net to the Company totalled 5.6 million barrels of oil equivalent (“boe”) and proved plus probable plus possible reserves (“3P reserves”) net to the Company totalled 7.34 million boe. Since then, and post the year-end, PELE has drilled two successful wells, which it expects will significantly add to its 2P reserves. The Company currently expects to commission an updated reserves report when the current round of drilling has been completed.

The Company’s ordinary shares have been traded on AIM, a market operated by the London Stock Exchange, since 2005 (LSE-AIM: “PELE”).

Achievements to date

14.01.2005	Company listed on London Stock Exchange
26.07.2005	Confirmed producible oil on the Las Casas structure
19.09.2005	Awarded Guatemalan Licence A7-2005
20.02.2006	Obtained interests in La Paloma and Midas licences in Colombia
16.06.2006	Completed acquisition of Petroleos Del Norte (“PDN”)
10.01.2007	Confirmed producible oil on Guatemalan Licence A7-2005
15.07.2007	Serafin well #1 tests at 14 mmcf/day Disposal of 100 per cent. interest in its Guatemalan subsidiary
29.11.2007	Extension to Tisquirama licences announced extending these licences to the economic life of the fields
25.06.2008	Updated Reserves reported as at 31 December 2007
11.07.2008	Completed a \$25 million investment by Tribeca Oil & Gas Inc (“TOGI”)
06.08.2008	Completed the restructuring of the senior management team
24.11.2008	Commenced drilling of Colon-1, the first exploratory well on the La Paloma block
26.12.2008	Awarded the Putumayo-4 block in the Colombian licence bidding round ‘Mini-Ronda 2008’

- 21.01.2009 Tribeca Oil and Gas Financing, Inc. (“TOGF”), a subsidiary of existing shareholder, TOGI, subscribed for \$4.875 million of secured convertible loan notes with an option to subscribe for up to a further \$5 million, to provide additional funds for the Company’s ongoing work programme
- 18.02.2009 Announced successful preliminary test results for the Colon-1 exploratory well, tested at 1,200 bopd
- 28.04.2009 Announced positive results for the Los Angeles-11 development well

Chairman's Statement

I am pleased to report on a year of considerable progress for the Company, which has undergone a significant transformation. The restructured management team appointed in the summer of 2008 has embarked on a strategy aimed at: rapidly reducing central overheads costs; securing the long-term future of the Group's operating licences; ensuring access to sufficient funding; and commencing a new drill programme.

Revenues for the period increased by approximately 10 per cent. to \$7.8 million (2007 – \$7.1 million) assisted by the higher oil price throughout much of the year. Average net oil production of 244 barrels of oil per day (“bopd”) (2007 – 314 bopd) was slightly lower than last year but in line with expectations due to the Company's reduced working interest stemming from the licence extension terms negotiated in May 2008. In return, PELE secured the Tisquirama licence for the economic life of the fields.

Gross profits increased significantly to \$3.4 million (2007 – \$0.2 million) and loss before tax was reduced by approximately 52 per cent. to circa \$4 million (2007 – \$8.4 million), reflecting management's actions to reduce the Company's central overhead and running costs. Furthermore, there were a number of largely one-off costs including a \$1,712,000 (2007 – \$2,904,000) charge relating to share based payments in respect of current and outgoing directors and a \$946,000 charge upon the surrender of the Gaita licence to Colombia's Agencia Nacional de Hidrocarburos (“ANH”). The cost reduction measures and absence of such one-off charges in future years should serve to enhance the Group's profitability alongside an anticipated build-up in the level of production.

In July 2008, the Company was successfully refinanced by way of a significant \$25 million equity investment from Tribeca Oil & Gas Inc. (“TOGI”), a portfolio investment company of Tribecapital Partners S.A. (“Tribeca”), a Colombian private equity firm. This investment, at a significant premium to the then prevailing market share price, served to secure the Company's future and enabled us to fund the commencement of our planned work programme of exploration and appraisal wells whilst also retiring all outstanding third party indebtedness. The Group currently has access to sufficient financial resources to meet its working capital requirements for the remainder of 2009, but it is expected that additional funding will be required in due course in order to complete our entire planned work programme. At the period end the Company had cash and cash equivalents of \$2.7 million (2007 – \$3.5 million).

At the Annual General Meeting held in August 2008, we stated our intention to commence our new drilling programme within 100 days and subsequently succeeded in spudding our first exploratory well, Colon-1, on the La Paloma block in the Middle Magdalena valley, Colombia in November 2008.

We are currently aiming to drill a minimum of six wells across our three Colombian licence areas during 2009 and have made good progress in achieving this objective. Our overall plan is to seek to considerably increase production and cash flow, and further develop and commercialise the Company's reserves through our ongoing drilling programme.

Average throughput in PELE's wholly owned RZA pipeline decreased by 8.9 per cent. to 2,696 bopd due to a fall in production at the Rio Zulia and Tibu fields, but has risen significantly since the period end. Throughput for the first quarter of 2009 averaged 4,041 bopd, a 33 per cent. increase over the prior year.

In late December 2008, it was confirmed that the Company was the successful bidder for the Putumayo-4 block in the Colombian licence bidding round ‘Mini-Ronda 2008’. The Putumayo-4 block covers an area of 51,333 hectares located in the Putumayo Basin of southern Colombia and has over 400km of pre-existing 2D seismic data from which PELE has already identified promising leads. The Putumayo Basin is considered by ANH to be one of the most promising exploration areas in Colombia and is rapidly becoming a prolific hydrocarbon producer. In January 2009, the Company announced that it had entered into a memorandum of understanding for a proposed farm-out agreement for the project with La Cortez Energy Inc. (“La Cortez”). The Company is in the process of finalising the terms of this arrangement.

Initial commercial gas sales are now expected to commence from our Serafin gas field in the fourth quarter of 2009, offering the prospect of strong short-term cash flow and economic returns. PELE has a 25 per cent. interest in the project.

Developments post the period end

There have been a number of significant achievements since the period end, which should have a positive impact on the current and future year's production volumes and financial results.

In January 2009, a subsidiary of TOGI subscribed for \$4.875 million of secured convertible loan notes with an option to subscribe for up to a further \$5 million, which has yet to be exercised. We were delighted with Tribeca's continued support for the Company, against a challenging backdrop of considerable global economic uncertainty, which enabled us to maintain momentum on our work programme.

In February 2009, we announced successful preliminary test results for our Colon-1 exploratory well at La Paloma where the Company retains an 80 per cent. working interest and is the operator. The Colon-1 well was drilled to a final total measured depth of 9,125ft and is expected to be brought on to production in mid-2009 at a rate of approximately 1,200 bopd gross. A total of approximately 6,000 bbls had already been extracted as at April 2009.

In April 2009, further positive results were obtained from our Los Angeles-11 development well, the second well in our current drilling programme. Los Angeles-11 was brought into production at an initial rate of approximately 220 bopd with log interpretation indicating 217ft of net oil pay in the primary target, and is currently producing approximately 170 bopd. Oil was also tested at a deeper secondary target which should ultimately serve to increase the field's reported reserves. It was also announced in April that our third well, Los Angeles-12, had already been drilled to 8,000ft (target depth of 7,700ft) and was undergoing evaluation.

Outlook

The Board now has a greater operational focus and I strongly believe that PELE is well placed to build on its early drilling success as it continues to pursue its development programme in Colombia despite the current challenging global macro-economic environment. Although the Group will need to secure additional funds to complete its entire planned work programme, its work commitments for the remainder of 2009 are funded and with a positive operating cash flow and clear investment plan in place we believe that PELE is now firmly on track to achieving both increased production and reserves. The benefits of our cost saving initiatives, introduced in the first half of 2008, should be even more evident in our results for the current financial year and should enhance the Group's future profitability.

I would like to thank our shareholders and employees for their patience and support throughout the restructuring period and remain confident that their loyalty will be rewarded as PELE begins to realise its true potential. The Board looks forward to reporting further progress during the remainder of 2009.

Luc Gerard

Executive Chairman

20 May 2009

Chief Executive Officer's Statement

Overview

What a difference a year makes; 2008 saw PELE transform itself from being primarily a production company to being a far more balanced exploration and production company. Twelve months ago the Company's development projects had stalled, its licences were due to expire in the near term and production was declining. The second half of 2008 was spent restructuring the Company to create a strong foundation from which to grow and start to fully exploit the potential of our assets. The Company also prepared for and commenced a six well plus drilling programme. The first well in the programme, Colon-1, was spudded in November – it was the first new well to be drilled by the Company since 2004 and its success demonstrates the value of our exploration assets.

The Company is now focusing its resources and efforts on developing its Colombian assets. In addition, in the second quarter of 2008 we confirmed our intention to participate in 20 per cent. of a new well to be drilled in Guatemala by our partner, Quetzal Energy Inc. ("Quetzal"), to whom we sold our Guatemalan interests in July 2007. Analysis of the available data has given us a measure of confidence that the new Atzam-3 well will deliver positive results. The well is expected to be drilled by Quetzal by June 2009.

Review of Operations

Colombian Assets

During 2008, the Santa Lucia and Los Angeles fields (Tisquirama Licence) and the Doña Maria field (Lebrija licence) produced 299,674 gross bbls at an average daily production rate of 850 bopd. This represented a small decrease of 2.4 per cent. to the production volumes achieved during 2007, within norms for the depletion of reserves. The level of production significantly exceeded our budgeted expectations primarily due to workovers and the optimisation of resources.

Average net oil production to the Company from the Tisquirama Licence and the Lebrija licence in 2008 was approximately 244 bopd (2007 – 314 bopd). This decrease resulted from the reduction of the Company's production share participation from 50 per cent. to 45 per cent. at Los Angeles and 25 per cent. to 20 per cent. at Santa Lucia respectively based on the new licence extension terms agreed in May 2008.

Once the Tisquirama licence terms had been extended to cover the economic life of the fields, we were in a position to formulate a development plan. Important reservoir studies in the Los Angeles field, including seismic reprocessing, core analysis, and simulation study were started in late 2008 and will be completed during 2009. At the Santa Lucia field, the acquisition of a minimum of 76 sq. km. of 3D seismic was carried out at the end of 2008. The high quality information obtained has been processed and is under interpretation and we expect that, as a result at least 6 wells will be drilled during 2009. Most of these will be infill wells, which the Company believes have a high probability of success at the reasonable costs demonstrated by our recent drilling experience.

At the Midas exploration block, 40 sq. km. of 3D seismic data was acquired, and the Company is currently undertaking interpretation of this data to define a prospect to be drilled at the end of the second quarter of 2009.

We expect that a minimum of 6 wells will be drilled during 2009 across the company's Colombian licences. Most of these will be infill wells, which the Company believes have a high probability of success at reasonable cost. Production volumes are expected to increase steadily in future years through both the development of producing fields and exploration drilling and we have already seen progress in this area in the first months of 2009.

Since the period end, the Company has obtained successful results at its Colon-1 exploratory well in the La Paloma licence area, where the Company has an 80 per cent. working interest. Production is expected to commence in mid-2009 at a rate of approximately 1,200 bopd gross. The Company believes that the Colon-1 well will result in a significant uplift in its existing production, and it represents an important commercial oil discovery, which should lead to further success on the Company's Middle Magdalena acreage in due course.

This early drilling success will not only greatly supplement the Company's existing production volumes but will also allow for development of the La Paloma field which has several additional promising drilling locations. The proximity of this well to our existing and underutilised production facilities will allow us to monetise this discovery in the short term.

In February 2009, the Group finalised and signed the previously announced Putumayo-4 E&P contract with ANH. The Group is currently working on the community relationship and environmental diagnostic for the block, and plans to acquire 103km of 2D seismic by the end of 2009 to delineate a prospect, expected to be drilled in 2010. Prior to finalising the contract with ANH, the Company announced in January 2009 that it had entered into a memorandum of understanding for a proposed farm-out agreement for the project with La Cortez. The Company is in the process of finalising the terms of this arrangement.

The Company returned its Gaita E&P block to ANH in October 2008 as the 3D seismic acquired there showed that no drillable prospect existed on this block.

RZA Pipeline

During 2008, 983,882 bbls (2,696 bopd) were transported through the Company's Rio Zulia – Ayacucho pipeline representing a fall of 8.9 per cent. compared to throughput in 2007, however this has risen significantly since the period end. Ecopetrol S.A. has now commenced its workover programme focused on increasing production at the Rio Zulia field and predicts an increased throughput from 2,696 bopd to 4,000 bopd from the middle of 2009. Throughput for the first quarter of 2009 averaged 4,041 bopd, a 33 per cent. increase over the prior year. PetroLatina receives \$1.60 per barrel transported from the Tibu field and \$2.64 per barrel transported through the Zulia Field.

Serafin Gas Development

During the second half of 2009, the Group should satisfy the necessary conditions to bring the Serafin gas well into production. Initial commercial gas sales are expected to commence in the fourth quarter of 2009 which will provide valuable cash revenues to the Company to support the development of its producing fields.

Recent increases in the domestic price of gas in Colombia (from \$3.50 to \$5.00 per thousand cubic feet) means that the project offers strong short term cash flow and economic returns, with a projected pay back of less than three months. There is also believed to be a high probability of further gas deposits on the licence and PELE is currently conducting studies using its existing 3D seismic coverage to identify further drillable prospects. PELE has a 25 per cent. interest in the project.

Guatemalan Assets

Despite having sold our assets (Licence A7-2005 and A-6-93) in Guatemala to Quetzal Energy Inc. in July 2007, PELE retained a 20 per cent. carried interest in the first three wells to be worked over, and a 20 per cent. working interest in future wells.

An evaluation of Quetzal's proposed new Atzam-3 well was completed during the period, and we have expressed our interest in participating in this particular well which is due to be drilled by June 2009.

Financial Review

During 2008 revenues totalled \$7.8 million (2007 – \$7.1 million) an increase of only approximately 10 per cent. despite the higher oil price during the period. This was the result of three main contributory factors:

- A decrease in the average throughput in PELE's wholly owned RZA pipeline by 8.9 per cent. due to a fall in production at the Rio Zulia and Tibu fields.
- The Company's production share participation percentage decreased on average by 25 per cent. to reflect the new Tisquirama license extension terms; and
- A decrease in gross production due to the normal depletion of reserves.

A booked depletion, depreciation and amortisation (“DD&A”) and impairment charge totalling \$2 million (2007 – \$4.8 million); includes DD&A of approximately \$1 million and an impairment charge of \$946,000 reflecting the return of the Gaita block to the ANH.

Cost of sales were \$4.4 million (2007 – \$6.9 million) and general and administration costs and net finance costs were \$7.4 million (2007 – \$8.6 million) leading to a 51 per cent. reduction in after tax losses of \$3.9 million (2007 – \$7.9 million).

Total assets for the Group at \$53.3 million (2007 – \$40.8 million) have increased by approximately 31 per cent. principally due to the capitalisation of exploration costs for the La Paloma and Midas blocks. Total liabilities of \$13.7 million (2007 – \$23.9 million) represent short term loans and other trade payables. Total equity of \$39.7 million (2007 – \$16.9 million) reflects the new investment from TOGI secured during the year.

The Group currently has access to sufficient financial resources to meet its working capital requirements for the remainder of 2009, but it is expected that additional funding will be required in due course in order to complete our entire planned work programme. At the period end, the Company had cash and cash equivalents of \$2.7 million (2007 – \$3.5 million). Our plans include an extensive drilling programme in the next twelve months, which should transform some of the Group’s oil reserves into producing reserves. We have, since the balance sheet date secured a large part of the required funding and are in negotiations with a number of major investment banks, at an advanced stage to secure the remaining funds and this combined with the Group’s current production, exploration and near term production potential, as reflected in the Company’s recent announcements, will fully fund our forthcoming work programme. The directors remain confident that the Group will, in due course, be able to raise the required funds to finance its future working capital requirements.

Progress in 2009

The encouraging test results from the first two completed wells in our ongoing drill programme, the likelihood of continued increases in throughput at the RZA pipeline and the expected first commercial gas sales from our Serafin gas field development; combined with our strategy of containing costs whilst progressing our various exploration assets, provides us with confidence that we will continue to make progress and to grow our reputation in Colombia’s oil and gas industry.

We continue to pursue our strategy of bringing the Company’s previously under exploited assets rapidly into full production. PELE will use its hard won expertise to focus on delivering significantly improved results to its shareholders in 2009 and beyond.

Juan Carlos Rodriguez
Chief Executive Officer

20 May 2009

Board of Directors

The Board of PetroLatina is responsible for the success of the Group. The Board's role is to establish the strategic objectives and policies; oversee all aspects of the finances; continuously review performance and controls; manage risk; decide on key business transactions and manage the interests of stakeholder groups.

The Board meets at least four times per year. In accordance with the Articles of Association, one third of the directors in office retires by rotation and can stand for re-election by the shareholders at each AGM. Recommendations for appointments to the Board are made by the Board as a whole after due evaluation. The board of directors currently comprises:

Luc Gerard, *Chairman, aged 38*

Mr. Luc Mputu Nyafe Gerard graduated from ICHEC, Brussels Business School, Belgium in 1995 with a Bachelor of Science degree in Civil Engineering specialising in emerging markets and manufacturing in the developing world. He also holds a Masters Degree in Business Administration from IMD, Lausanne, Switzerland. Since graduating, Mr. Gerard has principally been involved in production and marketing and has held various positions in the areas of general management, mergers and acquisitions, business development and strategic planning, both in Colombia and other Latin American countries, as well as in the United States and Europe. He was President of Philip Morris' Colombian operations and has held various roles with this multinational group in Latin America, Europe and the United States. Mr. Gerard has also worked for Caterpillar, Merrill Lynch and ING. In 2006, he founded Tribecapital Partners S.A. ("Tribeca"), which manages Colombia's first private equity fund and currently acts as the firm's President. He is a director of TOGI and TOGF, and is highly respected within Colombia's business community.

Juan Carlos Rodríguez, *Chief Executive Officer, aged 48*

Mr. Juan Carlos Rodríguez is an Economist and also holds a Master's Business Administration degree from the University of Illinois. He has worked at a top level within the Colombian hydrocarbon industry for the last 9 years since joining Petroleos del Norte S.A. as its President. He successfully led the Group's discussions and negotiations with Ecopetrol S.A., achieving the successful extension of the Tisquirama Association Contract, and also negotiated, with the Colombian National Hydrocarbon Agency, several E&P contracts for new blocks located in the Colombian Middle Magdalena Basin. In November 2007 he was appointed as the Group's Chief Executive Officer.

Ciro Méndez, *Executive Director, aged 34*

Mr. Ciro Alberto Méndez Sampayo graduated from the Universidad de Los Andes, Bogotá, Colombia in 1999 with a Bachelor of Science in Industrial Engineering. He also holds a Masters Degree in Business Administration from Columbia Business School in New York. Since graduation, Mr. Méndez has held various roles in the public sector and industry, including Financial Analyst at the Department of National Planning in Colombia, Corporate Finance Associate with Genispace Inc. in New York and a Strategic Planning Manager at Insercams Ltda., Colombia. More recently, he worked for KPMG as a Senior Supervisor in their Corporate Finance Department in Colombia, where he specialised in advising multinational corporations on M&A engagements in Latin America and in structuring Public Private Partnership (PPP) projects, particularly in the infrastructure sector. He is currently an Investment Manager at Tribeca, which he joined in 2007.

John Joseph May, *Non-Executive Director, aged 60*

Mr. John May is a Fellow of the Institute of Chartered Accountants in England and Wales. He is Chairman of the Small Business Bureau Limited and Policy Director of The Genesis Initiative Limited, lobbying groups for small business to the UK Parliament. Mr. May is the principal of his own London-based chartered accountancy practice. Mr. May was finance director of AIM listed PSG Solutions PLC (formerly London & Boston Investments Plc), until December 2005, and was previously finance director of Healthcare Enterprise Group Plc (formerly Interactivity Plc) and non-executive director of Croma Group Plc, both of which are also listed on AIM. From 1977 to 1994 Mr. May was a senior partner with Horwath Clark Whitehill, where he served for eight years on the managing board and for nine years as chairman of its Thames Valley offices. In his capacity as UK national marketing partner and head of its property consultancy division, he was a

director of its UK and international associations. Mr. May is currently Finance Director of Tomco Energy Plc, listed on AIM, a non-executive director of International Consolidated Minerals Inc. listed on AIM, NASDAQ-listed Avatar Systems Inc., London and Pacific Healthcare Plc, and White Mountain Titanium Corp, and non-executive chairman of Southbank UK Plc and China Pub Company Plc, listed on the Channel Islands Stock Exchange.

Menno Wiebe, *Non-Executive Director, aged 61*

Mr. Menno Wiebe has 36 years of energy industry experience as a geologist, manager and executive in international exploration and development projects in Latin America, Asia and the North Sea. He was, until recently, based in Bogota as Vice President of Exploration for Solana Petroleum Exploration (Colombia) Limited, a very active exploration and production company in Colombia. He also previously served as a director of Avalon Oil and Gas, an officer and director of Deep Well Oil and Gas and as the CEO and a director of Pertacal Energy Inc., of Calgary, Canada. Mr. Wiebe was the Vice President and General Manager of Hall-Houston Oil Company in Kuala Lumpur, Malaysia for 8 years and General Manager of Husky Oil Limited in Jakarta, Indonesia for 4 years. In addition, as the owner of Jacobean Resources, a private consultancy firm, he has conducted exploration and development evaluations in Yemen, Paraguay, onshore UK and Colombia. He held senior geologist positions with Bow Valley Industries (Indonesia), Occidental Petroleum (Libya, Scotland, USA, India and Australia) and Hudsons Bay Oil and Gas (CONOCO) in Canada. His educational background includes a BSc (Honours) in Geology from the University of Manitoba, Canada and an MBA from the University of Warwick, England.

Corporate Information

<i>Director</i>	<i>Appointed</i>	<i>Resigned</i>	<i>Designation</i>
Luc Gerard	14 July 2008	–	Executive Chairman
Juan Carlos Rodriguez	2 November 2007	–	Chief Executive Officer
Ciro Mendez	5 August 2008	–	Executive Director
	14 July 2007	5 August 2007	Non-Executive Director
John May	2 November 2007	–	Non-Executive Director
Menno Wiebe	6 August 2008	–	Non-Executive Director
Gregory Smith	7 September 2004	14 July 2008	Executive Chairman
Mark Patterson	1 February 2007	5 August 2008	Non-Executive Director
Secretary:	Capita Company Secretarial Services Ltd		
Company Number:	05173588		
Incorporation:	England & Wales		
Registered Office:	Suite 219, No. 1, Liverpool Street, London EC2M 7QD.		
Registrars:	Computershare Investor Services Plc, The Pavilions, Bridgwater Road, Bristol, BS99 7NH.		
Auditors:	BDO Stoy Hayward LLP, 55 Baker Street, London, W1U 7EU.		
Solicitors:	Stephenson Harwood, One, St. Paul's Churchyard, London, EC4M 8SH.		
Nominated Adviser & Broker:	Strand Partners Limited, 26 Mount Row, London, W1K 3SQ.		

The Directors' Report

Group overview

The Group is an independent exploration and development Group with a long term focus in, and commitment to, Latin America.

The Group has been active in its chosen countries of Colombia and Guatemala for the past few years and has strived throughout this time to be recognised not only as a leading and growing Company in the oil and gas industry but also one that maintains the highest standards in all areas of its operations.

The Group constantly reviews its internal policies and procedures in all areas paying special attention to Integrity and Business Conduct, Health and Safety, Environmental Issues and Performance and Operational Excellence.

The Group has sought to create greater awareness and professionalism among all its field employees and this increased focus by employees and contractors on efficiency, quality of operations and safety should in turn translate into an enhanced financial performance for the Group as a whole.

All the contracts that the Group own are covered by strict environmental permits and the Group's adherence to these and its focus on quality of operations should continue to reduce any adverse impact on the surrounding areas or local communities.

The Group seeks to ensure that it is at all times mindful of its obligations to its stakeholders – its employees, the communities in which it operates, and its shareholders. The Group strives to ensure that its operations are conducted in accordance with best practice and that it works closely with local communities to ensure that they are properly informed about its operations and that its presence is beneficial to the lives of the community members. The Company is well established among a number of the local communities and provides medical and social investment as well as employment where possible.

The Group is committed to Latin America and through continual review of its policies and procedures and education of its employees is confident of maintaining and growing profitable and responsible operations in the region.

The Directors present their report together with the audited financial statements for the year ended 31 December 2008. The comparative period presented was from 1 January 2007 to 31 December 2007. See note 1 in respect of the basis of preparation.

Results and dividends

The results of the Group for the period are set out on page 24 and show a loss for the period of \$3,913,000 (2007 – \$7,955,000).

The Directors do not recommend the payment of a dividend (2007 – Nil).

Principal activities and business review

The principal activity of the business is the exploration and extraction of Latin American oil and gas reserves.

A full review of the Group's activities during the year, recent events and expected future developments is contained in the Chief Executive Officer's and Chairman's statements on pages 5 to 9.

Key Performance Indicators

The key performance indicators of the Group are as follows:

	2008	2007
Share Price at 31 December (pence)	15.25	61.25
Cash at bank at 31 December (\$'000)	2,706	3,542
Employee Numbers	78	88
Exploration Expenditure	8,881	3,758
Net Barrels of oil	89,230	114,499

For further details please see the Chairman's and Chief Executive Officer's statements on pages 5 to 9.

Substantial shareholdings

As at 19 May 2009 the Company was aware of the following holdings of 3 per cent. or more in the Company's issued share capital:

<i>Shareholder</i>	<i>Number of shares held</i>	<i>Percentage %</i>
Tribeca Oil & Gas Inc.	15,360,999	35.00%
ROY Nominees Limited	5,255,000	11.97%
Lyan Financial Corporation ⁽²⁾	2,535,872	5.76%
Gregory Smith ⁽¹⁾	2,430,000	5.54%
Crosby Buyout VII Limited	2,078,614	4.75%
Credit Suisse Client Nominees UK Limited	1,056,680	2.41%
Rorick Ventures Group Inc ⁽²⁾	1,249,072	2.85%

Notes:

- (1) Shares are held in the name of Gregory Smith, and TVL.
- (2) Lyan Financial Corporation and Rorick Ventures Group Inc are companies in which Juan Carlos Rodriguez, or his family, has a beneficial interest.

Principle risks and uncertainties

The group's principle risks and uncertainties are detailed below.

Going concern

The Group plans an extensive drilling programme in the next twelve months, which should transform some of its oil reserves into producing reserves. Following a review of the Group's financial position and its budgets and plans currently this programme is not fully funded from resources at the Group's disposal. The director's have reviewed the financial position of the group and since the balance sheet date have already secured a large part of the required funding. Negotiations with a number of major investment banks are at an advanced stage to secure the remaining funds and this combined with the Group's current production, exploration and near term production potential, as reflected in the Company's recent announcements, will fully fund the forthcoming work programme. Whilst the Directors are confident that the Group will be able to raise the required funds to finance its working capital requirements, there can be no guarantee that the current negotiations will be completed within 12 months from the date of the accounts. These financial statements have been prepared on a going concern basis.

The financial statements do not include the adjustments that would result if the Group was unable to continue in operation.

Reserve estimates

There are numerous uncertainties inherent in estimating reserves and assumptions that, whilst valid at the time of estimation, may change significantly when new information becomes available. Changes in the forecast prices of commodities, exchange rates, production costs or recovery rates may change the economic

status of reserves and may, ultimately, result in the reserves being restated. Such changes in reserves could impact on depreciation and amortisation rates, asset carrying values, deferred stripping calculations and provisions for close down, restoration and environmental clean up costs. The Group utilises the expertise of third party consultants to report on its reserves estimates to increase the reliability of its estimations.

Exploration and new projects

The Group may seek to identify new operations through active exploration and acquisition programmes. There is no guarantee, however, that such expenditure will be recouped or that existing oil/condensate and gas reserves will be replaced. Failure to do so could have a material and adverse impact on the Group's financial results and prospects.

Health, safety and environment

PELE operates in an industry that is subject to numerous health, safety and environmental laws and regulations as well as community expectations. Evolving regulatory standards and expectations can result in increased litigation and/or increased costs, all of which can have a material and adverse effect on earnings and cash flows. The Group complies with all applicable environmental laws and regulations and, in jurisdictions where these are absent or inadequate, apply cost-effective technologies and management practices to ensure the protection of the environment as well as worker and community health. The Group works to make environmental management a high corporate priority and the integration of environmental policies, programmes and practices an essential element of management.

Post balance sheet events

Post balance sheet events following the period end are disclosed in note 24 of the financial statements.

Political and charitable donations

The Group has made no political or charitable donations in the period (2007 – Nil).

Employee involvement

The Group is committed to employees' involvement in the business. Staff kept informed of the performance and objectives of the Company through the publication of results and staff meetings.

Indemnification of Directors and officers

During the financial year, the Company paid a premium in respect of a contract insuring the Directors of the Company (as previously named), the Company Secretary, and all executive officers of the Company against liability incurred as such a Director, Company Secretary or executive officer to the extent permitted under legislation.

Auditors

BDO Stoy Hayward LLP has expressed its willingness to continue in office and a resolution to re-appoint them will be proposed at the Company's forthcoming annual general meeting.

Disclosure of information to auditors

All of the directors have taken all the steps they ought to have taken to make themselves aware of any information needed by the Group's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are not aware.

Annual General Meeting

The next Annual General Meeting will be held at 11.00 a.m. on 23 June 2009 and full details of the proposed Resolutions at that meeting can be found in the separate Notice accompanying the annual report and financial statements.

Signed by order of the directors

Juan Carlos Rodriguez
Director

Approved by the directors on: 20 May 2009

Directors' Responsibilities

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group, for safeguarding the assets of the Company, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors' Report which complies with the requirements of the Companies Act 1985.

The directors are responsible for preparing the annual report and the financial statements in accordance with the Companies Act 1985. The directors are also required to prepare financial statements for the Group in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs) and the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market. The directors have chosen to prepare separate financial statements for the Company in accordance with UK Generally Accepted Accounting Practice.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Group's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. A fair presentation also requires the Directors to:

- consistently select and apply appropriate accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

Financial statements are published on the Group's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Group's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Corporate Governance Report

Corporate governance and board composition

Effective corporate governance is a priority of the Board and outlined below are details of how the Company has applied the principles set out in The Combined Code on Corporate Governance (the “Code”) revised in July 2006 by the Financial Reporting Council. Under the rules of AIM, a market operated by the London Stock Exchange, the Company is not required to comply with the Code and the Board considered that the size of the Group does not warrant compliance with all of the Code’s requirements. The Board fully supports the principles on which the Code is based and seeks to comply with best practice in such respects as they consider appropriate for a Group of its size and nature. The Board has a wide range of experience directly relevant to the Group and its activities and its structure ensures that no one individual or Group dominates the decision making process.

Audit Committee

The Board has established an Audit Committee, which comprises of John May and Menno Wiebe, the two Non-executive Directors. The Audit Committee ensures the good operation of financial practices throughout the Group; ensures that controls are in place to protect the assets and to ensure the integrity of financial information; reviews the interim and annual financial statements; reviews all aspects of the audit program and provision of any non audit services by the auditors.

Remuneration Committee

The Board has established a Remuneration Committee, which comprises of John May and Menno Wiebe, the two Non-executive Directors, and is responsible for establishing the policies of executive remuneration and determining the remuneration and benefits of the individual executive directors.

Nominations Committee

The Board has not established a Nomination Committee as the Board considers a separately established committee is not warranted and its functions and responsibilities can be adequately and efficiently discharged by the Board as a whole. The Board assess the experience, knowledge and expertise of potential Directors before any appointment is made and adheres to the principle of establishing a Board comprising Directors with a blend of skills, experience and attributes appropriate to the Group and its business. The main criterion for the appointment of Directors is an ability to add value to the Group and its business. All Directors appointed by the Board are subject to election by shareholders at the Annual General Meeting of the Company. The Board will review the utility of a Nomination Committee as it enters the next stage of its development, and one will be established if and when considered appropriate by the Board.

Share dealing

The Group has adopted a share dealing code for Directors and relevant employees in accordance with the AIM Rules and takes proper steps to ensure compliance by the Directors and these employees.

Relations with Shareholders

The Board recognises that it is accountable to shareholders for the performance and activities of the Group. PetroLatina communicates with its shareholders principally through its web site at www.petrolatinaenergy.com and the Annual Report. Shareholders can also sign up to receive news releases directly from the Group by email. Annual General Meetings of the Company give the directors the opportunity to report to shareholders on current and proposed operations and enable shareholders to express their views on the Group’s business activities.

Directors' Remuneration Report

This report sets out the Company's remuneration policy and practice for executive and non-executive directors and provides details of their remuneration and share interests for the year ended 31 December 2008.

Role of the Remuneration Committee

The Remuneration Committee (the "Committee") is responsible for assessing the remuneration of executives on behalf of the Board and ensuring that the Group's remuneration policies and packages attract, retain and motivate directors with the appropriate qualifications and experience, whilst not exceeding market rates.

The Committee is authorised to seek any information it properly requires from any employee of the Company or of any of its subsidiary companies. All employees are directed by the Board to co-operate with any request made by the Committee.

If the Committee considers it necessary, it is authorised to obtain appropriate external advice to assist it in the performance of its duties, to secure the services of outsiders with relevant experience and expertise and to invite those persons to attend meetings of the Committee.

Membership of the Committee

The Committee consist of two directors of the Company who have no personal financial interest, except as shareholders, in the decisions of the Committee.

The Chairman of the Board may also form part of the Committee if at the time of his appointment he has no personal financial interest, except as a shareholder, in the Committee's decisions.

The Committee currently comprises the two non-executive directors, John May and Menno Wiebe. No directors are involved in deciding their own remuneration.

Remuneration policy

The Company aims to ensure that each individual's remuneration package is reasonable for the sector in which the Company operates and appropriate to attract, motivate and retain executives of a calibre necessary to ensure achievement of the Company's objectives and enhancement of shareholder value.

Executive Remuneration

The Executive Director's remuneration package consists of the following elements:

- (i) Basic annual salary;
- (ii) Pension contributions;
- (iii) Health cover; and
- (iv) Bonus schemes comprising a combination of cash and warrants.

Basic salaries are reviewed annually. The Board takes into consideration the remuneration paid by comparable companies in terms of asset size, market capitalisation and complexity of the Company's operations when considering salary levels.

Non-Executive Remuneration

The remuneration package for Non-Executive Directors is established by the board as a whole, but Non-Executive directors do not vote on any changes to their fees. Remuneration consists of a fixed fee, which is set to reflect the prescribed time commitment and relative responsibilities of each Non-Executive director on the affairs of the Company. Additional consultancy fees are paid if the input required exceeds the anticipated levels. Certain Non-Executive Directors held shares issued prior to the listing of the Company's shares.

Directors and directors' interests

The following directors held office during the year ended 31 December 2008:

<i>Director</i>	<i>Appointed</i>	<i>Resigned</i>	<i>Designation</i>
Luc Gerard	14 July 2008	–	Executive Chairman
Juan Carlos Rodriguez	2 November 2007	–	Chief Executive Officer
Ciro Mendez	5 August 2008	–	Executive Director
	14 July 2007	5 August 2007	Non-Executive Director
John May	2 November 2007	–	Non-Executive Director
Menno Wiebe	6 August 2008	–	Non-Executive Director
Gregory Smith	7 September 2004	14 July 2008	Executive Chairman
Mark Patterson	1 February 2007	5 August 2008	Non-Executive Director

Directors and directors' interests in ordinary shares and warrants

The interests of the directors (which are beneficial unless otherwise stated) in the ordinary share capital of the parent Company and warrants were, as at 31 December 2008, as follows:

<i>Director</i>	<i>Number held (as at 31 December 2008)</i>		<i>Warrants exercisable into Ordinary Shares</i>	<i>Number held (as at 1 January 2008)</i>	
	<i>Ordinary shares of US\$0.50 each ("Ordinary Shares")</i>	<i>as % of issued share capital</i>		<i>Ordinary Shares of US\$0.10 each ("Old Shares")</i>	<i>Warrants exercisable into Ordinary Shares</i>
	<i>Ordinary shares held</i>		<i>into Ordinary Shares</i>	<i>to a 1 for 5 consolidation)</i>	<i>Warrants exercisable into Ordinary Shares</i>
Luc Gerard ⁽¹⁾	154,200	0.35	–	–	–
Ciro Mendez ⁽²⁾	–	–	–	–	–
Juan Carlos Rodriguez ⁽³⁾	3,784,872	8.62	–	–	–
Menno Wiebe	200,000	0.46	–	–	–
John May	–	–	20,000	–	(100,000)
Gregory Smith ⁽⁴⁾	2,786,269	6.35	800,000	(17,700,001)	(4,000,000)
Mark Patterson	–	–	20,000	–	(100,000)

Notes:

- Luc Gerard is a director of Tribeca, TOGI and TOGF. TOGI holds 15,360,999 Ordinary Shares representing approximately 35 per cent. of the issued share capital. In addition, TOGI holds 1,875,260 warrants convertible into Ordinary Shares if the existing 3,482,625 warrants in issue are exercised. In addition, TOGF holds a warrant over Ordinary Shares exercisable in whole or in part at an aggregate exercise price of US\$300,000 determined by dividing the exercise price by the higher of (i) the middle market closing price of an Ordinary Share on the date of the warrant, as converted from pounds sterling to US dollars at the then prevailing exchange rate, and (ii) the prevailing nominal value of one Ordinary Share at the time of exercise of the warrant.
- Ciro Mendez is an investment manager of Tribeca. TOGI holds 15,360,999 Ordinary Shares representing approximately 35 per cent. of the issued share capital. In addition TOGI holds 1,875,260 warrants convertible into Ordinary Shares if the existing 3,482,625 warrants in issue are exercised. In addition, TOGF holds a warrant over Ordinary Shares exercisable in whole or in part at an aggregate exercise price of US\$300,000 determined by dividing the exercise price by the higher of (i) the middle market closing price of an Ordinary Share on the date of the warrant, as converted from pounds sterling to US dollars at the then prevailing exchange rate, and (ii) the prevailing nominal value of one Ordinary Share at the time of exercise of the warrant.
- Includes 2,535,872 Ordinary Shares held by a company in which members of Juan Carlos Rodriguez's family have beneficial interests.

(4) Includes 780,769 Ordinary Shares held in the name of Taghmen Ventures Limited (“TVL”), a company in which Gregory Smith has a beneficial interest. Prior to the share consolidation completed during 2008, 17,700,001 Old Shares were held by Gregory Smith and TVL.

All interests in shares, shown above were acquired during the financial period or prior and there have been movements since the year end.

Remuneration

The following table sets out an analysis of the pre-tax remuneration for the year ended 31 December 2008 for individual directors who held office in the Company during the period. All amounts are stated in US dollars, and are based on a US\$1.41 to £1 exchange rate.

<i>Director</i>	<i>Basic Salary</i> <i>(US\$)</i>	<i>Pension¹</i> <i>(US\$)</i>	<i>Share based payments</i> <i>(US\$)</i>	<i>Severance payments</i> <i>(US\$)</i>	<i>Total received</i> <i>2008</i> <i>(US\$)</i>	<i>Total³</i> <i>2007</i> <i>(US\$)</i>
Luc Gerard	44,881	–	–	–	44,881	–
Juan Carlos Rodriguez	329,501	56,526	–	–	386,027	197,672
Ciro Mendez	12,997	–	–	–	12,997	–
John May	67,667	–	2,849	–	70,516	11,676
Gregory Smith ²	120,017	17,317	395,208	850,000	1,382,542	1,482,804
Mark Patterson	175,144	–	2,849	103,000	280,993	67,134
Nicholas Gay	–	–	–	–	–	48,037
Jay Scott	–	–	–	–	–	86,000
Richard Lavers	–	–	–	–	–	20,015
Joseph Strubel	–	–	–	–	–	33,359
Rudolph Berends	–	–	–	–	–	490,168
James Guiang	–	–	–	–	–	36,694
Total	750,207	73,843	400,906	953,000	2,177,956	2,473,559

Notes:

- Pension payments are made to directors to pay into their own personal pension schemes.
- Gregory Smith was a beneficiary of the exercise of warrants by TVL, a company in which he has a beneficial interest, for \$0.53 per share. A gain of \$1,612,500 was made on the exercise.
- Nicholas Gay, Jay Scott, Richard Lavers, Joseph Strubel, Rudolph Berends, James Guiang all resigned during 2007.

Compensation for directors consists of:

	<i>2008</i> <i>US\$'000</i>	<i>2007</i> <i>US\$'000</i>
Share based payments	401	971
Wages and salaries	750	1,327
Redundancy and severance pay	953	–
Pensions	74	176
	2,178	2,474

The highest paid director received emoluments of \$120,017 (2007 – \$611,000). He also received share based payments of \$395,208 (2007 – \$700,562), severance payments of \$850,000 (2007: Nil) and pension contributions of \$17,317 (2007 – \$171,525). Total pension costs paid on behalf of directors for the year was \$73,843 (2007 – \$175,528).

Gregory Smith, a director, was a beneficiary of the exercise of 3,750,000 warrants in the period by TVL, a company in which he has a beneficial interest. The warrants were exercised at \$0.53 per share with an exercise price of \$0.10 a gain of \$1,612,500 was made on the exercise.

In addition Gregory Smith was granted 4,000,000 options as described in note 21, the share based payments charge is shown above.

Independent auditor's report to the shareholders of PetroLatina Energy Plc

We have audited the group financial statements (the "financial statements") of PetroLatina Energy Plc for the year ended 31 December 2008 which comprise the consolidated income statement, consolidated balance sheet, consolidated cash flow, consolidated statement of changes in equity and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and for preparing the directors' remuneration report in accordance with applicable law are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements and the part of the directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and whether the information given in the directors' report is consistent with those financial statements. We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the annual report, and consider whether it is consistent with the audited financial statements. This other information comprises only the group overview and achievements to date, the directors' report, the unaudited remuneration report, the chairman's statement, the chief executive officer's statement, the board of directors report, the corporate information and the corporate governance statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the directors' remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the directors' remuneration report to be audited.

Emphasis of matter – going concern

In forming our opinion, which is not qualified, we have considered the adequacy of the disclosures made in note 1 to the financial statements concerning the Group's need to raise further funds in order to finance the Company's development work programme. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue in business. The financial statements do not include any adjustments that would result if the Group was unable to continue as a going concern.

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2008 and of its loss for the year then ended;
- the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' report is consistent with the financial statements.

BDO STOY HAYWARD LLP

Chartered Accountants and Registered Auditors
London

Date: 20 May 2009

Consolidated Income Statement
For the year ended 31 December 2008

	<i>Note</i>	2008 <i>US\$'000</i>	2007 <i>US\$'000</i>
Revenue	4	7,762	7,092
Cost of sales		<u>4,358</u>	<u>6,873</u>
Gross profit		3,404	219
General and administration costs		<u>6,631</u>	<u>6,040</u>
Loss from operations	5	(3,227)	(5,821)
Finance income	6	315	24
Finance expense	6	<u>(1,086)</u>	<u>(2,587)</u>
Loss before tax		(3,998)	(8,384)
Income tax credit	7	<u>(85)</u>	<u>(433)</u>
Loss from continuing operations		(3,913)	(7,951)
Loss on discontinued operation, net of tax		<u>–</u>	<u>(4)</u>
Loss for the period attributable to equity shareholders of the parent	8	<u>(3,913)</u>	<u>(7,955)</u>
		<i>2008</i>	<i>2007</i>
		<i>US\$</i>	<i>US\$</i>
Loss per share attributable to the equity holders of the parent during the year (basic and diluted) (2007 adjusted for 1 for 5 share consolidation)	8	<u>0.12</u>	<u>0.345</u>
Loss per share – Continuing operations (basic and diluted) (2007 adjusted for 1 for 5 share consolidation)	8	<u>0.12</u>	<u>0.345</u>

The notes on pages 28 to 55 form part of these financial statements.

Consolidated balance sheet
31 December 2008

	<i>Note</i>	<i>2008</i> <i>US\$'000</i>	<i>2007</i> <i>US\$'000</i>
ASSETS			
Non-Current Assets			
Property, plant and equipment	9	33,029	32,407
Exploration and Evaluation Assets	10	13,336	4,328
		<u>46,365</u>	<u>36,735</u>
Current Assets			
Inventories	12	36	52
Trade and other receivables	13	4,218	425
Cash and cash equivalents	21	2,706	3,542
		<u>6,960</u>	<u>4,019</u>
Total Assets		<u>53,325</u>	<u>40,754</u>
LIABILITIES			
Non-current liabilities			
Provisions	17	1,205	556
Deferred tax liability	16	6,348	6,576
		<u>7,553</u>	<u>7,132</u>
Current liabilities			
Trade and other payables	14	5,852	10,380
Short term loans	15	267	6,388
		<u>6,119</u>	<u>16,768</u>
Total Liabilities		<u>13,672</u>	<u>23,900</u>
Total Net assets		<u>39,653</u>	<u>16,854</u>
EQUITY			
Share capital	18	22,045	11,735
Share premium		76,374	55,718
Shares to be issued		–	4,560
Warrant reserve		1,930	1,624
Retained earnings		(60,696)	(56,783)
Total equity		<u>39,653</u>	<u>16,854</u>

The financial statements were approved by the Board of Directors and authorised for issue on 20 May 2009.

Juan Carlos Rodriguez
Director

The notes on pages 28 to 55 form part of these financial statements.

Consolidated cashflow statement
31 December 2008

	<i>Note</i>	2008 <i>US\$'000</i>	2007 <i>US\$'000</i>
Cash flows from operating activities			
Loss for the year		(3,913)	(7,955)
Share-based payments		902	1,094
Depreciation of property, plant and equipment		1,294	5,503
Impairment of intangible asset		946	–
Loss on disposal of property, plant and equipment		–	122
Loss on sale of discontinuing operations		–	4
Finance income		(315)	(24)
Finance expense		1,086	778
Income tax expense		(85)	(433)
Cash flows from operating activities before changes in working capital and provisions		(85)	(911)
Decrease/(increase) in inventories		16	(1)
(Increase)/decrease in trade and other receivables		(524)	788
Increase/(decrease) in trade and other payables		47	(36)
Cash generated from operations		(546)	(160)
Income taxes paid		(257)	(284)
Net cash from operating activities		(803)	(444)
Investing activities			
Finance income		315	24
Purchase of property, plant and equipment		(1,267)	(298)
Payments for exploitation and exploration		(10,684)	(3,760)
Deferred consideration paid		(7,000)	–
Proceeds from sale of subsidiaries and other assets (net of cash disposed)		–	3,992
Proceeds of sale of property, plant and equipment		–	49
Net cash flows from investing activities		(19,439)	7
Financing activities			
Issue of ordinary share capital		25,000	–
Exercise of share warrants		–	375
Repayment of short term loan		(6,121)	(1,270)
Interest paid		(276)	(778)
Net cash flows from Financing activities		18,603	(1,673)
Decrease in cash and cash equivalents		(836)	(2,110)
Cash and cash equivalents at the start of the period		3,542	5,652
Cash and cash equivalents at the end of the period	21	2,706	3,542

The notes on pages 28 to 55 form part of these financial statements.

**Consolidated statement of changes in equity
For the year ended 31 December 2008**

	<i>Called up share capital</i> US\$'000	<i>Share premium</i> US\$'000	<i>Shares to be issued</i> US\$'000	<i>Warrant reserve</i> US\$'000	<i>Retained earnings</i> US\$'000	<i>Total equity</i> US\$'000
Opening balance – 1 January 2007	11,077	55,357	–	1,365	(49,269)	18,530
Loss for the period	–	–	–	–	(7,955)	(7,955)
Total recognised income and expense for the year	–	–	–	–	(7,955)	(7,955)
Issue of share capital	658	361	–	–	–	1,019
Issue of warrants	–	–	–	700	–	700
Transfer on lapse of warrants	–	–	–	(441)	441	–
Share based payment	–	–	1,560	–	–	1,560
Deferred consideration payable	–	–	3,000	–	–	3,000
Balance as at 31 December 2007	11,735	55,718	4,560	1,624	(56,783)	16,854
Loss for the period	–	–	–	–	(3,913)	(3,913)
Total recognised income and expense for the year	–	–	–	–	(3,913)	(3,913)
Issue of share capital	7,680	17,320	–	–	–	25,000
Issue of warrants	–	–	–	306	–	306
Deferred consideration paid in shares	1,523	1,477	(3,000)	–	–	–
Share-based payment	1,107	1,859	(1,560)	–	–	1,406
Balance as at 31 December 2008	22,045	76,374	–	1,930	(60,696)	39,653

The following describes the nature and purpose of each reserve within owners' equity:

<i>Reserve</i>	<i>Descriptions and purpose</i>
Share capital	Amount subscribed for share capital at nominal value.
Share premium	Amount subscribed for share capital in excess of nominal value.
Warrant reserve	Amounts resulting from the issue of warrants.
Retained earnings	Cumulative net gains and losses recognised in the consolidated income statement.
Shares to be issued	The fair value of shares to be issued in respect of consideration for services or liabilities delivered

Notes forming part of the financial statements for the year ended 31 December 2008

1. Accounting policies

Basis of Preparation

The financial statements of the Group for the twelve months ended 31 December 2008 have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively IFRS) issued by the International Accounting Standards Board (IASB) as adopted by European Union.

New standards and interpretations

(a) *New standards, amendments to published standards and interpretations to existing standards effective in 2008 and adopted by the Group*

- IFRIC 11, IFRS 2 – Group and Treasury Share Transactions (effective for accounting periods beginning on or after 1 March 2007). IFRIC 11 requires share-based payment transactions in which an entity receives services as consideration for its own equity instruments to be accounted for as equity settled. This applies regardless of whether the entity chooses or is required to buy those equity instruments from another party to satisfy its obligations to its employees under the share-based payment arrangement. It also applies regardless of whether: (a) the employee's rights to the entity's equity instruments were granted by the entity itself or by its shareholder(s); or (b) the share-based payment arrangement was settled by the entity itself or by its shareholder(s). There was no impact on the Group's accounts from its adoption.

(b) *Standards, interpretations and amendments to published standards effective in 2008 but which are not relevant to the Group*

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2008 but are currently not relevant to the Group's operations:

- IAS 39, Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures – Reclassification of Financial Assets (Amendments) (effective for periods beginning on or after 1 July 2008). This amendment allows entities to reclassify held for trading assets out of this category if the assets are no longer held for the purpose of trading. This amendment is not applicable to the Group's operations as it is not applicable to instruments designated at fair value through profit or loss at initial recognition.
- IFRIC 12, Service Concession Arrangements (effective for accounting periods beginning on or after 1 January 2008). IFRIC 12 gives guidance on the accounting by operators for public-to-private service concession arrangements. IFRIC 12 is not relevant to the Group's operations due to absence of such arrangements.
- IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for accounting periods beginning on or after 1 January 2008). IFRIC 14 clarifies when refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of IAS 19, how a minimum funding requirement might affect the availability of reductions in future contributions and when a minimum funding requirement might give rise to a liability. IFRIC 14 is not relevant to the Group's operations due to absence of such arrangements.

(c) *Standards, amendments and interpretations to published standards not yet effective for the year 31 December 2008*

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for accounting periods beginning on or after 1 January 2009 or later periods and which the Group has decided not to adopt early. These are:

- IFRS 1, First-time Adoption of International Financial Reporting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (Amendments) (effective for accounting periods beginning on or after 1 January 2009). This standard allows an entity, in its separate financial statements, to determine the cost of investments in subsidiaries, jointly-controlled entities or associates (in its opening IFRS financial statements) as either costs determined in accordance with IAS 27, fair value of the investment at the date of transition in accordance with IAS 39 or using the previous GAAP carrying amount of the investment at the date of transition. As this is for entities adopting IFRS for the first time, this standard will have no impact on the results or net assets of the Group.
- IFRS 8, Operating Segments (effective for accounting periods beginning on or after 1 January 2009). This standard sets out requirements for the disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. It replaces IAS 14, 'Segmental Reporting'. The Group will apply this standard in the accounting period beginning on 1 January 2009. As this is a disclosure standard it will not have any impact on the results or net assets of the Group, it is not expected to affect the presentation of the reported operating segments.
- IAS 23, Borrowing Costs (revised) (effective for accounting periods beginning on or after 1 January 2009). The main change from the previous version is the removal of the option of immediately recognising as an expense borrowing costs that relate to qualifying assets, broadly being assets that take a substantial period of time to get ready for use or sale. There is no impact on the Group's accounts.
- IFRIC 13, Customer Loyalty Programmes (effective for accounting periods beginning on or after 1 July 2008). IFRIC 13 addresses sales transactions in which the entities grant their customers award credits that, subject to meeting any further qualifying conditions, the customers can redeem in future for free or discounted goods or services. IFRIC 13 is not relevant to the Group's operations due to absence of such arrangements.
- IFRIC 15, Agreements for the Construction of Real Estate (effective for accounting periods beginning on or after 1 January 2009). IFRIC 15 addresses whether an agreement for the construction of real estate is within the scope of IAS 11 Construction Contracts or IAS 18 Revenues. IFRIC 15 is not relevant to the Group's operations.
- IFRIC 16, Hedges of a Net Investment in a Foreign Operation (effective for accounting periods beginning on or after 1 October 2008). IFRIC 16 provides guidance regarding hedges of foreign currency gains and loss on a net investment in a foreign operation. An entity can hedge the foreign exchange gains and losses on a net investment arising from differences between the functional currency of the foreign operation and the functional currency of its direct parent. The Group is currently assessing its impact on the financial statements.
- IFRIC 17 Distributions of non cash assets to owners (effective for accounting periods beginning on or after 1 July 2009). IFRIC 17 is still to be endorsed by the EU. Prior to this interpretation, IFRSs did not address how an entity should measure distributions of assets other than cash when it pays dividends. Dividends payable were sometimes recognised at the carrying amount of the assets to be distributed and sometimes at their fair value. The Interpretation clarifies that: a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity; that an entity should measure the dividend payable at the fair value of the net assets to be distributed; and that an entity should recognise the difference between the dividend paid and the carrying amount of the

net assets distributed in profit and loss. The Interpretation also requires the entity to provide additional disclosures if the net assets being held for distribution to owners meet the definition of a discontinued operation. IFRIC 17 applies to *pro rata* distributions of non cash assets except for common control transactions. It does not have to be applied retrospectively. IFRIC 17 is not relevant to the Group's operations due to the absence of such arrangements.

- IFRIC 18 Transfer of assets from customers (applies prospectively for transfers of assets on or after 1 July 2009. Limited retrospective application is permitted) IFRIC 18 is still to be endorsed by the EU. IFRIC 18 clarifies the treatment of IFRS, particularly IAS 18 'Revenue' for agreements in which an entity receives an item of property, plant and equipment from a customer to connect to an ongoing supply of goods and services. The interpretation clarifies: the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset), the recognition of revenue; the accounting for transfers of cash from customers. IFRIC 18 is not expected to be relevant to the Group's operations due to the absence of such arrangements.
- Revised IFRS 3, Business Combinations and complementary Amendments to IAS 27, Consolidated and separate financial statements (both effective for accounting periods beginning on or after 1 July 2009). This revised standard and amendments is still to be endorsed by the EU. The revised IFRS 3 and amendments to IAS 27 arise from a joint project with the Financial Accounting Standards Board (FASB), the US standards setter, and result in IFRS being largely converged with the related, recently issued, US requirements. There are certain very significant changes to the requirements of IFRS, and options available, if accounting for business combinations. The revision to IFRS 3 will be relevant to the Group as and when such transactions falling into the scope of the review standard occur.
- Amendment to IFRS 2, Share-based payments: vesting conditions and cancellations (effective for accounting periods beginning on or after 1 January 2009). This amendment is still to be endorsed by the EU. The Amendment to IFRS 2 is of particular relevance to companies that operate employee share save schemes. This is because it results in an immediate acceleration of the IFRS 2 expense that would otherwise have been recognised in future periods should an employee decide to stop contributing to the savings plan, as well as a potential revision to the fair value of the awards granted to factor in the probability of employees withdrawing from such a plan. This amendment is currently not applicable as the Group does not operate employee share save schemes. Management will continue to assess the impact of the amendment prior to adoption.
- Amendment to International Accounting Standard 1 Presentation of Financial Statements (IAS 1) (effective for accounting periods beginning or after 1 January 2009) replaces IAS 1 Presentation of Financial Statements (revised in 2003) as amended in 2005.

IAS 1 amends some of the terminology used in regard to the primary statements. Furthermore it introduces a requirement to include within a complete set of financial statements a statement of financial position as at the beginning of the earliest comparative period whenever the entity retrospectively applies an accounting policy or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements. In addition the requirements in regard to the presentation of changes in equity and income and expenses are altered. Management is currently assessing the impact of the amendments on the accounts.

Amendments to IAS 32, "Financial Instruments: Presentation" and IAS 1, "Presentation of Financial Statements" – Puttable Financial Instruments and Obligations Arising on Liquidation (effective for accounting periods beginning or after 1 January 2009) IAS 32 is amended by requiring some financial instruments that meet the definition of a financial liability to be classified as equity. The amendment addresses the classification of some puttable financial instruments, and instruments, or components of instruments, that impose on the entity an obligation to deliver to another party a *pro rata* share of the net assets of the entity only on liquidation. These amendments are currently not applicable as the

Group does not utilise the described financial instruments. Management will continue to assess the impact of the amendments prior to adoption.

IAS 39 Financial Instruments: Recognition and Measurement: Eligible hedged items (effective for accounting periods beginning on or after 1 July 2009). These amendments are still to be endorsed by the EU. This amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in the designation of a one-sided risk in a hedged item, and inflation in a hedged item. Management will continue to assess the impact of the amendments prior to adoption.

Going Concern

The Group plans an extensive drilling programme in the next twelve months, which should transform some of its oil reserves into producing reserves. Following a review of the Group's financial position and its budgets and plans currently this programme is not fully funded from resources at the Group's disposal. The directors have reviewed the financial position of the Group and since the balance sheet date have already secured a large part of the required funding. Negotiations with a number of major investment banks are at an advanced stage to secure the remaining funds and this combined with the Group's current production, exploration and near term production potential, as reflected in the Group's recent announcements, will fully fund the forthcoming work programme. Whilst the Directors are confident that the Group will be able to raise the required funds to finance its working capital requirements, there can be no guarantee that the current negotiations will be completed within 12 months from the date of the accounts and therefore there exists a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Notwithstanding this uncertainty the directors are confident that the group will be able to raise the required funds therefore these financial statements have been prepared on a going concern basis. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

Basis of Consolidation

The consolidated financial statements incorporate the financial statements of PELE and entities controlled by the Company up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognized. Any excess of the cost of acquisition over the fair values of identifiable net assets is recognized as goodwill. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement 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 other members of the Group. All intercompany transactions and balances between Group entities are eliminated on consolidation.

Segment reporting

The Group's primary form of segmental reporting will be by business segment. A business segment is a Group of assets or operations that are subject to risks and returns that are different to those of other business segments.

Revenues

Sales revenues relating to the sale of crude oil are recognised when the oil is received by the customer, and are net of taxes and royalty interests. Pipeline income is recognised as earned and consists of pipeline throughput tariffs.

Oil and gas assets

The following policy definitions provide the guidelines for accounting treatment of Oil and Gas assets including properties, wells, facilities, pipelines and other related oil and gas producing assets during all stages of exploration and production activities:

The Group applies the successful efforts based method of accounting for oil and gas operations.

Under the successful efforts based method of accounting, costs are capitalised if they lead to or represent the development of the oil and gas assets that either have to be appraised or have been appraised as successful. If evaluation of the oil and gas asset leads to the conclusion that the asset is not economic, the costs incurred acquiring this asset are expensed through the income statement as an impairment charge. If evaluation of the oil and gas asset leads to the conclusion that the asset has economic value but the costs incurred acquiring and developing this asset exceed this value, the excess costs are expensed through the income statement within administrative expenses. The costs incurred to evaluate potential assets prior to grant of exploration and production (“E&P”) licences are expensed.

Proven oil and gas assets

For evaluated properties with economic values exceeding the exploration and development costs incurred after the grant of the licence, these costs, which may include geological and geophysical costs, costs of drilling exploration and development wells, costs of field (defined as an exploration area) production facilities, including commissioning and infrastructure costs, are capitalised. These expenditures are combined into asset Groups reflecting the anticipated useful lives of individual assets and subsequently are depreciated over the expected economic lives of those asset Groups. The expenditure within the asset Group with a useful life equal to the producing life of the field is depleted on a unit-of-production basis. The assets formed by capitalisation of these costs are referred to as *oil and gas assets*.

Impairment review

Impairment reviews of development and/or producing assets are carried on a field-by-field basis. At each reporting date an impairment review is carried out comparing the carrying value of the development and/or producing assets to either the value in use or the net present values of expected future cash flows from the relevant fields. If the net book value is higher than the underlying economic value of the asset, as defined by value in use or realisable value less costs to sell, then the difference is written off to the income statement as impairment. Expected future cash flows are calculated using production profiles and costs determined on a field-by-field basis by in-house engineers, using appropriate petroleum engineering techniques, and using oil price forecasts, which are developed by the Group for business planning purposes.

Exploration and evaluation assets are regarded as intangible fixed assets until it has been established whether they are associated with commercially producible reserves of hydrocarbons or not. If the efforts associated with the costs of these assets are successful, these assets are reclassified into development and/or producing assets, which are subject to regular impairment reviews on a field-by-field basis. If the efforts associated with the costs of these assets are unsuccessful, the carrying cost of these assets is written off to the income statement in accordance with the successful efforts based accounting method.

Intangible oil and gas assets

Intangible oil and gas assets represent costs that have been incurred after the grant of the licence where the properties still have to be evaluated and where production of hydrocarbons has yet to commence. Costs related to such unevaluated properties are not amortised until such time as the related property has been appraised and put on production.

Asset disposals

Proceeds from the disposal of an asset, or part thereof, are taken to the income statement together with the requisite net book value of the asset, or part thereof, being sold.

Decommissioning

Where a material liability for the removal of production facilities and site restoration at the end of the productive life of a field exists, a provision for decommissioning is recognised. The amount recognised is the present value of estimated future expenditure determined in accordance with local conditions and requirements. The unwinding discount arising on the recognition of the provision is released to the income statement and included within finance expense.

A property, plant and equipment asset of an amount equivalent to the provision is also created within the cost of the asset and depreciated on a unit of production basis. Changes in estimates are recognised prospectively, with corresponding adjustments to the provision and the associated fixed asset.

Property, plant, equipment and pipeline

Property, plant, equipment and pipeline assets, currently comprising furniture and fittings, communications equipment and computer equipment and the oil pipeline, are depreciated on a straight-line basis over 3 to 20 years (or the life of the asset, if shorter).

Maintenance expenditure

Expenditure on major maintenance, refits or repairs is capitalized where it fulfils one of the following:

- enhances the life or performance of an asset above its originally assessed standard of performance;
- replaces an asset, or part thereof, which was separately depreciated and which is then written off;
- restores the economic benefits of an asset which has been fully depreciated.

All other maintenance expenditures are charged to the income statement as incurred.

Inventories

Inventories are stated at the lower of cost and net realisable value.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax, including UK Corporation and any overseas 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 balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial information and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. 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. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax assets and liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Financial Instruments

Financial assets

The Group classifies its financial assets into the following category discussed below. The Group has not classified any of its financial assets as held to maturity or available for sale. There are no fair value through profit and loss assets.

The Group's accounting policy for its loans and receivables is as follows:

Loans and receivables: These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (i.e. trade receivables) but also incorporate other types of contractual monetary assets. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue and are subsequently carried at amortised cost, using the effective interest rate method less provision for impairment.

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Group will be unable to collect all of the amounts due under the terms of the receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable.

From time to time the Group may elect to renegotiate the terms of trade receivables due from customers with which it has previously had a good trading history. Such renegotiations may lead to changes in the timing of payments rather than changes to the amounts owed and, in consequence, the new expected cash flows would be discounted at the original effective interest rate.

Cash and cash equivalents comprise cash on hand, deposits with a maturity of three months or less and other short-term highly liquid investments that are readily convertible into known amounts of cash.

Financial liabilities

The Group classifies its financial liabilities into categories depending on the purpose for which the liability was acquired. The Group has not classified any of its liabilities at fair value through profit and loss.

The Group's accounting policy for each category is as follows:

Held at amortised cost: Trade payables, bridging loans, other loans and other short-term monetary liabilities are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

Share capital

Financial instruments issued by the Group are treated as equity only to the extent that they do not meet the definition of a financial liability. The Group's ordinary shares are classed as equity instruments.

Provisions

From time to time it is necessary for the Group to defend itself against legal claims that may or may not result in the Group having to make a financial settlement. Provisions for anticipated settlement costs and associated expenses arising from any legal and other disputes are made where a reliable estimate can be made of the probable outcome of the dispute. Where it is not possible to make such an estimate, no provision is made. See accounting policy for decommissioning provisions above.

Share-based payments and warrants

In accordance with IFRS 2 '*Share-based payments*', the Group reflects the economic cost of awarding shares and share options to employees and directors by recording an expense in the income statement equal to the fair value of the benefit awarded. The expense is recognized in the income statement over the vesting period of the award.

Fair value is measured by use of a Black-Scholes model, which takes into account conditions attached to the vesting and exercise of the equity instruments. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

Where an option or a warrant is issued to a 3rd party the directors value the service received at fair value, where this is not ascertainable the directors will value the service based on the fair value of the instruments issued as described above.

Post retirement benefits

The Group contributes to a defined contribution scheme. Contributions are charged to the income statement as they become payable.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date. Exchange gains or losses on translation are included in the income statement.

The functional and presentational currency of the Company has been determined to be the US dollar and accordingly the financial statements have been prepared in US dollars.

Leases

Operating leases and the corresponding rental charges are charged to the income statement on a straight-line basis over the life of the lease.

Critical accounting judgments and key sources of estimation uncertainty

Details of the Group's significant accounting judgments and critical accounting estimates are set out in these financial statements and include:

- Carrying value of intangible exploration and evaluation fixed assets (note 10);
- Commercial reserves estimates (see note 9);
- Share based payments (see note 19);
- Contingent liabilities and litigation (see note 23);
- Consolidation of subsidiaries (see note 11).

2. Financial instruments – Risk Management

The Group is exposed through its operations to the following risks:

- Credit risk
- Liquidity risk
- Market risk

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and

the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

Principal financial instruments

The principal financial instruments used by the Group, from which financial instrument risk arises are as follows:

- Trade and other receivables
- Cash and cash equivalents
- Trade and other payables
- Short term loans

Maturity analysis of the Group's financial assets and liabilities is presented below:

Financial Assets

	2008 US\$'000	2007 US\$'000
Up to 3 months	954	307
	<u>954</u>	<u>307</u>

Financial liabilities

	2008 US\$'000	2007 US\$'000
Up to 3 months	2,509	9,797
3 to 6 months	1,891	411
Over 6 months	1,250	–
	<u>5,650</u>	<u>10,208</u>

General objectives, policies and processes

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining responsibility for them it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's finance function. The overall objective of the Board is to set policies that seek to reduce risk exposure as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below:

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or a counterpart to a financial instrument fails to meet its contractual obligations. The Group is mainly exposed to credit risk from credit sales. It is Group policy, implemented locally, to assess the credit risk of new customers before entering contracts. Such credit ratings are taken into account by local business practices. The Group's review includes external credit ratings, when available. Potential customers that fail to meet the Group's benchmark credit worthiness may transact with the business on a prepayment basis only. The Group is reliant on its main client: "Ecopetrol". The group monitors its trading with the customer and ensures payment is made on a regular basis. The Group is also confident on the banks it has transactions with because of the excellent qualifications they have had during various years, from AAA to AA+, which assures the recoverability of the funds held by them.

Credit risk also arises from cash and cash equivalents and deposits with banks and financial institutions. The Group reviews the banks and financial institutions it deals with to ensure that standards of credit worthiness are maintained. The group does not hold deposits with financial institutions rated less than BAA3 IBB.

The Group does not enter into derivatives to manage credit risk, although in certain isolated cases may take steps to mitigate such risks if it is sufficiently concentrated.

The Group monitors the utilisation of credit ratings and available credit evaluation information as appropriate and at the reporting date does not envisage any losses from non-performance of counterparties.

Liquidity risk

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due. The most significant component of liquidity risk affecting the Group is a potential adverse movement in the market price of the crude oil.

In addition see note 21 for the term of the Group's Colombia exploration, whereby cash is held in trust under the groups licence.

The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. To achieve this aim, it seeks to maintain cash balances (or agreed facilities) to meet expected requirements for a period of at least 90 days. The Group seeks to reduce liquidity risk by fixing interest rates (and hence cash flows) on its long term borrowings.

The Directors received rolling 12 month cashflow projections on a monthly basis as well as information regarding cash balances. At the balance sheet date, these projections indicated that the Group expected to have sufficient liquid resources to meet its obligations under all reasonable expected circumstances.

Capital management policies

The Group considers its capital to be its ordinary share capital, share premium, other reserves and retained earnings. The Board of Directors has established guidelines and policies for the management of the Group's capital resources based on a long-term strategy that continually evaluates and monitors the achievement of corporate objectives and the development of the Group's portfolio in core areas. Specific capital management policies set forth include the following:

- The reinvestment of all profits into new and existing assets that fit the corporate objectives;
- Consolidation of positions in developing regions and disposition of assets of low materiality or where meaningful operational influence cannot be achieved;
- To identify the appropriate mix of debt, equity and partner sharing opportunities in order to balance the highest returns to shareholders overall with the most advantageous timing of investment flows;
- Retain maximum flexibility to allocate capital resources between exploration and appraisal, and production and development projects based on available funds and quality of opportunities.

On a regular basis, management receives financial and operational performance reports that enable continuous management of assets, liabilities and liquidity. In addition, management communicates

Market risk

The most significant component of market risk affecting the group is the market price of the crude oil.

Crude oil price sensitivity analysis

A sensitivity analysis based on a 50 per cent. (2007 – 10 per cent.) price volatility assumption is used internally by management to estimate the potential impact of variations in crude oil market prices. As at 31 December 2008, a 50 per cent. (2007 – 10 per cent.) increase in the average sales price obtained during the year would have increased revenues by \$3,021,000 (2007 – \$542,000) and also it would have decreased

loss to \$829,000 (2007 – \$7,413,000). On the other hand a 50 per cent. (2007 – 10 per cent.) decrease in the average sales price would have reduced revenues by \$3,021,000 (2007 – \$492,000) and it would have increased loss to \$6,934,000 (2007 – \$8,447,000) and will have a corresponding effect on net assets.

Cashflow interest rate risk

The Group is exposed to cashflow interest rate risk from its deposits of cash and cash equivalents with banks. The cash balances maintained by the Group are proactively managed in order to ensure that the maximum level of interest is received for the available funds but without affecting the working capital flexibility the Group requires.

The Group does not consider itself exposed to cashflow interest rate risk from its borrowings in the form of short term loans, which carry fixed interest rates within the terms of the agreements. Through the fixing of interest rates within the agreements the Company considers it has minimised the exposure of the Group to cashflow interest rate risk. No subsidiary Company of the Group is permitted to enter into any borrowing facility or lease agreement without the prior consent of the Board of Directors.

Interest rates on financial assets and liabilities

The interest rate profile of the Group's financial assets and liabilities at 31 December 2008 was as follows:

ASSETS

	<i>Financial assets on which floating rate interest is earned US\$'000</i>	<i>Financial assets on which no interest is earned US\$'000</i>	<i>Total 2008 US\$'000</i>
Currency			
Colombian Pesos	–	954	954
Total	–	954	954

LIABILITIES

	<i>Financial liabilities on which interest is paid US\$'000</i>	<i>Financial liabilities on which no interest is paid US\$'000</i>	<i>Total 2008 US\$'000</i>
Currency			
US Dollars	–	3,879	3,879
Colombian Pesos	267	1,771	2,038
Total	267	5,650	5,917

The profile at 31 December 2007 for comparison purposes was as follows:

ASSETS

	<i>Financial assets on which floating rate interest is earned US\$'000</i>	<i>Financial assets on which no interest is earned US\$'000</i>	<i>Total 2007 US\$'000</i>
Currency			
US Dollars	–	307	307
Total	–	307	307

LIABILITIES

	<i>Financial liabilities on which interest is paid</i>	<i>Financial liabilities on which no interest is paid</i>	<i>Total</i>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Currency			
US Dollars	10,208	–	10,208
Total	10,208	–	10,208

Cash at bank at floating rates consisted of demand deposits subject to floating rates which earn interest at an average rate of 6.42 per cent. (2007 – 7.17 per cent.)

The Group has no floating rate debt. Fixed rate debt consists of obligations under short term loan agreements of less than one year with rates fixed in advance for periods longer than three months. The average interest rate on these contracts for the year is 13.32 per cent. (2007 – 14.85 per cent.).

Interest rate sensitivity analysis

The Group reviewed the interest rate sensitivity on year-end balances and determined that a one per cent. increase or decrease in the interest rate earned on floating rate deposits would not have resulted in a significant increase or decrease in net income receivable.

Foreign exchange risk

Foreign exchange risk arises because the Group has operations located in various parts of the world, which enter into transactions in currencies, which are not the same as the functional currency of the Company and its subsidiaries. Although its wider market penetration reduces the Group's operational risk, the Group's net assets arising from such overseas operations are exposed to currency risk resulting in gains and losses on retranslation into US Dollars. Only in exceptional circumstances will the Group consider hedging its net investments in overseas operations, as generally it does not consider that the reduction in foreign currency exposure warrants the cash flow risk created from such hedging techniques.

Wherever possible in order to monitor the continuing effectiveness of this policy, the Board, through their approval of capital expenditure budgets and review of the monthly management accounts, considers the effectiveness of the policy on an ongoing basis.

The following table discloses the exchange rates of those currencies utilised by the Group:

	<i>Euros</i>	<i>Colombian Peso</i>	<i>British Pound Sterling</i>
Foreign currency units to US\$1.00			
At 31 December 2008	0.7157	2,244	0.6842
At 31 December 2007	0.6854	2,015	0.5007

Currency exposures

The monetary assets and liabilities of the Group that are not denominated in US dollars and are therefore exposed to currency fluctuations are shown below. The amounts shown represent the US dollar equivalent of local currency balances.

<i>US dollar equivalent of exposed net monetary assets and liabilities</i>	<i>Colombian Peso US\$'000</i>	<i>British Pound Sterling US\$'000</i>	<i>Total US\$'000</i>
At 31 December 2008	<u>(1,937)</u>	<u>41</u>	<u>(1,896)</u>
At 31 December 2007	<u>(1,725)</u>	<u>89</u>	<u>(1,636)</u>

Foreign currency sensitivity analysis

The Group is mainly exposed to currency rate fluctuations of the Colombian Peso versus the US\$, and measures its foreign currency risk through a sensitivity analysis considering 10 per cent. favourable and adverse changes in market rates on exposed monetary assets and liabilities denominated in Colombian Pesos. At 31 December 2008, a 10 per cent. devaluation of the Peso against the Dollar would not have resulted in a material difference in the result of the Group (2007 – no significant difference). Management meet frequently with the Board of Directors to provide consistent information and data flow to ensure the achievement of objectives is evaluated and measured.

The above policies and practices are consistent with strategies and objectives employed in prior years and are expected to remain consistent in the extension of future resource allocation objectives.

3. Staff costs (including directors' and key management remuneration)

	<i>2008 US\$'000</i>	<i>2007 US\$'000</i>
Share based payments	401	1,094
Wages and salaries	2,365	2,817
Redundancy and severance pay	953	60
Social security costs	38	100
Pensions	91	114
	<u>3,848</u>	<u>4,185</u>

The Company does not administer its own pension, instead it makes payments on behalf of its directors and employees into their own personal pension plans.

The directors believe that all directors' fees, benefits and emoluments represent the charge paid to key management.

The directors believe that all the directors (including non-executive directors) represent key management. Further details are contained in the directors' remuneration report (pages 19 to 21).

The average number of employees of the Group during the period, including Executive Directors, was as follows:

	<i>2008 number</i>	<i>2007 Number</i>
Administration	23	21
Technical	55	67
	<u>78</u>	<u>88</u>

None of the directors are members of a Company pension fund. Pension contributions are paid to the directors to pay into their own personal pension schemes.

Compensation of directors consists of:

	2008 US\$'000	2007 US\$'000
Share based payments	401	971
Wages and salaries	750	1,327
Redundancy and severance pay	953	–
Pensions	74	176
	<u>2,178</u>	<u>2,474</u>

The highest paid director received emoluments of \$120,017 (2007 – (\$611,000)). He also received share based payments of \$395,208 (2007 – \$700,562), severance payments of \$850,000 (2007: Nil) and pension contributions of \$17,317 (2007 – \$171,525). Total pension costs paid on behalf of directors for the year was \$73,843 (2007 – \$175,528).

Gregory Smith, a Director, was a beneficiary of the exercise of 3,750,000 warrants in the period by TVL, a company in which he has a beneficial interest. The warrants were exercised at \$0.53 per share with an exercise price of \$0.10 a gain of \$1,612,500 was made on the exercise.

In addition Gregory Smith was granted 4,000,000 options as described in note 19, the share based payments charge is shown above.

4. Segment reporting

In the opinion of the directors, the operations of the Group companies comprise the exploration and production of oil and gas reserves and the provision of oil pipeline services. The ongoing Group operations in one geographic area being Colombia.

	<i>Exploration and production of oil and gas US\$'000</i>	<i>Pipeline services US\$'000</i>	<i>Corporate US\$'000</i>	<i>Total US\$'000</i>
2008				
Revenue	6,042	1,720	–	7,762
Profit/(loss) before taxation	1,013	494	(5,505)	(3,998)
Total assets	36,708	12,957	3,660	53,325
Total liabilities	(7,553)	–	(6,119)	(13,672)
Capital expenditure	1,744	172	9,954	11,870
Depreciation, depletion and amortisation	630	664	–	1,294
	<i>Exploration and production of oil and gas US\$'000</i>	<i>Pipeline services US\$'000</i>	<i>Corporate US\$'000</i>	<i>Total US\$'000</i>
2007				
Revenue	5,420	1,672	–	7,092
Profit/(loss) before taxation (excluding loss on discontinued operations)	(1,714)	589	(7,259)	(8,384)
Total assets	25,203	9,229	6,322	40,754
Total liabilities	(14,459)	–	(9,441)	(23,900)
Capital expenditure	298	–	3,758	4,056
Depreciation, depletion and amortisation	4,286	500	–	4,786

5. Operating loss

Losses from operations are stated after charging:

	2008 US\$'000	2007 US\$'000
Depreciation, depletion and amortisation		
Oil and gas assets	1,210	4,393
Other fixed assets	84	393
Impairment charge	946	–
Operating lease rentals		
– land and buildings	173	226
Share based payments expense:		
– Salaries	401	971
– Other	501	123
Fees payable to the auditor for the audit of the Company's annual financial statements	66	200
The audit of the Company's subsidiaries, pursuant to legislation	30	50

6. Finance income and expenses

	2008 US\$'000	2007 US\$'000
<i>Finance income</i>		
Interest received on bank deposits	315	24
Total interest income calculated using effective interest method	<u>315</u>	<u>24</u>
<i>Finance expense</i>		
Interest expense on financial liabilities measured at amortised cost	<u>276</u>	<u>777</u>
Total interest expense calculated using effective interest method	<u>276</u>	<u>777</u>
Refinancing charges	–	1,810
Share Based Payment	810	–
	<u>1,086</u>	<u>2,587</u>
Net finance expense recognised in the income statement	<u><u>771</u></u>	<u><u>2,563</u></u>

7. Taxation

	2008 US\$'000	2007 US\$'000
Current tax	143	284
Deferred tax	(228)	(717)
	<u>(85)</u>	<u>(433)</u>

The Group has incurred tax losses for the period and a corporation tax charge is not anticipated. The potential benefit of these taxation losses calculated at the rates of tax prevailing in the countries in which the losses were incurred amount to approximately \$8,188,122 (2007 – \$5,306,263). This gives rise to an unrecognised deferred tax asset at the balance sheet date of \$2,292,674 (2007 – \$1,582,527).

The tax assessed for the period is different than the standard rate of corporation tax in the UK. The differences are explained below:

	2008 US\$'000	2007 US\$'000
<i>Reconciliation of the total tax credit</i>		
Loss for the period	(3,998)	(8,384)
Expected tax credit based on the standard rate of corporation tax in UK of 28% (2007 – 30%)	(1,119)	(2,515)
Effect of:		
Expenses not deductible for tax purposes	2,085	1,659
Depreciation less capital allowances	–	(3)
Losses carried forward for utilization in future periods	652	1,143
Overseas tax differential	(1,305)	(717)
Depreciation in excess of capital allowances	(228)	–
Total tax credit for the period	<u>(85)</u>	<u>(433)</u>

Deferred tax assets related to these losses have not been recognised in the financial statements as the recovery of this benefit is dependent on the future profitability of group entities, the timing of which cannot be reasonably foreseen.

8. Loss per share

Loss per ordinary share is calculated by dividing the loss attributable to ordinary shareholders by the weighted number of shares in issue during the relevant financial periods. The weighted average number of equity shares in issue for the period is 32,995,191 (2007 – 22,959,246 (adjusted for 1 for share consolidation)).

Losses for the Group attributable to the equity holders of the Company for the year are \$3,913,000 (2007 – \$7,955,000). The effect of the warrants in issue is anti-dilutive, therefore a diluted loss per share is not presented.

Losses for the Group attributable to continuing operations of the Group for the year are \$3,913,000 (2007 – \$7,951,000).

Potentially dilutive shares are disclosed in the share capital and share options notes.

9. Property, plant and equipment

	<i>Fixtures, fittings and equipment</i> US\$'000	<i>Field, plant and machinery</i> US\$'000	<i>Motor vehicles</i> US\$'000	<i>Pipelines</i> US\$'000	<i>Proven oil and gas assets</i> US\$'000	<i>Total</i> US\$'000
Cost						
At 1 January 2007	503	3,891	279	13,189	7,823	25,685
Acquisition of subsidiary	–	–	–	–	14,650	14,650
Additions	36	30	3	–	229	298
Disposals	(162)	(48)	(7)	–	–	(217)
Transfer from exploration assets	–	–	–	–	504	504
Disposal of subsidiaries	(223)	(1,758)	(223)	–	–	(2,204)
At 31 December 2007	<u>154</u>	<u>2,115</u>	<u>52</u>	<u>13,189</u>	<u>23,206</u>	<u>38,716</u>
Additions	86	890	27	172	741	1,916
Transfers	(23)	(894)	(49)	–	966	–
At 31 December 2008	<u>217</u>	<u>2,111</u>	<u>30</u>	<u>13,361</u>	<u>24,913</u>	<u>40,632</u>

	<i>Fixtures, fittings and equipment US\$'000</i>	<i>Field, plant and machinery US\$'000</i>	<i>Motor vehicles US\$'000</i>	<i>Pipelines US\$'000</i>	<i>Proven oil and gas assets US\$'000</i>	<i>Total US\$'000</i>
Depreciation and impairment						
At 1 January 2007	219	975	79	353	772	2,398
Charge for period	32	331	30	660	3,733	4,786
Charge to deferred exploration	(91)	–	–	–	–	(91)
Disposal of subsidiary	(130)	(560)	(94)	–	–	(784)
At 31 December 2007	30	746	15	1,013	4,505	6,309
Charge for period	35	11	38	664	546	1,294
Transfers	(20)	(564)	(48)	–	632	–
At 31 December 2008	45	193	5	1,677	5,683	7,603
Net book value At 31 December 2008	172	1,918	25	11,684	19,230	33,029
At 31 December 2007	124	1,369	37	12,176	18,701	32,407

Where there is depreciation on assets that relate to exploration activity the depreciation is transferred to Exploration Expenditure in Intangibles see note 10.

Reserve estimates

There are numerous uncertainties inherent in estimating reserves and assumptions that whilst valid at the time of estimation may change significantly when new information becomes available. Changes in the forecast prices of commodities, exchange rates, production costs or recovery rates may change the economic status of reserves and may, ultimately, result in the reserves being restated. Such changes in reserves could impact on depreciation and amortisation rates, asset carrying values, and provisions for close down, restoration and environmental clean up costs. The Group utilise the expertise of third party consultants to report on the reserves estimates to increase the reliability of their estimations.

10. Intangible exploration and evaluation assets

	<i>2008 US\$'000</i>	<i>2007 US\$'000</i>
Cost and Net book value		
At 1 January	4,328	2,906
Additions	9,954	3,758
Transfer to oil and gas assets (see note 9)	–	(504)
Disposals	–	(1,832)
Impairment	(946)	–
<i>Cost and Net book value at 31 December</i>	13,336	4,328

The amounts for intangible E & E assets represent costs incurred on active oil and gas exploration projects.

In accordance with oil and gas asset accounting policy set out in note 1, E & E assets are evaluated when circumstances exist that suggest the possibility of impairment as well as when E & E assets are reclassified to the development and producing phase. The outcome of ongoing exploration, and therefore whether the carrying value of assets will be recovered, is inherently uncertain.

The impairment charge of \$946,000 (2007 – \$Nil) relates to the relinquishment of the Gaita E&P block to the ANH (Hydrocarbon National Agency) as no drillable prospect was found “Gaita was an exploration

block the group held from September 2007 to October 2008, it was located at the north of Santa Lucia field. The Group acquired 26 sq km. of 3D seismic data, after the evaluation and interpretation of this data it was decided to relinquish the area, because it had high geological risk and low oil potential. The entire value of the asset was written off in the above impairment charge.

See note 26 for details of further capital commitments.

11. Investments in subsidiaries

As at 31 December 2008, the Group comprised the Company and the following directly held subsidiaries:

	<i>Proportion of ownership interest at:</i>		<i>Country of incorporation</i>	<i>Principal activity</i>
	<i>2008</i>	<i>2007</i>		
PetroLatina (CA) Limited*	100%	100%	United Kingdom	Intermediate holding Company
Taghmen Argentina Limited*	100%	100%	United Kingdom	Dormant
Taghmen Colombia S.L.	100%	100%	Spain	Intermediate holding Company
Petróleos Del Norte SA (see** and note 23)	100%	100%	Colombia	Operating Company

The subsidiaries marked with an

* were held directly by PetroLatina Energy plc, the Group's parent Company.

** In June 2006, the Group acquired a controlling interest of 77.76 per cent. of the issued and outstanding share capital of PDN. The remaining 22.24 per cent. of the issued and outstanding shares of PDN are held in a trust in Colombia and their release from such trust is subject to the resolution of pending litigation. Based on the advice of counsel in Colombia, PELE believes that the litigation will ultimately result in the shares held in trust being returned to PDN for cancellation, which would result in PELE holding 100 per cent. of the issued and outstanding shares of PDN. However, should the litigation not go in the Group's favour, then the Group's ownership would remain at 77.76 per cent.

12. Inventories

	<i>2008</i>	<i>2007</i>
	<i>US\$'000</i>	<i>US\$'000</i>
Crude oil inventory	<u>36</u>	<u>52</u>

13. Trade and other receivables

	<i>2008</i>	<i>2007</i>
	<i>US\$'000</i>	<i>US\$'000</i>
Trade and other receivables	954	307
Prepayments	109	118
Advance Payments to contractors	<u>3,155</u>	<u>–</u>
	<u>4,218</u>	<u>425</u>

As at 31 December 2008 there were no receivables considered past due (2007 – \$Nil) and the Board of Directors considers that the carrying values adequately represent the fair value of all receivables. The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable set as above.

As at 31 December 2008 advance payments to contractors comprised US\$3,155,000 (2007 – \$Nil) for Rig Mobilisation costs due to Latinamerican Drilling Company – (Latco), a company owned by Tribeca which controls TOGI, a shareholder of the Company.

14. Trade and other payables

	2008	2007
	US\$'000	US\$'000
Trade payables	1,793	411
Taxes and social security costs	202	172
Deferred consideration	–	7,000
Accruals	3,759	2,203
Other payables	98	594
	<u>5,852</u>	<u>10,380</u>

Trade payables are classified as financial liabilities carried at amortised costs and are expected to be paid within the next three months.

Included within accruals is the sum of \$3,378,000 (2007 – \$953,000) as liabilities to be paid for exploration expenses for Midas and La Paloma Blocks, which is also expected to be paid within the next three months.

On 16 May 2008, US\$2.5 million was paid as part payment of the cash payment of US\$7 million, and 3,045,299 Ordinary Shares were allotted to the vendors of PDN, (Lyan Financial Corp: 2,049,299 shares, and Rorick Ventures Group Inc 1,005,000 shares companies in which Juan Carlos Rodriguez's family and Juan Carlos Rodriguez, a director of the Company, have beneficial interests respectively). On 15 July 2008, the final balancing cash payment of US\$4.5 million was made. In addition, 294,504 Ordinary Shares were allotted to Dignam Holdings Corporation in respect of finders fees due on the successful introduction of TOGI to the Group, and a further 739,573 Ordinary Shares to the vendors of PDN in lieu of interest due to them on the aforementioned outstanding US\$4.5 million payment.

See share capital note 18 in respect of shares issued.

15. Borrowings

	2008	2007
	US\$'000	US\$'000
Short-term bridging loan	267	6,388
	<u>267</u>	<u>6,388</u>

The Group entered into a short term bridging loan in 2007 with Macquarie, which at 31 December 2007 was repayable on demand. Prior to 31 December 2007, the Group secured an extension to the loan and in consideration for increasing the facility, the Company: (1) paid Macquarie an extension and commitment fee of US\$250,000 satisfied by the issuance of 830,000 ordinary shares of US\$0.10 each in the capital of the Company, and (2) granted Macquarie a 5 per cent. overriding interest in the Group's working interest in hydrocarbons produced from La Paloma. The 5 per cent. working interest was exchanged into 800,000 shares of US\$0.50 each (4,000,000 shares of US\$0.10 each pre consolidation of the Company's share capital) during 2008. US\$1,560,000 worth of shares were issued with the corresponding charge included in finance costs.

The balance at December 2008 corresponds to local banks borrowings on behalf of the subsidiary PDN. For further detail, see note 18 – Share Capital.

16. Deferred tax

Deferred tax is calculated in full on the fair value uplift on business combinations at the prevailing tax rate that relates to the acquired businesses assets of 34 per cent. (2007 – 34 per cent.) (the Colombian tax rate).

The movement on the deferred tax account is as shown below:

	2008 US\$'000	2007 US\$'000
At 1 January	6,576	3,893
Arising on business combination	–	3,400
Income statement credit	(228)	(717)
At 31 December	<u>6,348</u>	<u>6,576</u>

Deferred tax liabilities were recognised in respect of business combinations entered into by the Group giving rise to deferred tax liabilities.

No deferred tax asset has been recognised on the Group losses as there can be no certainty that these losses will be recovered against future operating profits of the Group.

17. Provisions

	<i>Plug and abandonment provision US\$'000</i>
At 1 January 2007	857
Disposal of subsidiary	(301)
At 31 December 2007 and 1 January 2008	<u>556</u>
Provided during the period	<u>649</u>
Balance at 31 December 2008	<u>1,205</u>

In common with other oil companies with operations in Colombia, the Group acknowledges its environmental obligations. Therefore where a material liability for site restoration exists after a well has been drilled, the Group recognises a provision for plugging and abandonment. The amount recognised is the present value of estimated future expenditure determined in accordance with local conditions and requirements.

18. Share capital

	2008 <i>Ordinary Number '000</i>	2008 <i>Deferred Number '000</i>	2007 <i>Ordinary Number '000</i>	2007 <i>Deferred Number '000</i>
<i>Authorised</i>				
Ordinary shares of \$0.10 each	–	–	200,000	–
Ordinary shares of \$0.50 each	80,000	–	–	–
Deferred Shares of £0.0011 (\$0.0021) each	–	50,000	–	50,000
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
<i>Aggregate nominal value</i>				
Ordinary shares of \$0.10 each	–	–	20,000	–
Ordinary shares of \$0.50 each	40,000	–	–	–
Deferred Shares of £0.0011 (\$0.0021) each	–	105	–	105

	<i>Number</i> ‘000	<i>Number</i> ‘000	<i>Number</i> ‘000	<i>Number</i> ‘000
<i>Issued – allotted, called and fully paid</i>				
Ordinary shares of \$0.10 each	–	–	116,337	–
Ordinary shares of \$0.50 each	43,888	–	–	–
Deferred Shares of £0.0011 (\$0.0021) each	–	47,773	–	47,773
	<hr/>	<hr/>	<hr/>	<hr/>
	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>
<i>Aggregate nominal value</i>				
Ordinary shares of \$0.10 each	–	–	11,634	–
Ordinary shares of \$0.50 each	21,944	–	–	–
Deferred Shares of £0.0011 (\$0.0021) each	–	101	–	101
	<hr/>	<hr/>	<hr/>	<hr/>

*The issued share capital is reconciled as follows
(adjusted for one to five consolidation)*

	<i>Number</i> ‘000	<i>Number</i> ‘000	<i>Number</i> ‘000	<i>Number</i> ‘000
Balance at beginning of year	23,267	47,773	21,951	47,773
Shares issued	20,621	–	1,316	–
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at end of year	43,888	47,773	23,267	47,773
	<hr/>	<hr/>	<hr/>	<hr/>

On 28 April 2008, the Company obtained shareholder approval to a 1 for 5 share consolidation, an increase in the Company’s authorised share capital, and an increase in the directors’ authority to allot equity securities, without offering those equity securities *pro rata* to existing shareholders, up to an aggregate nominal amount equivalent to the increased authorised share capital.

Significant movements in the share capital occurred during the year, the details of which are set out below:

<i>Description</i>	<i>Issue Price</i> US\$	<i>No of</i> <i>Ordinary Shares</i>
Conversion of TOGI loan notes into shares	1.69	5,890,080
TOGI 2nd close \$15 million	1.58	9,470,919
Issued ordinary shares to Macquarie	1.95	800,000
Share Allotted to vendors of PDN	1.00	3,045,299
Greg Smith settlement	1.04	380,770
Finder fees Dignam Holdings Corporation	1.70	294,504
Interest due to PDN Vendors on loan settled in shares	0.70	739,573
		<hr/>
		20,621,145
		<hr/>

The Ordinary Shares of US\$0.50 each carry one vote per share. They entitle the holder to share equally in a distribution of the profits or assets of the Company by dividend with all other holders of Ordinary Shares, in proportion to the holders’ aggregate holding of all Ordinary Shares.

On 16 May 2008, the Company completed the initial US\$10 million tranche of proposed US\$25 million investment by TOGI. TOGI invested US\$10 million in the Company by way of convertible secured loan notes (the “Notes”). The Notes were convertible at TOGI’s option into 5,890,080 Ordinary Shares, at a conversion price of US\$1.69 (£0.86) per Ordinary Share.

Under the original terms of the PDN acquisition, a second cash payment of US\$13 million was due to be paid to the vendors of PDN upon the extension of the Tisquirama licence. As announced on 29 November 2007, PELE reached agreement with the vendors of PDN to make a cash payment of US\$7 million and to issue to the vendors PELE shares to the value of US\$3 million at a price of (£0.50) \$1.00 per share. On 16 May 2008, of the aforementioned cash payment of US\$7 million, US\$2.5 million was paid, and 3,045,299 Ordinary Shares were allotted to the vendors of PDN, (Lyan Financial Corp: 2,040,299 shares,

and Rorick Ventures Group Inc: 1,005,000 shares), companies in which Juan Carlos Rodriguez and his family have a beneficial interest respectively.

On 1 June 2007, the Company agreed to issue 800,000 Ordinary Shares of US\$0.50 each in the capital of the Company to Macquarie in exchange for cancellation of a 5 per cent. overriding interest in the Group's working interest in hydrocarbons produced from La Paloma. The shares were issued on 10 July 2008. For further details see note 15 – Borrowings. These were converted at a price of £1.95 (£0.98) per share.

On 11 July 2008, the Company completed the second tranche of the proposed investment of US\$25 million in the Company by TOGI. TOGI invested a further US\$15 million in the Company by way of a subscription for 9,470,919 Ordinary Shares (“the Subscription”) at a conversion price of \$1.58 (£0.86). TOGI as a result holds in aggregate, 15,360,999 Ordinary Shares, representing a 35 per cent. interest in the Company. All related security held by TOGI relating to the Company and members of its Group since 16 May 2008 was released. As part of the consideration for the Subscription, TOGI has also been granted 1,875,260 warrants which are automatically exercisable, for no additional consideration, into 1,875,260 Ordinary Shares if, and to the extent that, any exercise of the Company's existing outstanding 3,482,625 warrants occurs.

On 11 July 2008, 294,504 Ordinary Shares were allotted to Dignam Holdings Corporation in respect of finders fees due on the successful introduction of Tribeca to the Company. The fair value of the shares at the date the agreement was signed was \$1.70 (£0.86). A further 739,573 Ordinary Shares to the vendors of PDN in lieu of interest due to them on the aforementioned outstanding US\$4.5 million payment. The fair value of the shares at the date the agreement was signed was \$0.70 (£0.35).

On 14 July 2008, 380,770 Ordinary Shares were allotted to Greg Smith in part settlement of his compensation entitlement on loss of office. The fair value of the shares at this date was \$1.04 (£0.52) per share.

The Deferred Shares are fully paid deferred ordinary shares of £0.0011 (\$0.0021) each. The Deferred Shares were issued prior to reincorporation as a public limited Company in 2004 and have no rights, including no rights to receive notices, vote at general meetings, participate in dividends and return of capital on the liquidation of the Company.

19. Share based payments

Share options

At 31 December 2008 the group did not have any share options outstanding. The previously issued options granted on 12 January 2005, had been forfeited in full by 31 December 2007. There was no share option charge in respect of the 12 January 2005 options in 2008 or 2007.

Warrants

At 31 December 2008 the following share warrants have been granted and are outstanding in respect of the ordinary shares:

	Outstanding 1 January 2007	Number of warrants			Outstanding 31 December 2007	Outstanding 1:5 Share Consolidation	Outstanding 31 December 2008	Final exercise	
		Granted	Exercised	Lapsed					
18 July 2004 – US\$0.10*	3,750,000	–	(3,750,000)	–	–	–	–	30 April 2007	
30 July 2004 – US\$0.90*	248,222	–	–	(248,222)	–	–	–	30 April 2007	
July – November 2004 – US\$0.90 (see below)*	26,462,008	–	–	(26,462,008)	–	–	–	30 April 2007	
20 September 2004 – US\$0.90*	250,000	–	–	(250,000)	–	–	–	30 April 2007	
17 November 2004 – US\$0.90*	1,146,125	–	–	(1,146,125)	–	–	–	30 April 2007	
15 February 2006 – US\$4.8125*	213,123	–	–	–	213,123	(170,498)	42,625	15 February 2009	
15 June 2006 – US\$5.05*	7,000,000	–	–	–	7,000,000	(5,600,000)	1,400,000	15 June 2010	
7 February 2007 – US\$2.10*	–	4,000,000	–	–	4,000,000	(3,200,000)	800,000	7 February 2010	
1 June 2007 – US\$0.50 – US\$1.00*	–	2,900,001	–	–	2,900,001	(2,320,001)	580,000	30 April 2011	
	39,069,478	6,900,001	(3,750,000)	(28,106,355)	14,113,124	(11,290,499)	2,822,625		
14 March 2008 – US\$1.30*						400,000	(320,000)	80,000	14 March 2011
1 April 2008 – US\$0.50*						2,900,000	(2,320,000)	580,000	1 April 2011
31 December 2008					14,113,124	3,300,000	(13,930,499)	3,482,625	

* The above numbers have been adjusted for the 1 for 5 share consolidation.

Each warrant entitles the holder to purchase one Ordinary Share at a price of between \$0.50 to \$5.05 (adjusted post consolidation) per share on or before the expiry date, after which time the warrants will be void and of no value. Each Warrant is governed by the provisions of warrant instruments representing the warrants, that have been adopted by the Company. The rights conferred by the warrants are transferable in whole or in part subject to and in accordance with the transfer provisions set out in the Articles. The holders of warrants have no voting right, pre-emptive right or other right attaching to Ordinary Shares.

The following warrants were issued on consideration for services or assets acquired.

- (a) The Company entered into an agreement with Natexis Bleichroeder Inc. for consideration for services provided (“Natexis”) on 15 February 2006 pursuant to which Natexis was granted 213,123 warrants which entitle the holder to subscribe for new Ordinary Shares at an exercise price of \$0.9625. The warrants are exercisable in whole or part at any time within 3 years of the date of issue. None of these warrants were exercised prior to 31 December 2008. These warrants have subsequently lapsed as their expiry date of 14 February 2009 passed without the warrants being exercised.
- (b) On 15 June 2006 the Company entered into an agreement with Macquarie for consideration for services provided whereby Macquarie was granted warrants which entitle the holder to subscribe for 7,000,000 shares at an exercise price of \$1.01 per share. Following consolidation of the Company’s share capital, 7,000,000 warrants would on exercise be consolidated to 1,400,000 warrants with an exercise price of \$5.05. The warrants are exercisable in whole or part at any time within 4 years of the date of issue. None of these warrants have been exercised to date and, therefore they all remain outstanding.
- (c) On 7 February 2007 the Company extended an existing employment agreement with Gregory Smith, a director of the Company. In consideration for reducing the amount of basic salary payable to Gregory Smith by the Company was granted warrants entitling him to subscribe for 4,000,000 shares at an exercise price of \$0.42 per share. Following consolidation of the Company’s share capital, 4,000,000 warrants would on exercise be consolidated to 800,000 warrants with an exercise price of \$2.10. The warrants are exercisable at any time within 3 years of the date of issue. None of the warrants have been exercised to date and, therefore they all remain outstanding.
- (d) On 18 February 2008, the Group took out a US\$2.9 million bridge loan from TVL and Athos Enterprises Limited, companies in which Gregory Smith and Juan Carlos Rodriguez, both directors of the Group at the time, had beneficial interests in respectively. The loan carried an interest rate of 12.5 per cent. per annum. In addition, 2,900,000 warrants with an exercise price of £0.0525 (US\$0.10) were issued. Following consolidation of the Company’s share capital, 2,900,000 warrants would on exercise be consolidated to 580,000 warrants with an exercise price of £0.2625 (US\$0.50). On 16 May 2008 the loan was fully repaid. None of the warrants have been exercised to date and, therefore they all remain outstanding.
- (e) During the year the Group renegotiated the terms of some of the warrants granted between July – November 2004 of US\$0.90. A total of 2,900,001 warrants were renegotiated and reissued under new terms, the warrants had no vesting conditions and had a new exercise price of £0.0525 (US\$0.10), with extension to the period to 30 April 2011. The warrants were issued to shareholders and no service was received. Following consolidation of the Company’s share capital, 2,900,001 warrants would on exercise be consolidated to 580,000 warrants with an exercise price of £0.2625 (US\$0.50). These remain outstanding.
- (f) On 14 March 2008, the Company issued an aggregate of 400,000 warrants with an exercise price of US\$0.26 (£0.13) per share to non-executive directors and employees. Following consolidation of the Company’s share capital, 400,000 warrants would on exercise be consolidated into 80,000 warrants with an exercise price of £0.65. These remain outstanding.

On 11 July 2008, as set out above, the Company completed the second tranche of the proposed investment of US\$25 million in the Company by TOGI. As part of the consideration for the Subscription, TOGI were granted 1,875,260 warrants exercisable into Ordinary Shares which are automatically exercisable, for no additional consideration, into 1,875,260 Ordinary Shares if, and to the extent that, any exercise of the

Company's existing outstanding 3,482,625 warrants occur. These have not been included in the above table due their contingent nature.

Fair Value of warrants

Inputs to the valuation model

The fair value of warrants granted has been calculated using the Black Scholes pricing model that takes into account factors specific to equity share issued payments, the expected dividend yield on the Company's shares and expected early exercise of warrants. The fair value of warrants issued during 2004 have not been calculated and included in the restated financial statements as their issue precedes the effective date of IFRS 2.

	<i>15 February</i>	<i>15 June</i>	<i>7 February</i>	<i>14 March</i>	<i>1 April</i>
<i>Grant date</i>	<i>2006</i>	<i>2006</i>	<i>2006</i>	<i>2008</i>	<i>2008</i>
Share price at date of grant	\$1.07	\$0.59	\$0.48	\$0.17	\$0.18
Exercise price*	\$0.9625	\$1.01	\$0.42	\$0.26	\$0.10
Volatility	40%	40%	40%	40%	40%
Option life	3 years	4 years	3 years	3 years	3 years
Dividend yield	0%	0%	0%	0%	0%
Risk-free investment rate	4.22%	4.71%	5.37%	5%	5%
Employee turnover	0	0	0	0	0

Volatility has been based on the following:

- (i) the annualised volatility of the Company's shares since flotation on the AIM market.
- (ii) the volatility of comparable listed companies in the mining, oil and gas sector.

* Exercise price unadjusted for 5 for 1 share consolidation

Based on the above assumptions, the fair value of each warrant granted is as follows:

	<i>15 February</i>	<i>15 June</i>	<i>7 February</i>	<i>14 March</i>	<i>1 April</i>
<i>Grant date</i>	<i>2006</i>	<i>2006</i>	<i>2006</i>	<i>2008</i>	<i>2008</i>
Fair Value	\$0.38	\$0.12	\$0.19	\$0.10	\$0.03

Expense arising from warrants issued

Based on the fair values shown above, the expense arising from warrants in the year is estimated to be \$306,000 (2007 – \$700,562) and was recorded in the income statement for the year. The warrants issued pre 1 January 2006 have not been restated as all the warrants were issued during 2004 and had vested before the transition date to IFRS 2.

20. Warrants

The warrants, as described in the warrant table in note 19, were in issue to new or existing shareholders of the Company.

21. Cash and Cash equivalents

	<i>2008</i>	<i>2007</i>
	<i>US\$'000</i>	<i>US\$'000</i>
Cash	2,529	1,787
Restricted Cash	177	1,755
Total	<u>2,706</u>	<u>3,542</u>

Restricted cash

The Group has interests in the Midas and La Paloma exploration areas in Colombia. The balance represents the remaining funds after having paid the seismic, geological and geographical surveys, and exploration drilling phases for the two areas. Under the terms of the licence the Group must hold these funds in a separately administered trust account. This money is held with Bancolombia Panama, a financial institution with a rating of not less than BAA3 IBB by Moody's and Fitch respectively.

22. Commitments under operating leases

As at 31 December 2008, the Group had total commitments under non-cancellable operating leases as set out below:

	<i>Land and Buildings</i>	
	<i>2008</i>	<i>2007</i>
	<i>US\$'000</i>	<i>US\$'000</i>
Operating leases which expire:		
Less than one year	173	171
Within two to five years	143	180
	<u>316</u>	<u>351</u>

23. Contingent liabilities and litigation

PDN

On 16 June 2006, the Group acquired a controlling interest of 77.76 per cent. of the issued and outstanding share capital of PDN. The remaining 22.24 per cent. of the issued and outstanding shares of PDN are held in a trust in Colombia and their release from such trust is subject to the resolution of pending litigation. Based on the advice of counsel in Colombia, PELE believes that the litigation will ultimately result in the shares held in trust being returned to PDN for cancellation, which would result in PELE holding 100 per cent. of the issued and outstanding shares of PDN. However, should the litigation not go in the Group's favour, then the Group's ownership would remain at 77.76 per cent.

Proceedings were brought in May 1991 by PDN against Inergesa. Banco Santander refused to transfer shares of PDN owned by a trust fund administered by Banco Santander. First and second instance rulings before the 4th Civil Circuit Court of Bogotá were awarded in favour of PDN. An appeal filed also found in favour of PDN.

Additional proceedings were brought in June 1992 by Fiduciaria Santander against PDN and Inergesa. PDN is in the process of replying to an appeal.

Damages Claim, Garibaldi Ciodaro Mantilla and Aserpec Ltd

Proceedings brought by Garibaldi Ciodaro Mantilla and Aserpec Ltd. against PDN and Ecopetrol in August 2004. This proceeding is before the 2nd Civil Court of Ocaña. The Plaintiffs seek indemnification for damages suffered during events in May 2003 at the pumping station 'Bellavista' where a storm destructed the plaintiff's equipment and injured plaintiff's employees. The action has been challenged on grounds of lack of jurisdiction. PDN's counsel believes that this case is likely to be decided in favour of PDN and Ecopetrol.

PDN damages claim: "Bellavista" case

Administrative Proceedings seeking direct reparation. PDN brought an action against the Ministry of Defense in December 2004. PDN seeks indemnification for damages suffered as a result of a terrorist attack perpetrated by the FARC guerrillas in December 2002, which totally destroyed the 'Bellavista' pumping station. PDN argues that the attack was supposed to be directed to the government in place, but affected PDN's private property. PDN argues that the Army was not protecting the station at the time of the attack having ceased to do so in 1999, despite the difficult public order situation in the area. PDN demands payment

of actual damages and loss in excess of US\$ 7 million. Current status: Administrative Court ordered the independent valuation of damaged equipment.

PetroLatina Corporation (Bahamas)

On 23 July 2007, the Company disposed of its holding in PetroLatina Corporation (Bahamas) to Quetzal Energy Inc. The Company made certain representations and warranties which survive for a period of 2 years from the date of completion. The following claims were disclosed in 2006 and the position remains as disclosed in 2006:

- (a) On 12 August 2002, Cadex Petroleo Guatemala Inc. (“Cadex”) promoted a lawsuit against PetroLatina Corporation. The claim is quantified at US\$150,000. The claim relates to a deed pursuant to which PetroLatina Corporation sold to Petdegua S.A. certain machinery that was part of the drilling tower. According to Petdegua S.A., this machinery was never delivered.
- (b) On 12 August 2002, Cadex issued another lawsuit in the Third Civil Court of First Instance against PetroLatina Corporation. This claim is based on an agreement for the purchase of shares and other assets owned by PetroLatina Corporation. Executed on 31 May 1997. Cadex is demanding the return of US\$325,000 that it had paid as part of consideration under the agreement.
- (c) Petdegua also issued another claim in the Civil Court of First Instance and Execution Court of the Municipality of Ixcán in Guatemala on 18 October 2002 requiring the fulfilment of the acquisition contract and the seizure of the machinery naming Cadex as its depository.
- (d) A legal opinion obtained from A.D. Sosa & Soto of Guatemala, the Company’s Guatemalan counsel, states that a motion to declare the claim process abandoned was presented, and if Cadex does not respond to the lawsuit it will be dismissed. The directors have considered the legal opinion and do not consider that a provision is required as the likelihood of a successful claim is remote.

24. Post balance sheet events

On 21 January 2009, the Company executed an instrument constituting secured 12 per cent. convertible loan notes due 2011 in the aggregate amount of US\$9.875 million (the “Notes”). TOGF, a subsidiary of existing shareholder TOGI, agreed to subscribe for US\$4.875 million in aggregate of the Notes. TOGF has an option (but is not obliged) to subscribe for up to a further US\$5 million in aggregate of the Notes. As at the date of the accounts the option has not yet been exercised.

The first tranche of the Notes subscribed for by TOGF, if not repaid or converted earlier, mature on 21 January 2011. The Notes accrue interest at a rate of 12 per cent. per annum, payable at intervals of six months from the date of issue, and at the Company’s option can be redeemed in whole or in part prior to maturity, without penalty, on any of the interest payment dates. Unless converted, the Notes are redeemable immediately prior to any sale or de-listing of the Company and repayable in the event of any default. At TOGF’s option, the Notes are convertible in whole into new ordinary shares in the Company (“Ordinary Shares”) on any of the interest payment dates, in the event of early redemption (in respect of the amount specified to be redeemed), on maturity or on any instance of default, sale or de-listing of the Company.

In the event of conversion, the number of new Ordinary Shares to be issued to the noteholder will be determined by dividing the principal amount of the relevant Notes by the initial conversion price per Ordinary Share of 20.9375 pence (the “Initial Conversion Price”).

The Company has the option to request that TOGF subscribes in cash at par for the whole or part of the second tranche of US\$5 million Notes (the “Option”). The Option may be exercised by the Company on one occasion only during the option period, being a period of 6 months from the date of the loan note instrument. If not repaid earlier, the second tranche Notes will mature in 2011 on their second anniversary. Following exercise of the Option, TOGF is not obligated to subscribe for the second tranche. If subscribed, the second tranche of Notes will accrue interest at a rate of 12 per cent. per annum, payable at intervals of six months from the date of issue, and at the Company’s option can be redeemed in whole or in part prior to maturity, without penalty, on any of the interest payment dates. Unless converted, the Notes are redeemable

immediately prior to any sale or de-listing of the Company and repayable in the event of any default. At TOGF's option, the second tranche Notes are convertible in whole into Ordinary Shares on any of the interest payment dates, in the event of early redemption (in respect of the amount specified to be redeemed), on maturity or on any instance of default, sale or de-listing of the Company. In the event of conversion, the number of new Ordinary Shares to be issued to the noteholder will be determined by dividing the principal amount of the relevant Notes by the second tranche conversion price to be calculated as the higher of (i) the average middle-market closing price of an Ordinary Share over the ten business days of trading immediately prior to the date of conversion plus a premium of 25 per cent. thereon, as converted from pounds sterling to US dollars at the exchange rate prevailing on the business day prior to conversion and (ii) the then prevailing nominal value of an Ordinary Share.

At its discretion, the Company is entitled to pay interest accruing on both tranches of the Notes in the form of either cash or by the issue of new Ordinary Shares. If interest is paid in the form of shares, the number of new Ordinary Shares to be issued and allotted (credited as fully paid) to the noteholder will be determined by dividing the amount of interest payable by the closing middle-market price of an Ordinary Share on the business day immediately prior to the relevant interest payment date converted from pounds sterling to US dollars at the then prevailing exchange rate.

If at any time a takeover offer is made to all ordinary shareholders, the Company will use its reasonable endeavours to procure a comparable offer to be extended to the noteholder. If no such offer is extended the noteholder shall be entitled to exercise their conversion rights or seek repayment of their Notes in whole or in part at a 5 per cent. premium to their principal amount.

The Initial Conversion Price referred to above is less than the current nominal value of an Ordinary Share of US\$0.50 (approximately 35 pence at the then prevailing pounds sterling to US dollars exchange rate). Accordingly, since English company law prevents the Company from issuing new shares at a price below the prevailing nominal value of its Ordinary Shares, the Company has undertaken to implement a capital reorganisation prior to the first interest payment date in order to ensure that the nominal value of each Ordinary Share is reduced to an amount sufficiently below the Initial Conversion Price, which may include (but shall not be limited to) the sub-division of the existing issued Ordinary Shares into new ordinary shares of a lower nominal amount and a new class of non-voting deferred shares of a lower nominal amount. A further announcement in respect of the Company's proposed capital reorganisation will be made in due course and an appropriate circular will also be issued to shareholders to provide more details and convene a general meeting to obtain the requisite shareholder approvals. By way of security in respect of the Company's obligations under the loan note instrument, PetroLatina (CA) Limited, a wholly owned subsidiary of the Company, has granted to TOGF a pledge over its entire shareholding in RL Petroleum Corporation (a Panamanian Company). This security will be automatically released by TOGF on the earlier of (i) conversion or redemption of all outstanding Notes and (ii) the aforementioned proposed capital reorganisation becoming effective.

The Company has agreed to pay TOGF an arrangement fee of US\$300,000 in consideration for the subscription of the Notes. In addition, the Company granted TOGF a warrant over Ordinary Shares exercisable in whole or in part at an aggregate exercise price of US\$300,000 on any number of occasions throughout the term of the loan note instrument (the "Warrant"). The exercise price payable by TOGF to the Company in respect of the Warrant will be set off against the arrangement fee owing by the Company to TOGF pursuant to the Notes. In the event of exercise, the number of new Ordinary Shares to be issued to the warrant holder will be determined by dividing the exercise price by the higher of (i) the middle market closing price of an Ordinary Share on the date of the Warrant, as converted from pounds sterling to US dollars at the then prevailing exchange rate, and (ii) the prevailing nominal value of one Ordinary Share at the time of exercise of the Warrant. The Warrant will lapse on such date as all of the Notes have either been converted or redeemed or are no longer capable of issue in accordance with the provisions of the loan note instrument.

25. Related party transactions

Details of key management personnel remuneration are given in the Directors' Remuneration Report on pages 19 to 21.

Latinamerican Drilling Company – (Latco), a company controlled by Tribeca has entered into an arms' length agreement to provide rig services to the Company. At the year end, a total of \$3,155,000 (2007 – \$Nil) was held as a prepayment relating to Latco.

26. Capital commitments

It has been agreed to drill six wells within 2009. Two of them with the National Hydrocarbon Agency (ANH) and the other three with Ecopetrol as agreed in the Tisquirama licence extension. The total cost for these commitments is about \$800,000 (2007 – Nil).

Company Financial Statements

Directors' responsibilities

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group, for safeguarding the assets of the Company, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors' Report which complies with the requirements of the Companies Act 1985.

The directors are responsible for preparing the annual report and the financial statements in accordance with the Companies Act 1985. The directors are also required to prepare financial statements for the Group in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs) and the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market. The directors have chosen to prepare financial statements for the Company in accordance with UK Generally Accepted Accounting Practice.

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

Financial statements are published on the Group's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Group's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Independent auditor's report to the shareholders of PetroLatina Energy Plc

We have audited the parent Company financial statements (the "financial statements") of PetroLatina Energy Plc for the year ended 31 December 2008 which comprise the balance sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the Group financial statements of PetroLatina Energy Plc, on pages 22-23, for the year ended 31 December 2008.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the parent Company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements to be audited have been properly prepared in accordance with the Companies Act 1985 and whether the information given in the directors' report is consistent with those financial statements. We also report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the annual report, and consider whether it is consistent with the audited financial statements. This other information comprises the directors' report only. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the directors' remuneration report to be audited.

Emphasis of matter – going concern

In forming our opinion, which is not qualified we have considered the adequacy of the disclosures made in the directors report on page 14 and note 1 to the Company financial statements concerning the Company's need to raise further funds in order to finance the Company's development work programme. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the

Company's ability to continue in business. The financial statements do not include any adjustments that would result if the Company was unable to continue as a going concern.

Opinion

In our opinion:

- the parent Company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the parent Company's affairs as at 31 December 2008;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

BDO STOY HAYWARD LLP

Chartered Accountants and Registered Auditors

London

Date: 20 May 2009

Company balance sheet
For the year ended 31 December 2008

	<i>Note</i>	<i>2008</i> \$'000	<i>2007</i> \$'000
Fixed assets			
Tangible assets	4	192	193
Intangible oil and gas assets	5	10,561	4,329
		<u>10,753</u>	<u>4,522</u>
Current assets			
Debtors	7	33,422	21,102
Cash at bank and in hand		1,691	1,791
		<u>35,113</u>	<u>22,893</u>
Current liabilities			
Creditors falling due within one year	8	6,030	10,560
Net current assets		<u>29,083</u>	<u>12,333</u>
Total net assets		<u>39,836</u>	<u>16,855</u>
Capital and reserves			
Called up share capital	9	22,045	11,735
Share premium	10	76,374	55,718
Warrant reserve	10	1,930	1,624
Shares to be issued	10	–	4,560
Profit and loss account	10	(60,513)	(56,782)
Shareholders' funds		<u>39,836</u>	<u>16,855</u>

The financial statements were approved by the Board of Directors and authorised for issue on 20 May 2009.

Juan Carlos Rodriguez
Director

The notes on pages 61 to 73 form part of these financial statements.

Notes forming part of the financial statements for the year ended 31 December 2008

1. Accounting policies

Basis of preparation

The financial statements have been prepared in US dollars ('\$') under the historical cost convention and UK Generally Accepted Accounting Principles ("UK GAAP") and in accordance with guidance in the Statement of Recommended Practice "Accounting for oil and gas, exploration, development, production and decommissioning activities". The following paragraphs describe the main accounting policies:

Going concern

The Company plans an extensive drilling programme in the next twelve months, which should transform some of its oil reserves into producing reserves. Following a review of the financial position and its budgets and plans currently this programme is not fully funded from resources at the Company's disposal. The directors have reviewed the financial position of the Company and since the balance sheet date have already secured a large part of the required debt. Negotiations with a number of major investment banks are at an advanced stage to secure the remaining funds and this combined with the Company's current production, exploration and near term production potential, as reflected in the Company's recent announcements, will fully fund the forthcoming work programme. Whilst the Directors are confident, for the aforementioned reasons, that the Company will be able to raise the required funds to finance its working capital requirements, there can be no guarantee that the current negotiations will be completed within 12 months from the date of the accounts and therefore there exists a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Notwithstanding this uncertainty the directors are confident that the group will be able to raise the required funds therefore these financial statements have been prepared on a going concern basis. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

The following principal accounting policies have been applied:

Oil and gas exploration costs

The Company applies the successful efforts based method of accounting for oil and gas operations.

For evaluation properties, all lease and licence acquisition costs, geological and geophysical costs and other direct costs of exploration appraisal and development are capitalised as intangible fixed assets in appropriate cost pools. Costs relating to unevaluated properties are held outside the relevant cost pool, and are not amortised until such time as the related property has been fully appraised. When a pool cost reaches an evaluated and bankable feasibility stage, the assets are transferred from intangible to tangible assets.

Proceeds from the disposal of oil and gas assets accounted for in the pool are deducted from capitalised costs with no gain or loss being recognised.

A review is performed each year for any indication that the value of oil and gas properties may be subject to impairment. Where there are such indications, an impairment test is carried out and if necessary additional depletion is charged if the capitalised costs of evaluated properties exceed the estimated value of the related commercial reserves of oil and gas within the pools. The value is based on the higher of anticipated future costs and revenues (discounted) attributable to such reserves.

Depreciation

Depreciation is provided to write off the cost, less estimated residual values, of all tangible fixed assets over their expected useful lives. It is calculated at the following rates:

Pipeline	–	5% per annum
Fixtures, fittings and office equipment	–	20 – 33% per annum
Field plant and machinery	–	10 – 20% per annum
Motor vehicles	–	20% per annum

Share-based payments

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to the income statement over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the income statement over the remaining vesting period.

Where equity instruments are granted to persons other than employees, the income statement is charged with the fair value of goods and services received.

Pension costs

Pension contributions paid by the Company are charged to the profit and loss account in the period in which they become payable.

Investments

Investments in subsidiary undertakings are stated at cost less provision for diminution in value.

Operating leases

Annual rentals are charged to the profit and loss account on a straight-line basis over the term of the lease.

Financial liabilities and equity

Financial liabilities are measured initially at the amount of the net proceeds, being the fair value of the proceeds received on issue after the deduction of issue costs.

Foreign currency

Foreign currency transactions are translated at the rates ruling when they occurred. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet dates. Any differences are taken to the profit and loss account.

All other differences are taken to the profit and loss account with the exception of differences on foreign currency borrowings, which, to the extent that they are used to finance or provide a hedge against foreign equity investments, are taken directly to reserves to the extent of the exchange difference arising on the net investment in these enterprises. Tax charges or credits that are directly and solely attributable to such exchange differences are also taken to reserves.

<i>The Company used the following exchange rates within these accounts:</i>	\$
Sterling (at start of year)	2.02
Sterling (average)	1.79
Sterling (year end)	1.46

Revenue

Revenue represents management fees, net of sales tax.

Deferred taxation

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date except that the recognition of deferred tax assets is limited to the extent that the Company anticipates to make sufficient taxable profits in the future to absorb the reversal of the underlying timing differences.

Deferred tax balance is not discounted.

Financial instruments

The Company's financial instruments comprise short-term borrowings, cash at bank and various items such as trade debtors and creditors that arise directly from its operations. The main purpose of these instruments is to raise finance for operations. The Company has not entered into derivative transactions and does not trade in financial instruments as a matter of policy. The main risks arising from the Company's financial instruments are liquidity risk, and currency risk. Currency risk arises as the Company's main operations are in Guatemala and Colombia.

Operations to date have been financed through placing of shares and it is Board policy to keep borrowings to a minimum. The Company has no long-term borrowings. Short-term flexibility is achieved by overdraft facilities.

The Company has taken advantage of the exemption in FRS 13 in respect of short-term debtors and creditors.

2. Directors and staff

	<i>2008</i>	<i>2007</i>
	<i>\$'000</i>	<i>\$'000</i>
Directors' emoluments	2,178	2,474

The highest paid Director received emoluments of \$120,017 (2007 – \$611,000). He also received share based payments of \$395,208 (2007 – \$700,562), severance payments of \$850,000 (2007 – \$Nil) and pension contributions of \$17,317 (2007 – \$171,525).

Total pension contributions paid on behalf of Directors for the year was \$73,843 (2007 – \$175,528).

The equity share based payment in relation to Directors during the year was \$400,906 (2007 – \$1,094,000).

No retirement benefits are accruing to Directors under pension schemes and no payments were made as compensation for loss of office. Payments are made to certain Directors under personal pension arrangements.

	<i>2008</i>	<i>2007</i>
	<i>\$'000</i>	<i>\$'000</i>
Directors' fees and emoluments	836	1,239
Wages and salaries – staff costs	401	530
Social security costs	38	38
Pension costs	74	151
Share based payment	401	1,094
Redundancy and severance pay	953	61
	<u>2,703</u>	<u>3,113</u>

The average monthly number of persons (including Executive Directors) employed by the Company during the year were:

	<i>2008</i>	<i>2007</i>
	<i>\$'000</i>	<i>\$'000</i>
Technical	1	1
Administration	4	3
	<u>5</u>	<u>4</u>

Gregory Smith, a director, was a beneficiary of the exercise of 3,750,000 warrants in the period by Taghmen Ventures Limited ("TVL"), a Company in which he has a beneficial interest. The warrants were exercised at \$0.53 per share with an exercise price of \$0.10 a gain of \$1,612,500 was made on the exercise

In addition Gregory Smith was granted 4,000,000 options as described in note 13, the share based payments charge is shown above.

3. Loss for the financial period

The Company has taken advantage of the exemption allowed under section 230 of the Companies Act 1985 and has not presented its own profit and loss account in these financial statements. The Company loss for the period after tax was \$3,731,000 (2007 – \$9,633,000 loss).

4. Tangible assets

	<i>Oil, Gas and other fixed assets \$'000</i>
<i>Cost</i>	
At 1 January 2008	193
Additions	1
At 31 December 2008	<u>194</u>
<i>Depreciation</i>	
Charge for period	2
At 31 December 2008	<u>2</u>
<i>Net book value</i>	
At 31 December 2008	<u>192</u>
At 31 December 2007	<u>193</u>

5. Intangible assets

	<i>Exploration and Evaluation costs \$'000</i>
<i>Cost</i>	
At 1 January 2008	4,329
Additions	6,232
At 31 December 2008	<u>10,561</u>
<i>Net book value</i>	
At 31 December 2008	<u>10,561</u>
At 31 December 2007	<u>4,329</u>

6. Investments

As at 31 December 2008, the Company had the following subsidiaries:

	<i>Proportion of ownership interest at:</i>		<i>Country of incorporation</i>	<i>Principal activity</i>
	<i>2008</i>	<i>2007</i>		
PetroLatina (CA) Limited *	100%	100%	United Kingdom	
Taghmen Argentina Limited *	100%	100%	United Kingdom	Dormant
Taghmen Colombia S.L.	100%	100%	Spain	Intermediate holding Company
Petróleos Del Norte SA (see ** and note 15)	100%	100%	Colombia	Operating Company

** In June 2006, the Company acquired a controlling interest of 77.76 per cent. of the issued and outstanding share capital of PDN. The remaining 22.24 per cent. of the issued and outstanding shares of PDN are held in a trust in Colombia and their release from such trust is subject to the resolution of pending litigation. Based on the advice of counsel in Colombia, PELE believes that the litigation will ultimately result in the shares held in trust being returned to PDN for cancellation, which would result in PELE holding 100 per cent. of the issued and outstanding shares of PDN. However, should the litigation not go in the Company's favour, then the Company's ownership would remain at 77.76 per cent.

7. Debtors

	<i>2008</i>	<i>2007</i>
	<i>\$'000</i>	<i>\$'000</i>
Amounts due from Group undertakings	30,172	21,095
Prepayments	13	–
Other debtors	82	7
Advance Payments to Contractors	3,155	–
	<u>33,422</u>	<u>21,102</u>

As at 31 December 2008 advance payments to contractors comprised US\$3,155,000 (2007 – \$Nil) for Rig Mobilisation costs due to Latinamerican Drilling Company – (Latco), a company owned by Tribeca which controls TOGI, a shareholder of the Company.

8. Creditors

	<i>2008</i>	<i>2007</i>
	<i>\$'000</i>	<i>\$'000</i>
Trade creditors	68	–
Accruals	3,530	1,846
Amounts owed to Group undertakings	2,378	1,120
Other creditors	54	594
Deferred consideration	–	7,000
	<u>6,030</u>	<u>10,560</u>

The accruals include amounts payable relating to Colombian exploration licences for Midas and La Paloma, for information on the settlement of the deferred consideration refer to note 14 of the Group accounts.

9. Share capital

	2008 <i>Ordinary Number '000</i>	2008 <i>Deferred Number '000</i>	2007 <i>Ordinary Number '000</i>	2007 <i>Deferred Number '000</i>
<i>Authorised</i>				
Ordinary shares of \$0.10 each	–	–	200,000	–
Ordinary shares of \$0.50 each	80,000	–	–	–
Deferred Shares of £0.0011 (\$0.0021) each	–	50,000	–	50,000
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
<i>Aggregate nominal value</i>				
Ordinary shares of \$0.10 each	–	–	20,000	–
Ordinary shares of \$0.50 each	40,000	–	–	–
Deferred Shares of £0.0011 (\$0.0021) each	–	105	–	105
	<i>Number '000</i>	<i>Number '000</i>	<i>Number '000</i>	<i>Number '000</i>
<i>Issued – allotted, called and fully paid</i>				
Ordinary shares of \$0.10 each	–	–	116,337	–
Ordinary shares of \$0.50 each	43,888	–	–	–
Deferred Shares of £0.0011 (\$0.0021) each	–	47,773	–	47,773
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
<i>Aggregate nominal value</i>				
Ordinary shares of \$0.10 each	–	–	11,634	–
Ordinary shares of \$0.50 each	21,944	–	–	–
Deferred Shares of £0.0011 (\$0.0021) each	–	101	–	101
	<i>Number '000</i>	<i>Number '000</i>	<i>Number '000</i>	<i>Number '000</i>
<i>The issued share capital is reconciled as follows (adjusted for one to five consolidation)</i>				
Balance at beginning of year	23,267	47,773	21,951	47,773
Shares issued	20,621	–	1,316	–
Balance at end of year	43,888	47,773	23,267	47,773

On 28 April 2008, the Company obtained shareholder approval to a 1 for 5 share consolidation, an increase in the Company's authorised share capital, and an increase in the directors' authority to allot equity securities, without offering those equity securities *pro rata* to existing shareholders, up to an aggregate nominal amount equivalent to the increased authorised share capital.

Significant movements in the share capital occurred during the year, the details of which are set out below:

<i>Date</i>	<i>Description</i>	<i>Issue Price</i> US\$	<i>No. of shares</i>
11 July 2008	Conversion of TOGI loan notes into shares	1.69	5,890,080
11 July 2008	TOGI 2nd close \$15 million	1.58	9,470,919
10 July 2008	Issued ordinary share to Macquarie	0.50	800,000
14 July 2008	Share Allotted to vendors of PDN	1.00	3,045,299
14 July 2008	Greg Smith settlement	0.50	380,770
15 July 2008	Finder fees Dignam Holdings Corporation	0.50	294,504
15 July 2008	Interest due to PDN Vendors on loan settled in shares	0.30	739,573
			20,621,145

The Ordinary Shares of US\$0.50 each carry one vote per share. They entitle the holder to share equally in a distribution of the profits or assets of the Company by dividend with all other holders of Ordinary Shares, in proportion to the holders' aggregate holding of all Ordinary Shares.

On 16 May 2008, the Company completed the initial US\$10 million tranche of proposed US\$25 million investment by TOGI. TOGI invested US\$10 million in the Company by way of convertible secured loan notes (the "Notes"). The Notes were convertible at TOGI's option into 5,890,080 Ordinary Shares, at a conversion price of US\$1.72 (£0.86) per Ordinary Share.

Under the original terms of the PDN acquisition, a second cash payment of US\$13 million was due to be paid to the vendors of PDN upon the extension of the Tisquirama licence. As announced on 29 November 2007, PELE reached agreement with the vendors of PDN to make a cash payment of US\$7 million and to issue to the vendors PELE shares to the value of US\$3 million at a price of (£0.50) \$1.00 per share. On 16 May 2008, of the aforementioned cash payment of US\$7 million, US\$2.5 million was paid, and 3,045,299 Ordinary Shares were allotted to the vendors of PDN, (Lyan Financial Corp: 2,040,299 shares, and Rorick Ventures Group Inc: 1,050,000 shares), companies in which Juan Carlos Rodriguez and his family have a beneficial interest respectively.

On 10 July 2008, the Company issued 800,000 Ordinary Shares of US\$0.50 each in the capital of the Company to Macquarie in exchange for the cancellation of a 5 per cent. overriding interest in the Group's working interest in hydrocarbons produced from La Paloma.

On 11 July 2008, the Company completed the second tranche of the proposed investment of US\$25 million in the Company by TOGI. The Notes were converted by TOGI into 5,890,080 Ordinary Shares, at a conversion price of US\$1.72 (£0.83) per Ordinary Share. TOGI has invested a further US\$15 million in the Company by way of a subscription for 9,470,919 Ordinary Shares ("the Subscription"). TOGI as a result holds in aggregate, 15,360,999 Ordinary Shares, representing a 35 per cent. interest in the Company. All related security held by TOGI relating to the Company and members of its Group since 16 May 2008 was released. As part of the consideration for the Subscription, TOGI has also been granted 1,875,260 warrants which are automatically exercisable, for no additional consideration, into 1,875,260 Ordinary Shares if, and to the extent that, any exercise of the Company's existing outstanding 3,482,625 warrants occurs.

On 11 July 2008, 294,504 Ordinary Shares were allotted to Dignam Holdings Corporation in respect of finders fees due on the successful introduction of Tribeca to the Company, and a further 739,573 Ordinary Shares to the vendors of PDN in lieu of interest due to them on the aforementioned outstanding US\$4.5 million payment.

On 14 July 2008, 380,770 Ordinary Shares were allotted to Greg Smith in part settlement of his compensation entitlement on loss of office.

The Deferred Shares are fully paid deferred ordinary shares of £0.0011 (\$0.0021) each. The Deferred Shares were issued prior to reincorporation as a public limited Company in 2004 and have no rights, including no rights to receive notices, vote at general meetings, participate in dividends and return of capital on the liquidation of the Company.

10. Reserves

	<i>Shares to be issued \$'000</i>	<i>Warrant reserve \$'000</i>	<i>Share premium account \$'000</i>	<i>Profit and loss account \$'000</i>
At 1 January 2008	4,560	1,624	55,718	(56,782)
Loss for the period	–	–	–	(3,731)
Premium on shares				
Issued during the period	–	–	17,320	–
Warrants issued in the period	–	306	–	–
Deferred consideration paid in shares	(3,000)	–	1,477	–
Share-based payments	(1,560)	–	1,859	–
At 31 December 2008	<u>–</u>	<u>1,930</u>	<u>76,374</u>	<u>(60,513)</u>

11. Reconciliation of movements in shareholders' funds

	2008 \$'000	2007 \$'000
Loss for the period	(3,731)	(9,633)
Issue of warrants	306	700
Issue of shares (net of share issue costs)	30,966	1,019
Shares to be issued	(4,560)	4,560
Net movement in shareholders' funds	<u>22,981</u>	<u>(3,354)</u>
Opening shareholders' funds	16,855	20,209
Closing shareholders' funds	<u>39,843</u>	<u>16,855</u>

12. Share based payments

Share options

At 31 December 2008 the group did not have any share options outstanding. The previously issued options granted on 12 January 2005, had been forfeited in full by 31 December 2007. There was no share option charge in respect of the 12 January 2005 options in 2008 or 2007.

Warrants

At 31 December 2008 the following share warrants have been granted and are outstanding in respect of the ordinary shares:

	<i>Number of warrants</i>				<i>Outstanding 31 December 2007</i>	<i>Granted</i>	<i>1:5 Share Consolidation</i>	<i>Outstanding 31 December 2008</i>	<i>Final exercise</i>
	<i>Outstanding 1 January 2007</i>	<i>Granted</i>	<i>Exercised</i>	<i>Lapsed</i>					
18 July 2004 – US\$0.10*	3,750,000	–	(3,750,000)	–	–	–	–	30 April 2007	
30 July 2004 – US\$0.90*	248,222	–	–	(248,222)	–	–	–	30 April 2007	
July – November 2004 – US\$0.90 (see below)*	26,462,008	–	–	(26,462,008)	–	–	–	30 April 2007	
20 September 2004 – US\$0.90*	250,000	–	–	(250,000)	–	–	–	30 April 2007	
17 November 2004 – US\$0.90*	1,146,125	–	–	(1,146,125)	–	–	–	30 April 2007	
15 February 2006 – US\$4.8125*	213,123	–	–	–	213,123	(170,498)	42,625	15 February 2009	
15 June 2006 – US\$5.05*	7,000,000	–	–	–	7,000,000	(5,600,000)	1,400,000	15 June 2010	
7 February 2007 – US\$2.10*	–	4,000,000	–	–	4,000,000	(3,200,000)	800,000	7 February 2010	
1 June 2007 – US\$0.50 – US\$1.00*	–	2,900,001	–	–	2,900,001	(2,320,001)	580,000	30 April 2011	
	<u>39,069,478</u>	<u>6,900,001</u>	<u>(3,750,000)</u>	<u>(28,106,355)</u>	<u>14,113,124</u>	<u>(11,290,499)</u>	<u>2,822,625</u>		
14 March 2008 – US\$1.30*					400,000	(320,000)	80,000	14 March 2011	
1 April 2008 – US\$0.50*					2,900,000	(2,320,000)	580,000	1 April 2011	
31 December 2008					<u>14,113,124</u>	<u>3,300,000</u>	<u>(13,930,499)</u>	<u>3,482,625</u>	

* The above exercise price has been adjusted for the 1 for 5 share consolidation

Each warrant entitles the holder to purchase one Ordinary Share at a price of between \$0.50 to \$5.05 (adjusted post 1 for 5 share consolidation) per share on or before the expiry date, after which time the warrants will be void and of no value. Each Warrant is governed by the provisions of warrant instruments representing the warrants which have been adopted by the Company. The rights conferred by the warrants are transferable in whole or in part subject to and in accordance with the transfer provisions set out in the Articles. The holders of warrants have no voting right, pre-emptive right or other right attaching to Ordinary Shares.

The following warrants were issued on consideration for services or assets acquired.

- (a) The Company entered into an agreement with Natexis Bleichroeder Inc. for consideration for services provided (“Natexis”) on 15 February 2006 pursuant to which Natexis was granted 213,123 warrants which entitle the holder to subscribe for new Ordinary Shares at an exercise price of \$0.9625. The warrants are exercisable in whole or part at any time within 3 years of the date of issue. None of these warrants were exercised prior to 31 December 2008. These warrants have subsequently lapsed as their expiry date of 14 February 2009 passed without the warrants being exercised.
- (b) On 15 June 2006 the Company entered into an agreement with Macquarie for consideration for services provided whereby Macquarie was granted warrants which entitle the holder to subscribe for 7,000,000 shares at an exercise price of \$1.01 per share. Following consolidation of the Company’s share capital, 7,000,000 warrants would on exercise be consolidated to 1,400,000 warrants with an exercise price of \$5.05. The warrants are exercisable in whole or part at any time within 4 years of the date of issue. None of these warrants have been exercised to date and, therefore they all remain outstanding.
- (c) On 7 February 2007 the Company extended an existing employment agreement with Gregory Smith, a director of the Company. In consideration for reducing the amount of basic salary payable to Gregory Smith by the Company was granted warrants entitling him to subscribe for 4,000,000 shares at an exercise price of \$0.42 per share. Following consolidation of the Company’s share capital, 4,000,000 warrants would on exercise be consolidated to 800,000 warrants with an exercise price of \$2.10. The warrants are exercisable at any time within 3 years of the date of issue. None of the warrants have been exercised to date and, therefore they all remain outstanding.
- (d) On 18 February 2008, the Group took out a US\$2.9 million bridge loan from TVL and Athos Enterprises Limited, companies in which Gregory Smith and Juan Carlos Rodriguez, both directors of the Group at the time, had beneficial interests in respectively. The loan carried an interest rate of 12.5 per cent. per annum. In addition, 2,900,000 warrants with an exercise price of £0.0525 (US\$0.10) were issued. Following consolidation of the Company’s share capital, 2,900,000 warrants would on exercise be consolidated to 580,000 warrants with an exercise price of £0.2625 (US\$0.50). On 16 May 2008 the loan was fully repaid. None of the warrants have been exercised to date and, therefore they all remain outstanding.
- (e) During the year the Group renegotiated the terms of some of the warrants granted between July – November 2004 of US\$0.90. A total of 2,900,001 warrants were renegotiated and reissued under new terms, the warrants had no vesting conditions and had a new exercise price of £0.0525 (US\$0.10), with extension to the period to 30 April 2011. The warrants were issued to shareholders and no service was received. Following consolidation of the Company’s share capital, 2,900,001 warrants would on exercise be consolidated to 580,000 warrants with an exercise price of £0.2625 (US\$0.50). These remain outstanding.
- (f) On 14 March 2008, the Company issued an aggregate of 400,000 warrants with an exercise price of US\$0.26 (£0.13) per share to non-executive directors and employees. Following consolidation of the Company’s share capital, 400,000 warrants would on exercise be consolidated into 80,000 warrants with an exercise price of £0.65. These remain outstanding.

On 11 July 2008, as set out above, the Company completed the second tranche of the proposed investment of US\$25 million in the Company by TOGI. As part of the consideration for the

Subscription, TOGI were granted 1,875,260 warrants exercisable into Ordinary Shares which are automatically exercisable, for no additional consideration, into 1,875,260 Ordinary Shares if, and to the extent that, any exercise of the Company's existing outstanding 3,482,625 warrants occur. These have not been included in the above table due their contingent nature.

Fair Value of warrants

Inputs to the valuation model

The fair value of warrants granted has been calculated using the Black Scholes pricing model that takes into account factors specific to equity share issued payments, the expected dividend yield on the Company's shares and expected early exercise of warrants. The fair value of warrants issued during 2004 have not been calculated and included in the restated financial statements as their issue precedes the effective date of FRS 20.

	<i>15 February</i>	<i>15 June</i>	<i>7 February</i>	<i>14 March</i>	<i>1 April</i>
<i>Grant date</i>	<i>2006</i>	<i>2006</i>	<i>2006</i>	<i>2008</i>	<i>2008</i>
Share price at date of grant	\$1.07	\$0.59	\$0.48	\$0.17	\$0.18
Exercise price*	\$0.9625	\$1.01	\$0.42	\$0.26	\$0.10
Volatility	40%	40%	40%	40%	40%
Option life	3 years	4 years	3 years	3 years	3 years
Dividend yield	0%	0%	0%	0%	0%
Risk-free investment rate	4.22%	4.71%	5.37%	5%	5%
Employee turnover	0	0	0	0	0

Volatility has been based on the following:

- (i) the annualised volatility of the Company's shares since flotation on the AIM market.
- (ii) the volatility of comparable listed companies in the mining, oil and gas sector.

* Exercise price unadjusted for 5 for 1 share consolidation

Based on the above assumptions, the fair value of each warrant granted is as follows:

	<i>15 February</i>	<i>15 June</i>	<i>7 February</i>	<i>14 March</i>	<i>1 April</i>
<i>Grant date</i>	<i>2006</i>	<i>2006</i>	<i>2006</i>	<i>2008</i>	<i>2008</i>
Fair Value	\$0.38	\$0.12	\$0.19	\$0.10	\$0.03

Expense arising from warrants issued

Based on the fair values shown above, the expense arising from warrants in the year is estimated to be \$306,000 (2007 – \$700,562) and was recorded in the income statement for the year. The warrants issued 1 January 2006 have not been restated as all the warrants were issued during 2004 and had vested before the transition date to FRS 20.

13. Warrants

The warrants, as described in the warrant table in note 13, were in issue to new or existing shareholders of the Company.

14. Contingent liabilities and litigation

PDN

On 16 June 2006, the Group acquired a controlling interest of 77.76 per cent. of the issued and outstanding share capital of PDN. The remaining 22.24 per cent. of the issued and outstanding shares of PDN are held in a trust in Colombia and their release from such trust is subject to the resolution of pending litigation. Based on the advice of counsel in Colombia, PELE believes that the litigation will ultimately result in the

shares held in trust being returned to PDN for cancellation, which would result in PELE holding 100 per cent. of the issued and outstanding shares of PDN. However, should the litigation not go in the Group's favour then the Group's ownership would remain at 77.76 per cent.

Proceedings were brought in May 1991 by PDN against Inergesa. Banco Santander refused to transfer shares of PDN owned by a trust fund administered by Banco Santander. First and second instance rulings before the 4th Civil Circuit Court of Bogotá were awarded in favour of PDN. An appeal filed also found in favour of PDN.

Additional proceedings were brought in June 1992 by Fiduciaria Santander against PDN and Inergesa. PDN is in the process of replying to an appeal.

Damages Claim, Garibaldi Ciodaro Mantilla and Aserpec Ltd

Proceedings brought by Garibaldi Ciodaro Mantilla and Aserpec Ltd. against PDN and Ecopetrol in August 2004. This proceeding is before the 2nd Civil Court of Ocaña. The Plaintiffs seek indemnification for damages suffered during events in May 2003 at the pumping station "Bellavista" where a storm destroyed the plaintiff's equipment and injured plaintiff's employees. The action has been challenged on grounds of lack of jurisdiction. PDN's counsel believes that this case is likely to be decided in favour of PDN and Ecopetrol.

PDN damages claim: "Bellavista" case

Administrative Proceedings seeking direct reparation. PDN brought an action against the Ministry of Defense in December 2004. PDN seeks indemnification for damages suffered as a result of a terrorist attack perpetrated by the FARC guerrillas in December 2002, which totally destroyed the "Bellavista" pumping station. PDN argues that the attack was supposed to be directed to the government in place, but affected PDN's private property. PDN argues that the Army was not protecting the station at the time of the attack having ceased to do so in 1999, despite the difficult public order situation in the area. PDN demands payment of actual damages and loss in excess of US\$ 7million. Current status: Administrative Court ordered the independent valuation of damaged equipment.

PetroLatina Corporation (Bahamas)

On 23 July 2007, the Company disposed of its holding in PetroLatina Corporation (Bahamas) to Quetzal Energy Inc. The Company made certain representations and warranties which survive for a period of 2 years from the date of completion. The following claims were disclosed in 2006 and the position remains as disclosed in 2006:

- (a) On 12 August 2002, Cadex Petroleo Guatemala Inc. ("Cadex") promoted a lawsuit against PetroLatina Corporation. The claim is quantified at US\$150,000. The claim relates to a deed pursuant to which PetroLatina Corporation sold to Petdegua S.A. certain machinery that was part of the drilling tower. According to Petdegua S.A., this machinery was never delivered.
- (b) On 12 August 2002, Cadex issued another lawsuit in the Third Civil Court of First Instance against PetroLatina Corporation. This claim is based on an agreement for the purchase of shares and other assets owned by PetroLatina Corporation. Executed on 31 May 1997. Cadex is demanding the return of US\$325,000 that it had paid as part of consideration under the agreement.
- (c) Petdegua also issued another claim in the Civil Court of First Instance and Execution Court of the Municipality of Ixcán in Guatemala on 18 October 2002 requiring the fulfilment of the acquisition contract and the seizure of the machinery naming Cadex as its depository.
- (d) A legal opinion obtained from A.D. Sosa & Soto of Guatemala, the Company's Guatemalan counsel, states that a motion to declare the claim process abandoned was presented, and if Cadex does not respond to the lawsuit it will be dismissed. The directors have considered the legal opinion and do not consider that a provision is required as the likelihood of a successful claim is remote.

15. Related party transactions

Details of directors remuneration are given in the Remuneration Report on pages 19-21.

Latinamerican Drilling Company – (Latco), a company controlled by shareholder Tribeca has entered into an arms' length agreement to provide rig services to the Company. At the year end, a total of \$3,155,000 was due and owing to Latco.

16. Post balance sheet events

On 21 January 2009, the Company executed an instrument constituting secured 12 per cent. convertible loan notes. due 2011 in the aggregate amount of US\$9.875 million (the "Notes"). Tribeca Oil and Gas Financing, Inc. ("TOGF"), a subsidiary of existing shareholder Tribeca Oil & Gas, Inc. ("TOGI"), agreed to subscribe for US\$4.875 million in aggregate of the Notes. TOGF has an option (but is not obliged) to subscribe for up to a further US\$5 million in aggregate of the Notes. As at the date of the accounts the option has not yet been exercised.

The first tranche of the Notes subscribed for by TOGF, if not repaid or converted earlier, mature on 21 January 2011. The Notes accrue interest at a rate of 12 per cent. per annum, payable at intervals of six months from the date of issue, and at the Company's option can be redeemed in whole or in part prior to maturity, without penalty, on any of the interest payment dates. Unless converted, the Notes are redeemable immediately prior to any sale or de-listing of the Company and repayable in the event of any default. At TOGF's option, the Notes are convertible in whole into new ordinary shares in the Company ("Ordinary Shares") on any of the interest payment dates, in the event of early redemption (in respect of the amount specified to be redeemed), on maturity or on any instance of default, sale or de-listing of the Company.

In the event of conversion, the number of new Ordinary Shares to be issued to the noteholder will be determined by dividing the principal amount of the relevant Notes by the initial conversion price per Ordinary Share of 20.9375 pence (the "Initial Conversion Price").

The Company has the option to request that TOGF subscribes in cash at par for the whole or part of the second tranche of US\$5 million Notes (the "Option"). The Option may be exercised by the Company on one occasion only during the option period, being a period of 6 months from the date of the loan note instrument. If not repaid earlier, the second tranche Notes will mature in 2011 on their second anniversary. Following exercise of the Option, TOGF is not obligated to subscribe for the second tranche. If subscribed, the second tranche of Notes will accrue interest at a rate of 12 per cent. per annum, payable at intervals of six months from the date of issue, and at the Company's option can be redeemed in whole or in part prior to maturity, without penalty, on any of the interest payment dates. Unless converted, the Notes are redeemable immediately prior to any sale or de-listing of the Company and repayable in the event of any default. At TOGF's option, the second tranche Notes are convertible in whole into Ordinary Shares on any of the interest payment dates, in the event of early redemption (in respect of the amount specified to be redeemed), on maturity or on any instance of default, sale or de-listing of the Company. In the event of conversion, the number of new Ordinary Shares to be issued to the noteholder will be determined by dividing the principal amount of the relevant Notes by the second tranche conversion price to be calculated as the higher of (i) the average middle-market closing price of an Ordinary Share over the ten business days of trading immediately prior to the date of conversion plus a premium of 25 per cent. thereon, as converted from pounds sterling to US dollars at the exchange rate prevailing on the business day prior to conversion and (ii) the then prevailing nominal value of an Ordinary Share.

At its discretion, the Company is entitled to pay interest accruing on both tranches of the Notes in the form of either cash or by the issue of new Ordinary Shares. If interest is paid in the form of shares, the number of new Ordinary Shares to be issued and allotted (credited as fully paid) to the noteholder will be determined by dividing the amount of interest payable by the closing middle-market price of an Ordinary Share on the business day immediately prior to the relevant interest payment date converted from pounds sterling to US dollars at the then prevailing exchange rate.

If at any time a takeover offer is made to all ordinary shareholders, the Company will use its reasonable endeavours to procure a comparable offer to be extended to the noteholder. If no such offer is extended the

noteholder shall be entitled to exercise their conversion rights or seek repayment of their Notes in whole or in part at a 5 per cent. premium to their principal amount.

The Initial Conversion Price referred to above is less than the current nominal value of an Ordinary Share of US\$0.50 (approximately 35 pence at the then prevailing pounds sterling to US dollars exchange rate). Accordingly, since English company law prevents the Company from issuing new shares at a price below the prevailing nominal value of its Ordinary Shares, the Company has undertaken to implement a capital reorganisation prior to the first interest payment date in order to ensure that the nominal value of each Ordinary Share is reduced to an amount sufficiently below the Initial Conversion Price, which may include (but shall not be limited to) the sub-division of the existing issued Ordinary Shares into new ordinary shares of a lower nominal amount and a new class of non-voting deferred shares of a lower nominal amount. A further announcement in respect of the Company's proposed capital reorganisation will be made in due course and an appropriate circular will also be issued to shareholders to provide more details and convene a general meeting to obtain the requisite shareholder approvals. By way of security in respect of the Company's obligations under the loan note instrument, PetroLatina (CA) Limited, a wholly owned subsidiary of the Company, has granted to TOGF a pledge over its entire shareholding in RL Petroleum Corporation (a Panamanian Company). This security will be automatically released by TOGF on the earlier of (i) conversion or redemption of all outstanding Notes and (ii) the aforementioned proposed capital reorganisation becoming effective.

The Company has agreed to pay TOGF an arrangement fee of US\$300,000 in consideration for the subscription of the Notes. In addition, the Company granted TOGF a warrant over Ordinary Shares exercisable in whole or in part at an aggregate exercise price of US\$300,000 on any number of occasions throughout the term of the loan note instrument (the "Warrant"). The exercise price payable by TOGF to the Company in respect of the Warrant will be set off against the arrangement fee owing by the Company to TOGF pursuant to the Notes. In the event of exercise, the number of new Ordinary Shares to be issued to the warrant holder will be determined by dividing the exercise price by the higher of (i) the middle market closing price of an Ordinary Share on the date of the Warrant, as converted from pounds sterling to US dollars at the then prevailing exchange rate, and (ii) the prevailing nominal value of one Ordinary Share at the time of exercise of the Warrant. The Warrant will lapse on such date as all of the Notes have either been converted or redeemed or are no longer capable of issue in accordance with the provisions of the loan note instrument.

