

COMPANY REGISTRATION NUMBER: 5173588

**PETROLATINA ENERGY PLC
ANNUAL REPORT AND FINANCIAL STATEMENTS**

For the year ended 31 December 2009

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PetroLatina Energy Plc
Group Overview and Achievements to date
For the year ended 31 December 2009

PetroLatina Energy Plc (“PetroLatina”, “PELE” or the “Company”) is an independent petroleum exploration, development 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.

As at 31 December 2009, the Company held interests in 5 contracts and wholly owned the RZA pipeline in Colombia, and held a 20% carried interest in 3 wells and a 20% working interest in 2 licence areas in Guatemala.

PELE’s balanced portfolio comprises production, development drilling, workover opportunities and high-potential exploration projects.

The Company intends to continue increasing the asset value of its portfolio 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, L.P. (“Ryder Scott”), the independent petroleum consultancy firm, has recently completed an updated assessment of the reserves, future production and income attributable to PELE’s concessions in Colombia. It reported that as at 30 November 2009, estimated proved plus probable reserves (“2P reserves”) net to the Company totalled 6.09 (2007: 5.06) million barrels of oil equivalent (“boe”) and proved plus probable plus possible reserves (“3P reserves”) net to the Company totalled 11.40 (2007: 7.34) million boe. Since then, and post the year-end, PELE has drilled a further four wells, two of which may significantly add to its 2P reserves. The Company currently expects to commission an updated reserves report during the first half of 2010 once 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 plc, since 2005 (LSE-AIM: “PELE”).

Key achievements to date

2010	17.03.2010	Announced the commissioning of works to connect the Serafin-1 gas well to the main Colombian gas trunk line, with initial production of up to 7 million cubic feet per day (“MMscf/d”) expected to commence during the final quarter of 2010.
	09.03.2010	Entered into a Senior Secured Debt Facility of up to \$75 million with Macquarie Bank Limited (“Macquarie”), of which an initial tranche of \$25 million was drawdown at completion, and announced plans to drill up to a further 8 new wells over the remainder of 2010 in order to increase production and reserves with the expectation of substantially increasing Possible Reserves, identified by Ryder Scott, as well as moving an element of them into the Probable Reserves and Proved Reserves categories.
	08.02.2010	Announced an updated independent assessment of the Company’s reserves, future production and income attributable to its concessions in Colombia as at 30 November 2009. Based upon crude oil prices as of 30 November 2009 adjusted for each property, Ryder Scott provided an NPV10 value for the Company’s 3P reserves of \$247 million. Completed the Zoe-1 exploration well which is currently producing at a stable rate of 42 barrels of oil per day (“bopd”).
	22.01.2010	Appointed Evolution Securities Limited as joint broker.
2009	17.12.2009	Ended the year having undertaken an aggressive drilling campaign with 8 new wells being drilled in 2009 increasing total gross production for the year by 58% to 489,159 (2008: 310,032) barrels (“bbls”) at an average daily production rate of 1,340 bopd (2008: 849). Net oil production to the Company for the year increased by 162% to 233,285 (2008: 89,230) bbls, at an average daily net production rate of 639 (2008: 244) bopd.
	30.09.2009	Announced maiden interim profit before tax of \$99,000 (2008: loss of \$408,000).
	16.09.2009	Colon-2 development well successfully drilled to a total measured depth of 9,300ft which produces oil at an average rate of 664 bopd over the first three days of testing, thereby confirming that the Colon discovery has considerable potential.

PetroLatina Energy Plc
Group Overview and Achievements to date
For the year ended 31 December 2009

Group Overview and Achievements to date *(continued)*

	17.06.2009	Secured increased US\$6.29 million second tranche of convertible loan note funding from Tribeca Oil and Gas Financing, Inc. ("TOGF"), a subsidiary of existing substantial shareholder Tribeca Oil & Gas Inc. ("TOGI"), a portfolio investment company of Tribecapital Partners S.A. ("Tribeca"), a Colombian private equity firm.
	28.04.2009	Announced positive results for the Los Angeles-11 development well.
	18.02.2009	Announced successful preliminary test results for the Colon-1 exploratory well, tested at up to approximately 1,200 bopd.
	21.01.2009	TOGF 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.
2008	26.12.2008	Awarded the Putumayo-4 block in the Colombian licence bidding round 'Mini-Ronda 2008'.
	24.11.2008	Commenced drilling of Colon-1, the first exploratory well on the La Paloma block.
	30.09.2008	Announced 100-day drilling programme.
	06.08.2008	Completed the restructuring of the senior management team.
	11.07.2008	Completed a \$25 million investment by TOGI.
2007	29.11.2007	Extension to Tisquirama licences announced extending these licences to the economic life of the fields.
	15.07.2007	Disposal of 100% interest in the Company's Guatemalan subsidiary.
2006	16.06.2006	Completed acquisition of Petroleos Del Norte ("PDN") in Colombia.
	20.02.2006	Obtained interests in La Paloma and Midas licences in Colombia.
2005	14.01.2005	Company listed on AIM.

PetroLatina Energy Plc
Chairman's Statement
For the year ended 31 December 2009

I am pleased to report on a second year of considerable progress for the Group which has undergone a significant transformation since July 2008.

Operational highlights

- Undertook an aggressive drilling campaign with 8 new wells being drilled in 2009 increasing
 - Gross production for the year by 58% to 489,159 (2008: 310,032) bbls, at an average daily production rate of 1,340 (2008: 849) bopd; and
 - Net production for the year by 162% to 233,285 (2008: 89,230) bbls, at an average daily net production rate of 639 (2008: 244) bopd;
- Increased revenues for the period by approximately 78% to \$13.8 million (2008: \$7.8 million);
- Announced an updated independent assessment of the Group's reserves, future production and income attributable to its concessions in Colombia as at 30 November 2009. Based upon crude oil prices as of 30 November 2009 adjusted for each property, Ryder Scott, the independent petroleum consultants, provided an NPV10 value for the Group's 3P reserves of \$247 million;
- Secured part of the Company's funding requirements from TOGF who subscribed for \$11.165 million of secured convertible loan notes 2011, against a challenging backdrop of considerable global economic uncertainty, which enabled the Group to maintain momentum on its work programme; and
- Continued to reduce general & administration costs and expenses.

Financial highlights

- Gross profits increased significantly to \$4.38 million* (2008: \$3.40 million);
- EBITDA generation of \$5.25 million* (2008: \$(1.20) million); and
- Operating loss before finance costs and tax was reduced by approximately 85% to circa \$0.47 million* (2008: \$3.23 million), reflecting management's actions to reduce the Group's central overhead and running costs.

* Excluding the impact of a one-off impairment charge for the Zoe-1 exploration well of \$6.59 million.

The loss before tax increased to US\$12.83 million (2008: \$4.00 million) as a result of a non-cash financing charge of \$3.74 million relating to the accounting treatment and fair value of convertible loan notes subscribed by TOGF during the year and a one-off impairment charge for the Zoe-1 exploration well of \$6.59 million. The continued cost reduction measures and the expected absence of significant non-cash charges in future years should serve to enhance the Group's reported profitability alongside an anticipated build-up in the level of production.

In January and June 2009, the Group successfully obtained a total of US\$11.165 million of convertible debt funding from TOGF. This financing enabled us to fund our continuing aggressive work programme of development, exploration and appraisal wells. The Group plans to continue with its extensive drilling programme over the course of the next twelve months, which should further transform some of its oil reserves into producing reserves. The long term debt facility with Macquarie signed post the period end, meets a significant proportion of our committed development programme and we are confident of being able to raise the necessary equity finance in due course to ensure that the Group maintains an appropriate capital structure and will be able to fully fund its committed development programme. At the period end, the Group had cash and cash equivalents (including term deposits) of \$4.91 million (2008: \$2.71 million).

At the Annual General Meeting held in June 2009, we stated our intention to continue with our planned drilling programme. We aimed to drill a minimum of six wells across our three Colombian licence areas during 2009 and in fact drilled eight wells and increased production by 162% to an average 639 bopd net from an average 244 bopd net in 2008. Our strategy for 2010 and beyond, continues to be to seek to considerably increase production and cash flow through the work programme. We currently plan to drill up to a further eight wells over the remainder of 2010 in order to increase production and reserves, with the expectation of substantially increasing Possible Reserves, as identified by Ryder Scott, as well as moving an element of them into the Probable Reserves and Proved Reserves categories.

Average throughput in PELE's wholly owned RZA pipeline increased by approximately 30% to 3,504 bopd (2008: 2,696 bopd).

During the year, the Group finalised terms with La Cortez Energy Colombia Inc. ("La Cortez") in relation to the joint operation of our Putamayo-4 block and we anticipate 103 km of 2D seismic to be acquired during the latter half of 2010. The Group has a 50% interest in the block, but is only responsible for 40% of seismic related costs and 50% of future capital expenditure.

PetroLatina Energy Plc
Chairman's Statement
For the year ended 31 December 2009

Initial commercial gas sales are expected to commence from our Serafin gas field in the fourth quarter of 2010, offering the prospect of strong short-term cash flow and economic returns. PELE has a 25% interest in the project, and following the resolution of the various contractual issues has recently commissioned works to be commenced in order to connect the Serafin-1 gas well to the main Colombian gas trunk line.

Subsequent to the reporting period end, we were also pleased to announce the appointment in January 2010 of Evolution Securities Limited ("Evolution") as joint broker. Evolution has an excellent track record in supporting oil and gas companies and we look forward to benefitting from their analytical and broking expertise.

Outlook

The four year Senior First Lien Secured Credit Facility of up to, in aggregate, \$75 million entered into with Macquarie in March 2010 (the "Facility") provides us with the financial and operational flexibility to take advantage of the current rapid growth in the Latin American energy market. The Facility serves to enhance the Group's liquidity, as we continue to execute our long-term exploration and development programme for our extensive asset base in Colombia.

We firmly believe that Latin America, and in particular Colombia, offers attractive consolidation, corporate and new license acquisition opportunities; the upcoming 2010 new open bid round whereby Colombia's upstream regulator, Agencia Nacional de Hidrocarburos (ANH) is offering exploration rights to 168 blocks, 63 Technical Evaluation licences and 74 smaller blocks of between 30,000 and 40,000 hectares, close to existing producing areas, is one such example of these potential opportunities.

PELE is now well placed to build on its 2009 drilling success as it continues to pursue its development programme in Colombia.

I would like to thank our shareholders and employees for their continued support and loyalty and look forward to reporting further progress during the remainder of 2010 as PELE begins to realise its true potential.



Luc Gerard
Executive Chairman

6 April 2010

Overview

2008 saw PELE transform itself from being primarily a production company to being a far more balanced exploration and production company. Twelve months on, the Group having focused its resources and efforts on developing its Colombian assets has not only drilled eight new wells and increased production by 162% with average net production for the year of 639 bopd (ending the year with average net production of 1,004 bopd), but also secured the Putumayo-4 block in the promising Putumayo Basin of southern Colombia, commissioned work to connect the Serafin-1 gas well to the main Colombian gas trunk line and entered into a significant credit facility with Macquarie.

Review of Operations

Colombian Assets

Important reservoir studies in the Los Angeles field, including seismic reprocessing, core analysis, and a simulation study were completed in early 2009. At the Santa Lucia field, following the acquisition of 76 sq. km. of 3D seismic five infill wells were drilled during 2009, leading to an increased production rate from these fields. During 2009, the Santa Lucia and Los Angeles fields (Tisquirama Licence) and the Doña Maria field (Lebrija Licence) produced 354,310 gross barrels ("bbls") (2008: 310,032) at an average daily production rate of 971 bopd (2008: 849 bopd). Net oil production to the Group from the Tisquirama Licence and the Lebrija Licence in 2009 was 118,663 bbls (2008: 89,230 bbls) at an average daily production rate of 325 bopd (2008: 244 bopd). This represented an approximate 33% increase to the net production volumes achieved during 2008. The level of production significantly exceeded our budgeted expectations primarily due to the drilling of the new wells, workovers and the optimisation of resources.

At our Midas exploration block, 40 sq. km. of 3D seismic data was acquired and the Group defined and drilled a prospect, the Zoe-1 exploration well. Post year end, the well was completed, testing began in the Umir section, and a stable flow of approximately 42 barrels of 23 degree API oil was recorded. The La Paloma and Midas fields produced 134,849 gross bbls (2008: Nil) at an average daily production rate of 369 bopd (2008: Nil). Net oil production to the Group from the La Paloma and Midas fields was 114,622 bbls (2008: Nil) at an average daily production rate of 314 bopd (2008: Nil).

During 2009, the Group achieved total gross production of 489,159 bbls at an average annualised daily production rate of 1,340 bopd. Net oil production to the Group was 233,285 bbls, at an average annualised daily net production rate of 639 bopd.

In February 2009, the Group finalised and signed the previously announced Putumayo-4 E&P contract with ANH and has subsequently finalised farm-out terms with La Cortez in the form of a joint operating agreement under which the Group has a 50% interest in the block, but is only responsible for 40% of seismic related costs and 50% of future capital expenditure. The Group is currently working on the community relationship and environmental diagnostic for the block and anticipates acquiring 103km of 2D seismic to assist with the delineation of a prospect, which is currently expected to be drilled in 2010.

RZA Pipeline

During 2009, 1,279,041 bbls (2008: 983,882 bbls) or 3,504 bopd (2008: 2,696 bopd) were transported through the Group's Rio Zulia - Ayacucho pipeline representing an increase of approximately 30% compared to throughput achieved in 2008.

Serafin Gas Development

During 2009, the Group satisfied the necessary conditions to bring the Serafin gas well into commercial production. The Group commissioned the construction of a connection to the main Colombian gas trunk line in the first quarter of 2010 and initial commercial gas sales are expected to commence in the fourth quarter of 2010 which will provide valuable cash revenues to the Group 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 the prospect of strong short term cash flow generation and economic returns, with a projected payback period of less than three months post the connection being made and gas sales commencing.

Review of Operations *(continued)*

There is also believed to be a high probability of further gas deposits on the licence area and PELE is currently conducting studies using its existing 3D seismic coverage to identify further drillable prospects. PELE has a 25% interest in the project.

Guatemalan Assets

Despite having sold our assets (Licences A7-2005 and A-6-93) in Guatemala to Quetzal Energy Inc. ("Quetzal") 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. We understand that Atzam-2 is currently producing 50 bopd, and have approached Quetzal on a number of occasions regarding our carried interest in this well. To date no satisfactory responses have been received and we intend to continue to pursue Quetzal and to seek recovery of our share of production revenues. An evaluation of Quetzal's proposed Atzam-3 well was completed during the reporting period, and following a review we declined to participate in this particular well.

Financial Review

During 2009 revenues totalled \$13.81 million (2008: \$7.76 million) an increase of approximately 78%. There were three main contributory factors:

- Increased production from Los Angeles, Santa Lucia and the Doña Maria fields primarily resulting from new additional in-fill wells drilled during the course of 2009;
- New production from the La Paloma field as a result of the Colon-1 and Colon-2 wells drilled during the year; and
- A 30% increase in the average throughput in PELE's wholly owned RZA pipeline.

Depletion, depreciation and amortisation ("DD&A") charges, including impairment charges of \$6.59 million for Zoe-1, totalled \$12.31 million (2008: \$2.24 million).

Cost of sales (excluding DD&A) increased to \$3.71 million (2008: \$2.12 million). General and administrative costs and net finance costs were \$10.6 million (2007: \$7.4 million); including a non-cash charge of approximately \$3.74 million being applied to recognise the fair value accounting of convertible loan notes subscribed by TOGF during the year.

Total assets for the Group at \$86.9 million (2008: \$53.3 million) have increased by approximately 63% principally due to the capitalisation of development and exploration costs for the Los Angeles, La Paloma and Midas blocks. Total liabilities of \$58.7 million (2008: \$13.7 million) represent external borrowings, short term loans and other trade payables.

The Group currently has access to sufficient financial resources to meet its working capital requirements for the remainder of 2010, 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 Group had cash and cash equivalents (including term deposits) of \$4.91 million (2008: \$2.71 million). Our plans for 2010 include continuation of our extensive ongoing drilling programme which should further 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 from Macquarie and this, combined with the Group's current production and near term production potential, as reflected in the Group's recent announcements, will fund part of our planned work programme. We are currently in advanced negotiations with a number of potential investors with regards to potentially raising new capital to enable full funding of the entire planned 2010 work programme. We remain confident of being able to raise the necessary equity finance in the near term, and in the event that the Group is unable to raise the necessary equity, maintain the flexibility of negotiating a draw down from the long-term debt facility with Macquarie to ensure that the Group is able to fully fund its committed development programme.

Development in 2010 to date

The test results from the Zoe-1 exploration well on the Midas block in our ongoing 2010 drill programme were not as encouraging as expected. As announced on 8 February 2010, the Zoe-1 well reached a total depth of 10,924ft and testing commenced in the Umir section. This section was found to be somewhat over pressured and a stable flow of approximately 42 bopd of 23 degree API oil was recorded. The well remains on production at this rate, however the carrying value has been impaired as discussed below. Based on the test results and using petrophysical parameters, the seismic data and mapping of the subthrust structure, an oil bearing zone is present with, in the most likely case OOIP of 1.3 MMBO (management estimate). Testing of the Lisama zone was initiated in March, and whilst this was found to be normal pressured it flowed approximately 15 barrels of very heavy oil (tar) and water. The second test flowed water only and accordingly Lisama has been classified as a wet zone, and unlikely to be productive as a reservoir. We have deemed the deeper zones to be non-commercial, and have therefore recorded an impairment charge against this prospect relating to the costs incurred up to and including 31 December 2009 of US\$6.59 million in these financial statements.

Following testing at the Zoe-1 well, the rig has now been mobilised to the Santa Lucia field where it is currently drilling the Santa Lucia-4 development well.

As at the year end the Churia-1 well was on long term test with the ANH and the directors plan to assess whether to pursue either a long or short sidetrack option during 2010. As at 31 December 2009, there has been no evidence of impairment and the Directors will reassess this once the results of the side track option are known.

The recent test results from the Santa Lucia Sur-1 exploratory commitment well were also not as encouraging as expected. The Santa Lucia Sur-1 well reached its target depth of 8,500 feet and whilst hydrocarbon shows and a well developed sand channel were encountered while drilling through the La Paz formation, subsequent evaluation of wire-line logs indicated the reservoir to be water bearing. Accordingly, in consultation with our partners in the well, PetroSantander Inc., and following this evaluation, the well was plugged and abandoned. The remaining prospectivity in the block is being evaluated for future exploration. We will record an impairment charge against this prospect relating to our (50%) share of costs incurred during 2010 of US\$1.85 million in the financial results for the period ended 31 December 2010.

Since the period end, the Group has achieved total gross production to date of 149,810 bbls at an average daily production rate of 1,664 bopd, with net oil production of 67,605 bbls, at an average daily net production rate of 751 bopd, an increase of approximately 17% on the annualised average for 2009.

We look forward to the prospect of receiving short-term cashflow from the Serafin gas field once construction of the city-gateway is completed later this year.

The overall encouraging results from drilling conducted during 2009, our ongoing drill programme during 2010, the likelihood of continued increases in throughput at the RZA pipeline and the expected first commercial gas sales from our Serafin gas field development during Q4 of 2010; 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 enhance our reputation in Colombia's oil and gas industry.

We continue to pursue our strategy of maximising the potential of our asset portfolio and look forward to delivering significantly improved results to shareholders in 2010 and beyond.



Juan Carlos Rodriguez
Chief Executive Officer

6 April 2010

Board of Directors

The Board of PELE 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 retire 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 39

Mr Luc M.N. 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 worked and lived in 10 countries, 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 Tribeca, which manages Colombia's largest private equity fund and currently acts as the firm's CEO. He is a director of TOGI and TOGF, and is highly respected within Colombia's business community where he was awarded Business Man of the year in 2004, as well as the Latin America Excellence Award by America Economia in 2008. Mr Gerard sits on the board of 5 companies, as well as two Colombian Governmental Institutions 'Colombia es Passion' and 'Invest in Bogota' where he advises on Regulation and Strategies to Promote FDI in Colombia and Bogota. Mr Gerard is a Guest speaker at Universidad de los Andes on Corporate Strategy and chairs the Tribeca Institute for Management development and Governance.

Juan Carlos Rodríguez, Chief Executive Officer, aged 49

Mr Juan Carlos Rodríguez is an Economist and also holds a Masters in 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. ("PDN") 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 35

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. Before joining Tribeca, 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 and specialises in the Oil & Gas, Energy and Mining sectors.

John Joseph May, Non-Executive Director, aged 61

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 has been the principal of his own London-based chartered accountancy practice since 1994. 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 was finance director of AIM listed PSG Solutions PLC (formerly London & Boston Investments Plc), until December 2005. Mr May is currently Non-executive Chairman of Specialist Energy Group Plc and Chairman of Red Leopard Holdings Plc, both on AIM and is Finance Director of Tomco Energy Plc. He is also a non-executive director of London Pacific Partners Inc, and White Mountain Titanium Corp, both reporting Pink Sheets companies, and of The China Pub Company Plc, recently delisted on the Channel Islands Stock Exchange pending migration to another exchange.

Menno Wiebe, Non-Executive Director, aged 61

Mr Menno Wiebe has 39 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. In addition to serving as a director of PELE he is active in M&A activity in Colombia. He is based in Bogota and was formerly the Vice President of Exploration for Solana Petroleum Exploration (Colombia) Limited, a very active and successful exploration and production company in Colombia which was subsequently acquired by GranTierra Energy Inc. 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.

PetroLatina Energy Plc
Corporate Information
For the year ended 31 December 2009

Director	Appointed	Designation
Luc Gerard	14 July 2008	Executive Chairman
Juan Carlos Rodriguez	2 November 2007	Chief Executive Officer
Ciro Mendez	5 August 2008	Executive Director
John May	2 November 2007	Non-Executive Director
Menno Wiebe	6 August 2008	Non-Executive Director
Secretary:	Capita Company Secretarial Services Ltd	
Company Number:	05173588	
Incorporation:	England & Wales	
Registered Office:	2 nd Floor, Stanmore House, 29-30 St James's Street, London SW1A 1HB.	
Registrars:	Computershare Investor Services Plc, The Pavilions, Bridgwater Road, Bristol, BS99 7NH.	
Auditors:	BDO LLP, 55 Baker Street, London, W1U 7EU.	
Solicitors:	Stephenson Harwood, One, St Paul's Churchyard, London, EC4M 8SH.	
Nominated Adviser & Joint Broker:	Strand Hanson Limited, 26 Mount Row, London, W1K 3SQ.	
Joint Broker:	Evolution Securities Limited, 100 Wood Street, London, EC2V 7AN.	
Website:	www.petrolatinaenergy.com	

Group overview

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

The Group has been active in Colombia for the past few years and retains a carried interest in activities in Guatemala. It 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 owns 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 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.

Results and dividends

The results of the Group for the period are set out on page 24 and show a net loss for the period of \$12,496,000 (2008: \$3,913,000).

The Directors do not recommend the payment of a dividend (2008: Nil).

Principal activities and business review

The principal activity of the business is the exploration, extraction and transportation 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 Chairman's and Chief Executive Officer's statements on pages 5 to 9.

Key Performance Indicators

The key performance indicators of the Group are as follows:

	2009	2008	2007
Cash at bank at 31 December (\$'000)	3,232	2,529	3,542
Term Deposits at 31 December (\$'000)	1,675	177	-
Employee Numbers	103	78	88
Average crude sales price (WTI) (\$)	61.69	99.56	57.99
Exploration Expenditure (\$/bbl)	44,580	8,881	3,758
Net Barrels of oil produced	233,285	89,230	4,499

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

Principal risks and uncertainties

The Group's principal risks and uncertainties are detailed below.

Going concern

The Group plans to continue an ongoing extensive drilling programme in the next twelve months, which should further transform some of its oil reserves into producing reserves. Following a review of the Group's financial position and its committed exploration programme within its budgets and plans, currently this drilling 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, the Directors have signed an agreement for a long term secured debt facility on 8 March 2010, which meets a significant proportion of the committed development programme. The Directors are in advanced negotiations with a number of potential investors over the injection of sufficient new capital to meet the funding shortfall, which combined with the Group's current production, exploration and expected new near term production potential, will fully fund the forthcoming work programme. The Directors are confident of being able to raise the necessary equity finance. In the event that the Group is unable to raise the necessary equity, the Group is confident that it would be able to negotiate the draw down of the long-term debt facility (as described in more detail in note 28) to ensure that the Group will be able to fully fund its committed development programme. However there can be no guarantee that the required equity will be raised or, in the event that the equity is not raised, that the necessary additional debt facility will be made available within the necessary timeframe. 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.

Substantial shareholdings

As at 26 March 2010, based on an issued share capital of 46,165,803 ordinary shares of US\$0.10 each, the Company was aware of the following holdings of 3% or more in the Company's issued share capital:

Shareholder	Number of Shares held	Percentage %
Tribeca Oil & Gas Inc and affiliates ¹	17,638,233	38.21
Banque Privee Edmond de Rothschild	5,325,000	11.53
EFG Private Bank	2,835,769	6.14
Lyon Financial Corporation ²	2,535,872	5.49
Macquarie Bank Limited	1,494,817	3.24
Pershing Securities	1,432,170	3.10

¹ Includes 2,277,234 shares held by Tribeca Oil & Gas Financing Inc.

² Members of Juan Carlos Rodriguez's family have beneficial interests in both Lyon Financial Corporation and Rorick Ventures Group Ltd. which holds a further 1,249,000 shares representing a further 2.70%.

Share Capital

Movements in share capital during the period are disclosed in note 20 to the financial statements on pages 57 to 59.

Creditor payment policy

It is the Group's policy to settle all amounts due to creditors in accordance with terms and conditions agreed between the Group and its suppliers, provided that all trading terms and conditions have been complied with. As at 31 December 2009, the Group had 60 days (2008: 35 days) purchases outstanding in creditors.

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, applies 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 28 of the financial statements.

Employee involvement

The Group is committed to employees' involvement in the business. Staff are 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 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.

Signed by order of the directors

A handwritten signature in grey ink, appearing to be 'J. H. P.', with a horizontal line extending to the right.

Director

Approved by the directors on: 6 April 2010

Directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group for that period. The directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

Website publication

The directors are responsible for ensuring that the annual report and the financial statements are made available on a website. Financial statements are published on the company'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 company'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 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 plc, 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 programme 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 Nominations Committee as the Board considers that 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 Nominations 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 for Companies and takes proper steps to ensure compliance by the Directors and those employees.

Relations with Shareholders

The Board recognises that it is accountable to shareholders for the performance and activities of the Group. PELE 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.

PetroLatina Energy Plc
Directors' Remuneration Report (unaudited)
For the year ended 31 December 2009

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 2009.

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 consists 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

An 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.

PetroLatina Energy Plc
Directors' Remuneration Report (unaudited)
For the year ended 31 December 2009

Directors and directors' interests in ordinary shares, options 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 2009, as follows:

Director	Number held (as at 31 Dec 2009)			Number held (as at 31 Dec 2008)		
	Ordinary shares of US\$0.10 each ("Ordinary Shares")	Ordinary shares as % of issued share capital (1)	Warrants and Options exercisable into Ordinary Shares (2)	Ordinary shares of US\$0.50 each	Ordinary shares of US\$0.50 each as % of issued share capital	Warrants exercisable into Ordinary Shares of US\$0.50 each
Luc Gerard (3)	254,200	0.56	600,000	154,200	0.35	-
Ciro Mendez (4)	39,600	0.08	250,000	-	-	-
Juan Carlos Rodriguez (5)	3,784,872	8.31	1,160,000	3,784,872	8.62	160,000
Menno Wiebe	400,000	0.88	250,000	200,000	0.46	-
John May	-	-	70,000	-	-	20,000

Notes:

- (1) The Company's issued ordinary share capital consisted of 45,550,274 ordinary shares of US\$0.10 each with voting rights on 31 December 2009.
- (2) Options vest over a two year period from 16 October 2009, and once vested are immediately exercisable, in whole or in part, up to the fifth anniversary of the date of grant, at an exercise price of 44.5 pence per Ordinary Share.
- (3) Luc Gerard is a director of Tribeca, TOGI and TOGF. TOGI, a portfolio investment company of Tribecapital Partners S.A., a Colombian private equity firm, of which Mr Gerard is President, and its related companies held at 31 December 2009, in aggregate, 17,022,704 Ordinary Shares, representing approximately 37.37 per cent. of the Company's issued ordinary share capital and warrants over a further 1,875,260 Ordinary Shares which are automatically exercisable if, and to the extent that, any exercise of the Company's other existing outstanding 3,482,625 warrants occurs. In addition, TOGF currently holds an aggregate principal amount of US\$11.165 million of convertible 12 per cent. loan notes due 2011. 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 either (i) the initial conversion price of the first tranche notes of 20.9375 pence or (ii) the second tranche conversion price of 25 pence as appropriate.
- (4) Ciro Mendez is an investment manager of Tribeca. TOGI held as at 31 December 2009 17,022,704 Ordinary Shares, representing approximately 37.37 per cent. of the Company's issued ordinary share capital and warrants over a further 1,875,260 Ordinary Shares which are automatically exercisable if, and to the extent that, any exercise of the Company's other existing outstanding 3,482,625 warrants occurs. In addition, TOGF currently holds an aggregate principal amount of US\$11.165 million of convertible 12 per cent. loan notes due 2011. 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 either (i) the initial conversion price of the first tranche notes of 20.9375 pence or (ii) the second tranche conversion price of 25 pence as appropriate.
- (5) Includes (i) 2,535,872 Ordinary Shares held by Lyon Financial Corporation, and 1,249,000 Ordinary Shares held by Rorick Ventures Group Ltd, companies in which members of Juan Carlos Rodriguez's family have beneficial interests, and (ii) 160,000 warrants exercisable at the higher of £0.263 or US\$0.50 held by Athos Enterprises Limited, a company in which Juan Carlos Rodriguez has a beneficial interest.

All interests in shares shown above were acquired during the financial period or prior and other than disclosed in note 28 (Post Balance Sheet Events) there have been no movements since the year end.

PetroLatina Energy Plc
Directors' Remuneration Report (unaudited)
For the year ended 31 December 2009

Remuneration

The following table sets out an analysis of the pre-tax remuneration for the year ended 31 December 2009 for individual directors who held office in the Company during the period. All amounts are stated in US dollars, and are based on an average US\$1.70 to £1 (2008: US\$1.41 to £1) exchange rate.

Directors	Basic Salary 2009 (US\$)	Pension 2009 (US\$)	Share based payments 2009 (US\$)	Severance payments 2009 (US\$)	Total received 2009 (US\$)
Luc Gerard	102,114	-	135,615	-	237,729
Juan Carlos Rodriguez	280,967	42,150	226,024	-	549,141
Ciro Mendez	33,735	-	13,561	-	47,296
John May	60,012	-	11,301	-	71,313
Menno Wiebe	55,977	-	56,506	-	112,483
Total	532,805	42,150	443,007	-	1,017,962

Directors	Basic Salary 2008 (US\$)	Pension 2008 (US\$)	Share based payments 2008 (US\$)	Severance payments 2008 (US\$)	Total received 2008 (US\$)
Luc Gerard	44,881	-	-	-	44,881
Juan Carlos Rodriguez	329,501	56,526	-	-	386,027
Ciro Mendez	12,997	-	-	-	12,997
John May	67,667	-	2,849	-	70,516
Menno Wiebe	14,550	-	-	-	14,550
Gregory Smith	120,017	17,317	395,208	850,000	1,382,542
Mark Patterson	175,144	-	2,849	103,000	280,993
Total	764,757	73,843	400,906	953,000	2,192,506

Compensation for directors consists of:

	2009 US\$'000	2008 US\$'000
Share based payments	443	401
Wages and salaries	533	764
Redundancy and severance pay	-	953
Pensions	42	74
	1,018	2,192

The highest paid director in 2009 received emoluments of \$280,967. He also received share based payments of \$226,024, and pension contributions of \$42,150. The highest paid director in 2008 received emoluments of \$120,017. He also received share based payments of \$395,208, severance payments of \$850,000 and pension contributions of \$17,317.

Total pension costs paid on behalf of directors for the year was \$42,150 (2008: \$73,843).

Notes:

1. Pension payments are made to directors to pay into their own personal pension schemes.

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

We have audited the financial statements of PetroLatina Energy Plc for the year ended 31 December 2009 which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of cashflows, the consolidated statement of changes in equity and the related notes on pages 29 to 65. The financial reporting framework that has been applied in the preparation of the consolidated financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. We have separately reported on the company financial statements.

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

Respective responsibilities of directors and auditors

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion:

- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the directors' report for the financial year 31 December 2009 for which the financial statements are prepared is consistent with the financial statements.

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 and page 14 of the financial statements concerning the company's ability to continue as a going concern. Further funds will be required to finance the Group's committed work programme.

The Directors signed an agreement for a long term debt facility on 8 March 2010, which meets a significant proportion of the committed development programme. The Directors are in advanced negotiations with a number of potential investors over the injection of sufficient new capital to meet the funding shortfall. The Directors are confident of being able to raise the necessary equity finance. In the event that the Group is unable to raise the necessary equity the Group is confident that it would be able to negotiate the draw-down of the second tranche of the Macquarie facility (as described in more detail in note 1) to ensure that the Group will be able to fully fund its committed development programme. However there can be no guarantee that the required equity will be raised or in the event that the equity is not raised that the necessary additional debt facility will be made available within the necessary timeframe. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

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

Matters on which we are required to report by exception

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

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

BDO LLP

Scott Knight (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
London
United Kingdom
Date

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

PetroLatina Energy Plc
Consolidated statement of comprehensive income
For the year ended 31 December 2009

	Note	2009 US\$'000	2008 US\$'000
Revenue	4	13,812	7,762
Impairment of Oil & Gas assets		6,590	946
Other cost of sales		9,429	3,412
Cost of sales		16,019	4,358
Gross (loss)/profit		(2,207)	3,404
General and administrative costs		4,857	6,631
Loss from operations	5	(7,064)	(3,227)
Finance income	6	160	315
Finance expense	6	(5,930)	(1,086)
Loss before tax		(12,834)	(3,998)
Income tax credit	7	338	85
Total comprehensive income for the year		(12,496)	(3,913)
Loss for the period attributable to equity shareholders of the parent	8	(12,496)	(3,913)
Total comprehensive income for the year attributable to equity shareholders of the parent		(12,496)	(3,913)
Loss per share attributable to the equity holders of the parent during the year (basic and diluted)	8	0.28	0.12

The notes on pages 29 to 65 form part of these financial statements.

	Note	2009 US\$'000	2008 US\$'000
ASSETS			
Non-current assets			
Property, plant and equipment	9	64,566	33,029
Exploration and Evaluation Assets	10	14,376	13,336
		<u>78,942</u>	<u>46,365</u>
Current assets			
Inventories	12	149	36
Trade and other receivables	13	2,873	4,218
Cash and cash equivalents	23	3,232	2,529
Term Deposits	14	1,675	177
		<u>7,929</u>	<u>6,960</u>
Total Assets		<u>86,871</u>	<u>53,325</u>
LIABILITIES			
Non-current liabilities			
Provisions	19	2,225	1,205
Borrowings - Long term loans	16	3,302	-
Convertible loan - debt portion	16, 17	9,105	-
Deferred tax liability	18	5,960	6,348
		<u>20,592</u>	<u>7,553</u>
Current liabilities			
Trade and other payables	15	24,388	5,595
Taxation		50	257
Derivative liability	17	6,120	-
Borrowings - Short term loans	16	7,501	267
		<u>38,059</u>	<u>6,119</u>
Total Liabilities		<u>58,651</u>	<u>13,672</u>
Total Net assets		<u>28,220</u>	<u>39,653</u>
EQUITY			
Share capital	20	22,212	22,045
Share premium		76,800	76,374
Warrant and option reserve		2,400	1,930
Retained earnings		<u>(73,192)</u>	<u>(60,696)</u>
Total equity		<u>28,220</u>	<u>39,653</u>

The financial statements were approved by the Board of Directors and authorised for issue on 6 April 2010



Director

The notes on pages 29 to 65 form part of these financial statements.

PetroLatina Energy Plc
Consolidated statement of cashflows
For the year ended 31 December 2009

	Note	2009 US\$'000	2008 US\$'000
Cash flows from operating activities			
Loss for the year		(12,496)	(3,913)
Share-based payments		470	902
Depreciation of property, plant and equipment		5,720	1,294
Impairment of intangible asset		6,590	946
Finance income		(160)	(315)
Finance expense		5,930	1,086
Income tax credit		(338)	(85)
Cash flows from operating activities before changes in working capital and provisions		5,716	(85)
(Increase)/ decrease in inventories		(113)	16
Decrease/(increase) in trade and other receivables		1,395	(524)
Increase in trade and other payables		4,095	47
Cash generated from operations		11,093	(546)
Income taxes paid		(50)	(257)
Net cash from operating activities		11,043	(803)
Investing activities			
Finance income		160	315
Purchase of property, plant and equipment		(2,492)	(1,267)
Payments for oil & gas exploration and development		(27,310)	(10,684)
Deferred consideration paid		-	(7,000)
Investment fixed term deposits		(1,498)	(177)
Net cash flows from operating and investing activities		(20,097)	(19,616)

The notes on pages 29 to 65 form part of these financial statements.

PetroLatina Energy Plc
Consolidated statement of cashflows (continued)
For the year ended 31 December 2009

	Note	2009 US\$'000	2008 US\$'000
Financing activities			
Issue of ordinary share capital		-	25,000
Loan notes subscribed during the period		11,165	-
Short and long term loans subscribed during the period		12,090	-
Repayment of loans during the period		(1,287)	(6,121)
Interest paid		(1,168)	(276)
		<hr/>	<hr/>
Net cash flows from Financing activities		20,800	18,603
		<hr/>	<hr/>
Increase/(decrease) in cash and cash equivalents including restricted cash		703	(1,013)
Cash and cash equivalents at the start of the period		2,529	3,542
		<hr/>	<hr/>
Cash and cash equivalents at the end of the period	23	3,232	2,529
		<hr/> <hr/>	<hr/> <hr/>

The notes on pages 29 to 65 form part of these financial statements.

PetroLatina Energy Plc
Consolidated statement of changes in equity
For the year ended 31 December 2009

	Called up share capital	Share premium	Shares to be issued	Option and warrant reserve	Retained earnings	Total equity
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Opening balance	11,735	55,718	4,560	1,624	(56,783)	16,854
Total comprehensive income for the year	-	-	-	-	(3,913)	(3,913)
Issue of share capital	7,680	17,320	-	-	-	25,000
Issue of warrants	-	-	-	306	-	306
Deferred Share-based payment	1,523	1,477	(3,000)	-	-	-
	<u>1,107</u>	<u>1,859</u>	<u>(1,560)</u>	<u>-</u>	<u>-</u>	<u>1,406</u>
Balance as at 31 December 2008	22,045	76,374	-	1,930	(60,696)	39,653
Total comprehensive income for the year	-	-	-	-	(12,496)	(12,496)
Issue of share capital	167	426	-	-	-	593
Share-based payment	-	-	-	470	-	470
Balance as at 31 December 2009	22,212	76,800	-	2,400	(73,192)	28,220

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

Reserve	Descriptions and purpose
Share capital	Amount subscribed for share capital at nominal value.
Share premium	Amount subscribed for share capital in excess of nominal value.
Option and warrant reserve	Amounts resulting from the issue of warrants and options.
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.

The notes on pages 29 to 65 form part of these financial statements.

1 Accounting policies

Basis of Preparation

The financial statements of the Group for the twelve months ended 31 December 2009 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.

The IFRS financial information has been drawn up on the basis of accounting standards, interpretations and amendments effective at the beginning of the accounting period.

The IASB and IFRIC have issued the following standards and interpretations:

The following were amendments to published standards and interpretations to existing standards effective in the year adopted by the Group.

International Accounting Standards (IAS/IFRS)		Effective date (periods beginning on or after)
• IAS 1	Amendment - Presentation of financial statements: a revised presentation	1 Jan 2009
• IAS 23	Amendment - Borrowing costs	1 Jan 2009
• IFRS 2	Amendment - Share-based payment: vesting conditions and cancellations	1 Jan 2009
• IFRS 7	Amendment – Improving Disclosures about Financial Instruments	1 Jan 2009
•	Improvements to IFRSs (2009)	1 Jan 2009

New Standards effective in the year relevant to the Group:

• IFRS 8	Operating Segments	1 Jan 2009
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The adoption of IFRS 8 and the amendment to IAS 1 and IFRS 7 affected the presentation and disclosure of the financial statements. The amendment to IAS 23 and IFRS 2 did not have any financial effect in the year however the accounting policies of the group have been updated to reflect the required amendments.

Standards, interpretations and amendments to published standards effective in the year but which are not relevant to the Group:

International Accounting Standards (IAS/IFRS)		Effective date (periods beginning on or after)
• IFRS1 and IAS 27	Amendments - Cost of an Investment in a subsidiary, jointly controlled Entity or associate	1 Jan 2009
• IFRS 2	Amendment - Vesting conditions and cancellations	1 Jan 2009
• IFRIC 13	Customer loyalty programmes	1 Jul 2008
• IAS 39/IFRS7	Reclassification of financial instruments - Effective date and transition	1 Jul 2008
• IFRIC 16	Hedges of a Net Investment in a Foreign Operation	1 Oct 2008
• IAS 32 and 1	Amendments - Puttable financial instruments and obligations arising on Liquidation	1 Jan 2009
• IFRIC 15	Agreements for the Construction of Real Estate	1 Jan 2009
• IFRS 1	First-time adoption of international accounting standards	1 Jan 2009

1 Accounting policies (continued)

Standards, interpretations and amendments, which are effective for reporting periods beginning after the date of these financial statements:

International Accounting Standards (IAS/IFRS)	Effective date (periods beginning on or after)
• IFRIC9 and IAS 39	Amendments - Embedded derivatives 30 Jun 2009
• IAS 27	Amendment - Consolidated and separate financial statements 1 Jul 2009
• IAS 39	Amendment - Recognition and measurement: Eligible hedged items 1 Jul 2009
• IFRS 3	Revised - Business combinations 1 Jul 2009
• IFRIC 17	Distributions of non-cash assets to owners 1 Jul 2009
• IFRIC 18	Transfers of assets from customers 1 Jul 2009
• IFRS 1*	Additional exemptions for first-time adopters 1 Jan 2010
• IFRS 2*	Amendment - Group Cash-settled Share Based payment transactions 1 Jan 2010
• IAS32	Amendment - Classification of Rights Issues 1 Feb 2010
• IFRIC19*	Extinguishing Financial Liabilities with Equity Instruments 1 Apr 2010
•	Improvements to IFRSs (2009)* generally 1 Jan 2010
• IAS24*	Revised - Related party disclosures 1 Jan 2011
• IFRIC 14*	Amendment to IFRIC 14 - IAS 19 Limit on a defined benefit asset, Minimum funding requirements and their interaction 1 Jan 2011
• IFRS9*	Financial instruments 1 Jan 2013

Except for the adoption of IFRS 3 Revised, which would materially affect the presentation and financial impact of a business combination, the above standards, interpretations and amendments will not significantly affect the Group's results or financial position. The adoption of IFRS 9 will eventually replace IAS 39 in its entirety and consequently may have a material affect on the presentation, classification, measurement and disclosures of the Group's financial instruments.

Items marked * had not yet been endorsed by the European Union at the date that these financial statements were approved and authorised for issue by the Board.

Going Concern

The Group plans to continue an ongoing extensive drilling programme in the next twelve months, which should further transform some of its oil reserves into producing reserves. Following a review of the Group's financial position and its committed exploration programme within 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. The Directors signed an agreement for a long term debt facility on 8 March 2010, which meets a significant proportion of the committed development programme. The Directors are in advanced negotiations with a number of potential investors over the injection of sufficient new capital to meet the funding shortfall. The Directors are confident of being able to raise the necessary equity finance. In the event that the Group is unable to raise the necessary equity the Group is confident that it would be able to negotiate the draw-down of the second tranche of the Macquarie facility to ensure that the Group will be able to fully fund its committed development programme. However there can be no guarantee that the required equity will be raised or in the event that the equity is not raised that the necessary additional debt facility will be made available within the necessary timeframe or within 12 months from the date of these accounts.

These financial statements have been prepared on a going concern basis.

1 Accounting policies (continued)

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 recognised. Any excess of the cost of acquisition over the fair values of identifiable net assets is recognised 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

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker has been identified as the management team including the Chief Executive Officer and Finance Director.

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 the 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*.

1 Accounting policies (continued)

Impairment review

Impairment reviews of development and/or producing assets are carried out 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:

- *Fixtures, fitting and equipment (straight line, 3-5 years)*
- *Field plant and equipment (straight line, 3-5 years)*
- *Motor Vehicles (straight line, 3-5 years)*
- *Oil pipeline (straight line, 20 years)*
- *Proven Oil & Gas assets - unit of production basis over life of assets.*

1 Accounting policies (continued)

Maintenance expenditure

Expenditure on major maintenance, refits or repairs is capitalised 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; or
- 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:

1 Accounting policies (continued)

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.

Convertible loan - hybrid financial instruments: Where a convertible loan meets the definition of a compound financial instrument the component parts are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements. However, where, at inception, the conversion option is such that the option will not be settled by the Company exchanging a fixed number of its own equity instruments for a fixed amount of cash, the convertible loan does not meet the definition of a compound financial instrument. In such cases, the convertible loan (the host contract) is a hybrid financial instrument and the option to convert is an embedded derivative. Attached options (options entered into in consideration for entering into the host contract) on similar terms are also embedded derivatives.

The embedded derivatives are separated from the host contract as their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value. At each reporting date, the embedded derivatives are measured at fair value with changes in fair value recognised in the income statement as they arise. The host contract carrying value on initial recognition is based on the net proceeds of issuance of the convertible loan reduced by the fair value of the embedded derivatives and is subsequently carried at each reporting date at amortised cost. The embedded derivatives and host contract are presented under separate headings in the balance sheet.

The fair value of the embedded derivatives are calculated using Black-Scholes and Monte Carlo models depending on the characteristics of the loan notes.

1 Accounting policies (continued)

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. In addition, 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 recognised 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 third 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.

1 Accounting policies (continued)

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:

- Impairment 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).
- Convertible Bonds - The carrying value of the derivative financial instrument in the Balance Sheet is derived from a valuation model. Assumptions used in this model are subject to inherent uncertainties and may change significantly if the volatility in the Company's share price changes (see note 17).

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; and
- Financial liability and Derivative element of convertible loan note.

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

Financial Assets

	2009 US\$'000	2008 US\$'000
Up to 3 months	4,631	3,660
3-6 months	1,980	-
	<hr/>	<hr/>
	6,611	3,660
	<hr/> <hr/>	<hr/> <hr/>

2 Financial instruments – Risk Management (continued)

Financial liabilities

	2009	2008
	US\$'000	US\$'000
Up to 3 months	26,563	2,509
3 to 6 months	3,496	2,158
Over 6 months	18,911	1,250
	<hr/>	<hr/>
	48,970	5,917
	<hr/>	<hr/>

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 only client: "Ecopetrol S.A.". 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. Term deposits held for ANH contracts are excluded from this.

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 by at least two rating agencies of not less than A-1 by Standard & Poor's Rating Services, F1 by Fitch Ratings Ltd and P-1 by Moody's Investor Services Limited in respect of its short-term instruments and ratings of at least A by Fitch Ratings Ltd and A1 by Moody's Investor Services in respect of its long-term instruments.

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.

2 Financial instruments – Risk Management (continued)

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 crude oil.

In addition see note 14 for the terms of the Group's Colombian exploration activities, whereby cash is held in trust under the Group's licences.

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 receive rolling 12 month cashflow projections on a monthly basis as well as information regarding cash balances. As soon as funding shortfalls are identified, the Directors take action to identify and subsequently secure the necessary funds from existing or new investors or in the form of short and long term borrowings. Further information on liquidity is included in note 1 (Going Concern).

Capital management policies

The Group considers its capital to be its ordinary share capital, share premium, other reserves, retained earnings and external borrowings. 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 of oil and gas assets in Colombia. Specific capital management policies set forth include the following:

- Sufficient resources to maintain and develop licence commitments and to maximise discretionary spending on further developing its oil and gas assets;
- The reinvestment of all profits into new and existing assets that fit the corporate objectives;
- To identify the appropriate mix of debt, equity and partner sharing opportunities in order to maintain and comply with licence commitments and further develop its portfolio of oil and gas assets with a view of generating 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 the quality of opportunities.

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

Market risk

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

Crude oil price sensitivity analysis

A sensitivity analysis based on a 20% (2008: 50%) price volatility assumption is used internally by management to estimate the potential impact of variations in crude oil market prices. As at 31 December 2009, a 20% (2008: 50%) increase in the average sales price obtained during the year would have increased revenues by \$2,762,000 (2008: \$3,881,000) and would have decreased losses to \$9,734,000 (2008: \$829,000). On the other hand, a 20% (2008: 50%) decrease in the average sales price would have reduced revenues by \$2,762,000 (2008: \$3,881,000) and would have increased losses to \$15,258,000 (2008: \$10,815,000) and would have a corresponding effect on net assets.

2 Financial instruments – Risk Management (continued)**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 that 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.

At 31 December 2009, if interest rates on COP-denominated borrowings had been 100 basis points higher/lower with all other variables held constant, profit before tax for the year would have been \$109,000 (2008: \$6,000) higher/lower, mainly as a result of higher/lower interest expense on floating rate borrowings. At 31 December 2009, if interest rates on US Dollar denominated borrowings had been 100 basis points higher/lower, with all other variables held constant, profit before tax for the year would have been \$112,000 (2008: \$Nil) higher/lower, mainly as a result of higher/lower interest expense on floating rate borrowings. The Directors consider that 100 basis points is the maximum reasonably likely change in COP and US Dollar interest rates over the next year, being the period up to the next point at which the Group expects to make these disclosures.

Interest rates on financial assets and liabilities

The interest rate profile of the Group's financial assets and liabilities at 31 December 2009 was as follows:

ASSETS	Financial assets on which floating rate interest is earned US\$'000	Financial assets on which no interest is earned US\$'000	Total 2009 US\$'000
Currency			
Colombian Pesos	1,980	1,792	3,772
US Dollars	-	2,801	2,801
British Pounds	-	38	38
	<hr/>	<hr/>	<hr/>
Total	1,980	4,631	6,611
	<hr/>	<hr/>	<hr/>
LIABILITIES	Financial liabilities on which interest is paid US\$'000	Financial liabilities on which no interest is paid US\$'000	Total 2009 US\$'000
Currency			
Colombian Pesos	10,803	18,104	28,907
US Dollars	15,609	4,454	20,063
	<hr/>	<hr/>	<hr/>
Total	26,412	22,558	48,970
	<hr/>	<hr/>	<hr/>

2 Financial instruments - Risk Management (continued)

The profile at 31 December 2008 for comparison purposes was as follows:

ASSETS	Financial assets on which floating rate interest is earned US\$'000	Financial assets on which no interest is earned US\$'000	Total 2008 US\$'000
Currency			
Colombian Pesos	-	1,262	1,262
US Dollars	-	2,357	2,357
British Pounds	-	41	41
Total	-	3,660	3,660
	-----	-----	-----
	-----	-----	-----
LIABILITIES	Financial liabilities on which interest is paid US\$'000	Financial liabilities on which no interest is paid US\$'000	Total 2008 US\$'000
Currency			
US Dollars	-	3,759	3,759
Colombian Pesos	267	1,891	2,158
Total	267	5,650	5,917
	-----	-----	-----
	-----	-----	-----

Cash at bank at floating rates consisted of demand deposits subject to floating rates which earn interest at an average rate of 3.33% (2008: 6.42%).

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 15% (2008: 13.32%).

Interest rate sensitivity analysis

The Group reviewed the interest rate sensitivity on year-end cash and cash equivalents (including term deposit) balances and determined that a one percent 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.

2 Financial instruments - Risk Management (continued)

Foreign exchange risk (continued)

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:

	Colombian Peso	British Pound Sterling
Foreign currency units to US\$1.00		
At 31 December 2009	2,044	0.6278
	_____	_____
At 31 December 2008	2,244	0.6842
	_____	_____

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.

US dollar equivalent of exposed net monetary assets and liabilities	Colombian Peso US\$'000	British Pound Sterling US\$'000	Total US\$'000
At 31 December 2009	(25,135)	38	(25,097)
	_____	_____	_____
At 31 December 2008	(896)	41	(855)
	_____	_____	_____

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% favourable and adverse changes in market rates on exposed monetary assets and liabilities denominated in Colombian Pesos. At 31 December 2009, a 10% revaluation of the Peso against the Dollar would have resulted in a \$2,285,000 increase or decrease in the net assets of the Group (2008: no significant difference). Management meet frequently with the Board of Directors to provide consistent information and data flow to ensure that 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)

	2009 US\$'000	2008 US\$'000
Share based payments	470	401
Wages and salaries	2,057	2,365
Redundancy and severance pay	123	953
Social security costs	27	38
Pensions	58	91
	<hr/>	<hr/>
	2,735	3,848
	<hr/> <hr/>	<hr/> <hr/>

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.

The average number of employees of the Group during the period, including executive directors, was as follows:

	2009 Number	2008 Number
Administration	32	23
Technical	71	55
	<hr/>	<hr/>
	103	78
	<hr/> <hr/>	<hr/> <hr/>

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 for directors consists of:

	2009 US\$'000	2008 US\$'000
Share based payments	443	401
Wages and salaries	533	764
Redundancy and severance pay	-	953
Pensions	42	74
	<hr/>	<hr/>
	1,018	2,192
	<hr/> <hr/>	<hr/> <hr/>

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

The highest paid director in 2009 received emoluments of \$280,967. He also received share based payments of \$226,024, severance payments of \$Nil and pension contributions of \$42,150. The highest paid director in 2008 received emoluments of \$120,017. He also received share based payments of \$395,208, severance payments of \$850,000 and pension contributions of \$17,317.

Total pension costs paid on behalf of directors for the year was \$42,150 (2008: \$73,843).

No options or warrants were exercised by the Directors in the year (2008: Nil).

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 in three blocks: Tisquirama, La Paloma and Midas and the other segment is oil pipeline services. The ongoing Group operations are conducted in one geographic area being Colombia.

There were no significant differences between the policies applied in the segmental reporting and the Group financial statements.

2009	Exploration and production of oil and gas US\$000	Pipeline services US\$000	Corporate US\$000	Total US\$000
Revenue from External Customers	11,456	2,356	-	13,812
Finance Income	160	-	-	160
Finance cost	(5,930)	-	-	(5,930)
Depreciation, depletion and amortisation	(5,021)	(699)	-	(5,720)
Impairment charge	(6,590)	-	-	(6,590)
Segment (Loss) before taxation	(11,082)	(199)	(1,083)	(12,364)
Share based payments	(27)	-	(443)	(470)
Taxation	173	165	-	338
Loss after income tax expense	<u>(10,936)</u>	<u>(34)</u>	<u>(1,526)</u>	<u>(12,496)</u>
Additions to non-current assets	44,580	307	-	44,887
Reportable Segment assets	75,493	11,292	86	86,871
Reportable Segment liabilities	58,421	230	-	58,651

4 Segment reporting (continued)

The profile at 31 December 2008 for comparison purposes was as follows:

2008	Exploration and production of oil and gas US\$'000	Pipeline services US\$'000	Corporate US\$'000	Total US\$'000
Revenue from External Customers	6,042	1,720	-	7,762
Finance Income	315	-	-	315
Finance cost	(1,086)	-	-	(1,086)
Depreciation, depletion and amortisation	(424)	(650)	-	(1,074)
Impairment charge	(946)	-	-	(946)
Segment Profit/(Loss) before taxation	144	(411)	(2,829)	(3,096)
Share based payments	-	-	(902)	(902)
Taxation	(80)	165	-	85
Profit/(Loss) after income tax expense	64	(246)	(3,731)	(3,913)
Additions to non-current assets	11,698	172	-	11,870
Reportable Segment assets	39,951	11,684	1,661	53,325
Reportable Segment liabilities	5,742	7,930	-	13,672

Reconciliation of reportable segment revenues, profit or loss, assets and liabilities to the Group's corresponding amounts:

	External revenue by location of customers		Non-current assets by location of assets	
	2009 US\$'000	2008 US\$'000	2009 US\$'000	2008 US\$'000
Colombia	13,812	7,762	78,942	46,365

5 Operating Loss

Losses from operations are stated after charging:	2009 US\$'000	2008 US\$'000
Depreciation, depletion and amortisation		
Oil and gas assets	5,588	1,210
Other fixed assets	132	84
Impairment charge (see note 10)	6,590	946
Operating lease rentals		
- land and buildings	250	173
Share based payments expense:		
-Salaries	470	401
-Other	-	501
Foreign exchange loss/(gain)	124	(169)
Fees payable to the auditor for the audit of the Company's annual financial statements	90	66
The audit of the Company's subsidiaries, pursuant to legislation	30	30

6 Finance income and expenses

	2009 US\$'000	2008 US\$'000
<i>Finance income</i>		
Interest received on bank deposits	160	315
Total interest income calculated using effective interest method	160	315
<i>Finance expense</i>		
Interest expense on financial liabilities measured at amortised cost	3,260	276
Total interest expense calculated using effective interest method	3,260	276
Loss on derivative element of convertible loan note	2,670	-
Share Based Payment	-	810
	5,930	1,086
Net finance expense recognised in the income statement	5,770	771

7 Income tax credit

	2009 US\$'000	2008 US\$'000
Current tax	50	143
Deferred tax	(388)	(228)
	<hr/>	<hr/>
	(338)	(85)
	<hr/>	<hr/>

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

	2009 US\$'000	2008 US\$'000
Reconciliation of the total tax credit		
Loss for the period	(12,834)	(3,998)
Expected tax credit based on the standard rate of corporation tax in UK of 28% (2008: 28%)	(3,594)	(1,119)
Effect of:		
Expenses not deductible for tax purposes	1,977	495
Losses carried forward for utilisation in future periods	352	652
Overseas tax differential (effective rate)	(1,315)	115
Movement in temporary differences	(388)	(228)
	<hr/>	<hr/>
Total tax credit for the period	(338)	(85)
	<hr/>	<hr/>

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.

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 \$9,349,827 (2008: \$8,188,122). This gives rise to an unrecognised deferred tax asset at the balance sheet date of \$2,617,952 (2008: \$2,292,674).

8 Loss per share

Basic loss per share amounts are calculated by dividing loss for the period attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year. The weighted average number of equity shares in issue for the period is 44,589,672 (2008: 32,995,191 (adjusted for 1 for 5 share consolidation)).

Losses for the Group attributable to the equity holders of the Company for the year are \$12,496,000 (2008: \$3,913,000). The effect of the options and warrants in issue is anti-dilutive, therefore a diluted loss per share is not presented.

The Group would still report a diluted loss per share after adjustment for the effect of the convertible loan note, hence no reconciliation is provided.

9 Property, plant and equipment

	Fixtures, fittings and equipment US\$'000	Field, plant and machinery US\$'000	Pipelines US\$'000	Proven oil and gas assets US\$'000	Total US\$'000
Cost					
At 1 January 2008					
Additions	154	2,167	13,189	23,206	38,716
Transfers	86	917	172	741	1,916
	(23)	(943)	-	966	-
At 31 December 2008	217	2,141	13,361	24,913	40,632
Additions	102	1,944	525	18,467	21,038
Transfers	(11)	(170)	(218)	16,618	16,219
At 31 December 2009	308	3,915	13,668	59,998	77,889
Depreciation and impairment					
At 1 January 2008					
Charge for period	30	761	1,013	4,505	6,309
Transfers	35	49	664	546	1,294
	(20)	(612)	-	632	-
At 31 December 2008	45	198	1,677	5,683	7,603
Charge for period	43	89	699	4,889	5,720
At 31 December 2009	88	287	2,376	10,572	13,323
Net book value At 31 December 2009	220	3,628	11,292	49,426	64,566
At 31 December 2008	172	1,943	11,684	19,230	33,029

9 Property, plant and equipment (continued)

The directors considered the carrying value of the Oil & Gas assets, and concluded based on the carrying value versus the value in use, that there has been no indication of impairment.

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 utilises 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

	2009 US\$'000	2008 US\$'000
Cost and Net book value		
At 1 January	13,336	4,328
Additions	23,849	9,954
Transfer to oil and gas assets (see note 9)	(16,219)	-
Impairment	(6,590)	(946)
	<hr/>	<hr/>
<i>Cost and Net book value at 31 December</i>	14,376	13,336
	<hr/> <hr/>	<hr/> <hr/>

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

In accordance with the 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.

As at 31 December 2009, the Group's unevaluated Oil & Gas assets split into deferred exploration costs on the Putumayo and Tisquirama licences totalled \$2.1 million. In addition, there were costs totalling \$12.3 million relating to the Midas licence. In performing an assessment of the carrying value of the unevaluated Oil & Gas properties at the reporting date, the directors concluded that no impairment existed for the Group's unevaluated Oil & Gas assets at 31 December 2009.

10 Intangible exploration and evaluation assets (continued)

The directors have reviewed the impairments required on each of the intangible asset licence areas and the details of those considerations are below.

Midas - Zoe-1

The carrying value for the Zoe-1 well on the Midas structure at 31 December 2009 was \$6.59 million. Testing commenced post year end. The results of the reservoir testing undertaken gave evidence of the success of the drilling at 31 December 2009. The results of testing evidenced that the deeper zones of Zoe-1 were proven to be non-commercial, therefore the Directors have recorded an impairment charge of \$6.59 million in the current financial year. The impairment charge represents the difference between the expected value in use and the carrying value of the Zoe-1 well.

Midas - Chuiria-1

The carrying value of the Chuiria-1 well at 31 December 2009 was \$9.4 million. As at the year end the well was on long term test with the ANH during which time the directors plan to assess whether to pursue either a long or short sidetrack option during 2010. As at 31 December 2009, there has been no evidence of impairment and the Directors will reassess this once the results of the side track option are known.

Gaita

The impairment charge of \$946,000 in 2008 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 to the north of the 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 27 for details of capital commitments.

PetroLatina Energy Plc

Notes forming part of the financial statements for the year ended 31 December 2009

11 Investments in subsidiaries

As at 31 December 2009, the Group comprised the Company and the following directly and indirectly held subsidiaries:

	Proportion of ownership interest at:		Country of incorporation	Shareholder	Principal activity
	2009	2008			
PetroLatina (CA) Limited	100%	100%	United Kingdom	PELE	Intermediate Holding Company ("IHC")
Taghmen Argentina Limited	100%	100%	United Kingdom	PELE	Dormant
Taghmen Colombia S.L.	100%	100%	Spain	PetroLatina (CA) Limited	IHC
Petróleos Del Norte SA (see * and note 25)	100%	100%	Colombia	Taghmen Colombia S.L.	Operating Company
Transporte Del Norte SA	7%	7%	Colombia	Petróleos Del Norte SA	Operating Company
Rend Lake Corporation	84.21%	84.21%	Panama	PetroLatina (CA) Limited	IHC
Rend Lake Sucursal Colombia	100%	100%	Colombian Branch of Rend Lake Corporation	Rend Lake Corporation	99.28% Shareholder in the PetroCaribe Temporary Union, owner of the La Paloma block
Petrolatina Energy Sucursal Colombia	100%	100%	Colombian Branch of PELE	PELE	85% Shareholder in the Midas Temporary Union, owner of the Midas block

* The Group's results incorporate 100% of the activities of PDN. However, in June 2006, the Group acquired a controlling interest of 77.76% of the issued and outstanding share capital of PDN. The remaining 22.24% of the issued and outstanding shares of PDN were held in a trust in Colombia and their release from such trust was 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% 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%. Subsequent to the year end, PELE has since diluted this 22.24% interest down to 7.58% by way of a capital injection through conversion of inter-company indebtedness in PDN's capital. Should the litigation not go in the Group's favour then the Group's ownership would remain at 92.42%.

12 Inventories

	2009 US\$'000	2008 US\$'000
Crude oil inventory	149	36

13 Trade and other receivables

	2009	2008
	US\$'000	US\$'000
Trade and other receivables	2,034	839
Other receivables	623	115
Prepayments	56	109
Advance Payments to contractors	160	3,155
	<hr/>	<hr/>
	2,873	4,218
	<hr/>	<hr/>

As at 31 December 2009 there were no receivables considered past due (2008: \$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 including cash and term deposits below.

As at 31 December 2009 advance payments to contractors comprised \$160,000 (2008: \$3,155,000). Prepayments in 2008 were for Rig Mobilisation costs due to Latinamerican Drilling Company (Latco), a company owned by Tribeca which controls TOGI, a shareholder of the Company.

Transporte del Norte S.A. ("TDN"), a company controlled by Juan Carlos Rodriguez, a director and substantial shareholder in PELE, provides transportation services to the Company. During the year \$2,122,807 (2008: \$292,343) was incurred for services provided by TDN. At the year end, a total of \$1,162,943 (2008: \$11,541) was due and outstanding to TDN.

Within other receivables is an amount of \$623,000 (2008: \$115,000) relating to withholding taxes for the sales of crude which will be recoverable once the income tax return is submitted.

14 Term Deposits

	2009	2008
	US\$'000	US\$'000
Dollar denominated investments	1,675	177
	<hr/>	<hr/>

The Group has established US Dollar denominated Certificates of Deposit with restricted access and varying maturity dates as guarantees for Letters of Credit required for performance assurance on oil and gas field contracts. At 31 December 2009, the Group maintained a Certificate of Deposit totalling \$1.51 million (2008: \$Nil) and cash held in trust accounts totalling \$110,000 (2008: \$177,000) supporting oil and gas fields. The term deposits are carried at amortised cost, the carrying amounts of the financial assets are deemed to approximate to their fair value.

The Group has established a fund for decommissioning with a local Colombian bank in order to guarantee that sufficient funds have been set aside to cover the necessary costs for abandonment of the Group's properties. Cash held in the fund accounts total \$165,000 (2008: \$Nil).

The maturities of the Group's term deposits are as follows:

	2009	2008
	US\$'000	US\$'000
Over 6 months	1,675	177
	<hr/>	<hr/>

14 Term Deposits (continued)

Restricted cash

The Group has granted as a warranty to the National Hydrocarbon Agency (ANH) a fixed term deposit for US\$1.5m (2008: Nil) in order to accomplish the commitments for the first phase of the Putumayo - 4 block. This money is held in agreement with ANH with Banco de Occidente, a financial institution with a credit rating of not less than BAA3 IBB by Moody's and Fitch respectively.

15 Trade and other payables

	2009	2008
	US\$'000	US\$'000
Trade payables	17,728	1,793
Taxes and social security costs	1,446	202
Accruals	4,839	3,502
Other payables	375	98
	<u>24,388</u>	<u>5,595</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 US\$1.25m (2008: US\$1.25m) as a finder's fee due to a third party who originally identified the potential acquisition of PDN.

Included within other payables is an amount to Petrocore for US\$52,000 (2008: Nil) a third party partner in La Paloma and the Midas block.

16 Loans and Borrowings

The book value and fair value of loans and borrowings are as follows:

	Book & Fair Value 2009 US\$'000	Book & Fair Value 2008 US\$'000
Non-Current		
Unsecured Tranche 1 and 2, TOGI Convertible Loan Note	9,105	-
Banco Occidente	3,302	-
Total non-current	<u>12,407</u>	<u>-</u>
Current		
Interbolsa	7,501	-
Banco Occidente	-	267
Total loans and borrowings	<u>19,908</u>	<u>267</u>

16 Loans and Borrowings (continued)

Principal terms and the debt repayment schedule of the Group's loans and borrowings are as follows as at 31 December 2009 and 2008.

	Currency	Nominal Rate	Year to Maturity
Unsecured Tranche 2, TOGI Convertible Loan Note	USD	12%	2011
Banco de Credito - overdraft	COP	2% per month	On demand
Unsecured Tranche 1, TOGI Convertible Loan Note	USD	12%	2011
Banco Occidente	COP	18.5%	2014
Interbolsa	COP	17%	2010

17 Convertible loans

Tranche 1 - 21 January 2009

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 had the option to subscribe for up to a further US\$5 million in aggregate of the Notes.

The first and second tranches of the Notes subscribed for by TOGF, if not repaid or converted earlier, mature 2 years from the date of their issue. 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 or the Company'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 First Tranche Notes by the initial conversion price per Ordinary Share of 20.9375 pence (the "Initial Conversion Price").

The Company had 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").

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 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.

17 Convertible loans (continued)

Tranche 2 – 21 July 2009

On 17 June 2009, the Company's option to request up to a further US\$5 million note subscription by 21 July 2009 under the existing note facility, lapsed by mutual agreement with TOGF and was replaced with an increased 2 year note subscription by TOGF of US\$6.29 million.

In consideration for the increased funding amount, the terms of the second tranche of the convertible loan notes were varied to allow for conversion, in whole or in part, into new ordinary shares at a fixed conversion price of 25 pence per share on any of the interest payment dates from December 2009 onwards.

At the time of issuance, the Initial Conversion Price referred to above and the revised conversion price for the Second Tranche was less than the then prevailing nominal value of an Ordinary Share of US\$0.50. Since English company law prevented the Company from issuing new shares at a price below the prevailing nominal value of its Ordinary Shares, the Company undertook to implement a capital reorganisation prior to the first interest payment date in order to ensure that the nominal value of each Ordinary Share was reduced to an amount sufficiently below the Initial Conversion Price.

As part of the issuance of the loan notes, the Company agreed to pay TOGF an arrangement fee of US\$300,000 in consideration for the subscription of the Notes and granted TOGF a warrant for a corresponding amount. Further information on the warrant, which was subsequently exercised, is included in note 20.

On 31 July 2009, the Company issued and allotted (credited as fully paid) a further 435,376 new ordinary shares of US\$0.10 par value each (the "Interest Shares") to TOGF in satisfaction of the first six monthly interest instalment to 21 July 2009 due in respect of the initial tranche of US\$4.875 million convertible loan notes subscribed by TOGF on 21 January 2009. See note 20 below.

As the conversion option is denominated in foreign currency terms such that the option will not be settled by the Company exchanging a fixed number of its own equity instruments for a fixed amount of cash, the Note does not meet the definition of a compound financial instrument. Instead the note (the host contract) is a hybrid financial instrument and the option to convert is an embedded derivative. The host contract carrying value on initial recognition is based on the net proceeds of issuance of the note reduced by the fair value of the embedded derivatives and is subsequently carried at each reporting date at amortised cost.

The embedded derivatives are separated from the host contract as their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value. At each reporting date the embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss as they arise. The embedded derivatives and host contract are presented under separate headings in the statement of financial position.

17 Convertible loans (continued)

These principles have been reflected as follows:

	Tranche 1 21 Jan 2009 \$'000	Tranche 2 17 June 2009 \$'000	Total 2009 \$'000
Proceeds from issue of convertible loan	4,875	6,290	11,165
Loan transaction costs	(131)	(169)	(300)
Net Proceeds from convertible loan	4,744	6,121	10,865
On initial recognition the proceeds have been apportioned:			
Convertible loan debt portion - amortised cost	4,016	3,399	7,415
Derivative financial instruments - fair value	728	2,722	3,450
	4,744	6,121	10,865
Convertible loan debt portion at inception	4,016	3,399	7,415
Interest charged	956	1,026	1,982
Interest paid	(292)	-	(292)
Convertible loan - amortised cost at 31 December 2009	4,680	4,425	9,105
Derivative financial instruments - at inception	728	2,722	3,450
Fair value movement - loss	2,180	490	2,670
Derivative financial instruments - at 31 December	2,908	3,212	6,120

The fair value of the derivative financial instrument was calculated using a Black-Scholes model for the conversion option.

The inputs used were as follows:

	Tranche 1	Tranche 2
Option Term	2 years	2 years
Exercise Price (GBP pence)	20.94	25
Share Price (GBP pence) ¹	12.18	25.08
Risk-free rate	1.35%	1.67%
Expected volatility	74.6%	78.1%
Exchange rate GBP/\$	0.7093	0.6134

¹ Net of an assumed 30% blockage discount.

The fair value of the derivative financial instruments disclosed in the financial statements was determined using a valuation technique based on assumptions that are not supported by prices from observable current market transactions in the same instrument.

There is no comparative shown as the instrument was issued in the year.

The valuation of the derivative element of the convertible loan note is based on inputs other than quoted prices that are indirectly observable for the liability.

Management have assessed the significance of a particular input to the fair value measurement in its entirety and assessed the key input to be volatility. If volatility had been 10% higher or lower the loss after tax would have been impacted approximately 10% higher or lower.

18 Deferred tax

Deferred tax is calculated in full on the fair value uplift on business combinations completed in 2006 at the prevailing tax rate that relates to the acquired businesses' assets of 33% (2008: 33%) (the Colombian tax rate).

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

	2009	2008
	US\$'000	US\$'000
At 1 January	6,348	6,576
Income statement credit	(388)	(228)
	<hr/>	<hr/>
At 31 December	5,960	6,348
	<hr/> <hr/>	<hr/> <hr/>

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.

19 Provisions

	Plug and Abandonment provision US\$'000
At 1 January 2008	556
Provided during the period	649
At 31 December 2008 and at 1 January 2009	1,205
	<hr/>
Provided during the period	1,020
	<hr/>
Balance at 31 December 2009	2,225
	<hr/> <hr/>

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.

20 Share capital

	2009 Ordinary Number '000	2009 Deferred Number '000	2009 Deferred B Number '000	2008 Ordinary Number '000	2008 Deferred Number '000	2008 Deferred B Number '000
<i>Authorised</i>						
Ordinary shares of \$0.50 each	-	-	-	80,000	-	-
Ordinary shares of US\$0.10 each	224,446	-	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Deferred Shares of £0.0011 (\$0.0021) each	-	50,000	-	-	50,000	-
Deferred B Shares of US\$0.10 each	-	-	175,554	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
<i>Aggregate nominal value</i>						
Ordinary shares of \$0.50 each	-	-	-	40,000	-	-
Ordinary shares of \$0.10 each	22,444	-	-	-	-	-
Deferred Shares of £0.0011 (\$0.0021) each	-	105	-	-	105	-
Deferred B Shares of US\$0.10 each	-	-	17,556	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

20 Share capital (continued)

	2009 Ordinary Number '000	2009 Deferred Number '000	2009 Deferred B Number '000	2008 Ordinary Number '000	2008 Deferred Number '000	2008 Deferred B Number '000
<i>Issued - allotted, called and fully paid</i>						
Ordinary shares of \$0.10 each	45,550	-	-	-	-	-
Ordinary shares of \$0.50 each	-	-	-	43,888	-	-
Deferred B Shares of US\$0.10 each	-	-	175,554	-	-	-
Deferred Shares of £0.0011 (\$0.0021) each	-	47,773	-	-	47,773	-
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
<i>Aggregate nominal value</i>						
Ordinary Shares of US\$0.10 each	4,555	-	-	-	-	-
Ordinary shares of \$0.50 each	-	-	-	21,944	-	-
Deferred B Shares of US\$0.10 each	-	-	17,556	-	-	-
Deferred Shares of £0.0011 (\$0.0021) each	-	101	-	-	101	-
<i>The issued share capital is reconciled as follows (adjusted for one to five sub-division)</i>						
	Number '000	Number '000	Number '000	Number '000	Number '000	Number '000
Balance at beginning of year	43,888	47,773	-	23,267	47,773	-
Shares issued/converted	1,662	-	175,554	20,621	-	-
Balance at end of year	45,550	47,773	175,554	43,888	47,773	-

On 23 June 2009, the Company implemented a reorganisation of the Company's share capital, pursuant to which every Ordinary Share of US\$0.50 in issue was converted into 1 (one) New Ordinary Share of US\$0.10 and 4 (four) New Deferred B Shares of US\$0.10 each.

20 Share capital (continued)

Details of the significant movements in share capital are set out below:

Description	Issue Price US\$	Number of Ordinary shares
Year ended 31 December 2009		
Exercise of TOGF Warrant	0.24	1,226,329
Interest on Loan Note	0.67	435,376
		<hr/>
Total year ended 31 December 2009		1,661,705
		<hr/> <hr/>
Year ended 31 December 2008		
Conversion of TOGI loan notes into shares	1.69	5,890,080
TOGI 2 nd close \$15m	1.58	9,470,919
Issued ordinary shares to Macquarie	1.95	800,000
Shares allotted to vendors of PDN	1.00	3,045,299
Greg Smith settlement	1.04	380,770
Finder's fees for Dignam Holdings Corporation	1.70	294,504
Interest due to PDN Vendors on loan settled in shares	0.70	739,573
		<hr/>
Total year ended 31 December 2008		20,621,145
		<hr/> <hr/>

The Ordinary Shares of US\$0.10 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 31 July 2009, the Company issued and allotted (credited as fully paid) 1,226,329 new ordinary shares of US\$0.10 par value each (the "Warrant Shares") to TOGF following the exercise of warrants held by it. The exercise price of US\$300,000 payable by TOGF to the Company in respect of the warrant exercise was set off in full against the arrangement fee owed by the Company to TOGF pursuant to the convertible loan note issue on 21 January 2009.

On 31 July 2009, the Company issued and allotted (credited as fully paid) a further 435,376 new ordinary shares of US\$0.10 par value each (the "Interest Shares") to TOGF in satisfaction of the first six monthly interest instalment to 21 July 2009 due in respect of the initial tranche of US\$4.875 million convertible loan notes subscribed by TOGF on 21 January 2009.

The New Deferred B Shares are fully paid deferred ordinary shares of US\$0.10 each. They have no practical economic value as they are not listed or traded on AIM, are non-voting, and carry 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.

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 practical economic value as they are not listed or traded on AIM, are non-voting, and carry 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.

21 Share based payments*Share options*

At 31 December 2009 the Group had options over 2,270,000 ordinary shares of US\$0.10 each outstanding. The options had been awarded during the year to certain directors and employees under the terms of an existing unapproved share option plan. The options vest over a two year period from the date of grant and once vested are immediately exercisable, in whole or in part, up to the fifth anniversary of the date of grant, at an exercise price of 44.5 pence per share.

21 Share based payments (continued)

Warrants (continued)

Each warrant entitles the holder to purchase one Ordinary Share at a price of between \$0.50 to \$5.05 (adjusted post sub-division) 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 as consideration for services or assets acquired.

- (a) 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.
- (b) On 7 February 2007 the Company extended an existing employment agreement with Gregory Smith, a then director of the Company. In consideration for reducing the amount of basic salary payable to Gregory Smith by the Company he 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 these warrants had been exercised at the year end and, therefore they all remain outstanding.
- (c) 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 respective beneficial interests. The loan carried an interest rate of 12.5% per annum. In addition, 2,900,000 warrants with an exercise price of £0.0525 (US\$0.10) were issued on 1 April 2008 exercisable within 3 years of their date of issue. 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.
- (d) During 2008, the Group renegotiated the terms of some of the warrants granted between July - November 2004 of US\$0.90. A total of 3,113,124 warrants were renegotiated and reissued under new terms, the warrants had no vesting conditions and had a new exercise price of between £0.0525 (US\$0.10) and US\$1.00, with extension of the exercise period to 30 April 2011. Following consolidation of the Company's share capital, 3,113,124 warrants would on exercise be consolidated to 622,625 warrants with an exercise price of between £0.2625 (US\$0.50) and US\$5.00. These remain outstanding.
- (e) 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.
- (f) On 11 July 2008, as set out above, the Company completed the second tranche of a 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 then outstanding 3,482,625 warrants occur. These have not been included in the above table due to their contingent nature. These remain outstanding.

21 Share based payments (continued)**Warrants (continued)**

- (g) On 21 January 2009, 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 was agreed to be set off against the arrangement fee owing by the Company to TOGF pursuant to the Notes. See note 17. On 31 July 2009, the Company issued and allotted (credited as fully paid) 1,226,329 new ordinary shares of US\$0.10 par value each (the "Warrant Shares") to TOGF following the exercise of warrants held by it. The exercise price of US\$300,000 payable by TOGF to the Company in respect of the warrant exercise was set off in full against the arrangement fee owed by the Company to TOGF pursuant to the convertible loan note issue on 21 January 2009.
- (h) On 16 October 2009, the Company granted options over 2,270,000 ordinary shares of US\$0.10 each in the share capital of the Company (the "Shares") to certain directors and employees under the terms of an existing unapproved share option plan. The options vest over a two year period from the date of grant and once vested are immediately exercisable, in whole or in part, up to the fifth anniversary of the date of grant, at an exercise price of 44.5 pence per Share. These remain outstanding.

*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>Grant date</i>	15 Feb 06	15 Jun 06	7 Feb 06	14 Mar 08	1 Apr 08	16 Oct 09
Share price at date of grant	\$1.07	\$0.59	\$0.48	\$0.17	\$0.18	\$1.03
Exercise price*	\$0.9625	\$1.01	\$0.42	\$0.26	\$0.10	\$0.72
Volatility	40%	40%	40%	40%	40%	65%
Option life	3 years	4 years	3 years	3 years	3 years	5 years
Dividend yield	0%	0%	0%	0%	0%	0%
Risk-free investment rate	4.22%	4.71%	5.37%	5%	5%	3%
Employee turnover	0	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>Grant date</i>	15 Feb 06	15 Jun 06	7 Feb 06	14 Mar 08	1 Apr 08	16 Oct 09
Fair Value	\$0.38	\$0.12	\$0.19	\$0.10	\$0.03	\$0.50

Expense arising from warrants issued

Based on the fair values shown above, the expense arising from options and warrants in the year is estimated to be \$770,000 (2008: \$306,000) 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.

22 Warrants

The warrants, as described in the warrant table in note 21, were in issue to new or existing shareholders of the Company.

23 Cash and Cash equivalents

	2009 US\$'000	2008 US\$'000
Cash	2,826	2,529
Restricted Cash	406	-
	<hr/>	<hr/>
Total	3,232	2,529
	<hr/> <hr/>	<hr/> <hr/>

24 Commitments under operating leases

As at 31 December 2009, the Group had total commitments under non-cancellable operating leases as set out below:

	Land and Buildings	
	2009 US\$'000	2008 US\$'000
Operating leases which expire:		
Less than one year	166	173
Within two to five years	-	143
	<hr/>	<hr/>
	166	316
	<hr/> <hr/>	<hr/> <hr/>

25 Contingent liabilities and litigation**PDN**

On 16 June 2006, the Group acquired a controlling interest of 77.76% of the issued and outstanding share capital of PDN. The remaining 22.24% 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% 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%. PELE has since diluted this 22.24% interest down to 7.58% by way of a capital injection through conversion of inter-company indebtedness in PDN's capital. Should the litigation not go in the Group's favour then the Group's ownership would remain at 92.42%

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.

25 Contingent liabilities and litigation (continued)

PDN (continued)

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 losses in excess of \$7million. Current status: Administrative Court ordered the independent valuation of damaged equipment.

26 Related party transactions

Details of key management personnel's remuneration are given in note 3.

Latinamerican Drilling Company (Latco), a company controlled by Tribeca, and in which Juan Carlos Rodriguez has a material interest, has entered into an agreement to provide rig services to the Company. During the year \$12,665,724 (2008: \$5,288,105) was incurred for services provided by Latco. At the year end, a total of \$6,034,776 (2008: \$1,430,101) was due and outstanding to Latco, and a total of \$Nil (2008: \$3,155,000) was held as a prepayment relating to Latco.

Transporte del Norte S.A. ("TDN"), a company controlled by Juan Carlos Rodriguez, a director and substantial shareholder in PELE, provides transportation services to the Company. During the year \$2,122,807 (2008: \$292,343) was incurred for services provided by TDN. At the year end, a total of \$1,162,943 (2008: \$11,541) was due and outstanding to TDN.

27 Capital commitments

The Group has a commitment to drill five wells and shoot and process seismic in two blocks within 2010. One well and seismic is in partnership with the National Hydrocarbon Agency (ANH) and the other four wells are with Ecopetrol as agreed in the Tisquirama licence extension. The total cost for these commitments is approximately \$20 million (2008: \$800,000).

28 Post balance sheet events

On 27 January 2010, the Company issued and allotted (credited as fully paid) (i) 350,911 new ordinary shares of US\$0.10 par value each ("Ordinary Shares") to TOGF in satisfaction of the first six monthly interest instalment to 17 December 2009 due in respect of the second tranche of US\$6.29 million convertible loan notes subscribed by TOGF on 17 June 2009, and (ii) a further 264,618 new Ordinary Shares to TOGF in satisfaction of the second six monthly interest instalment to 21 January 2010 due in respect of the first tranche of US\$4.875 million convertible loan notes subscribed by TOGF on 21 January 2009 (together the "Interest Shares"). The Interest Shares rank *pari passu* in all respects with the Company's existing Ordinary Shares.

28 Post balance sheet events (continued)

The Company and TOGF agreed on 27 January 2010 that all of the principal amount of the convertible loan notes held by TOGF can, at the Company's option, be mandatorily converted into new Ordinary Shares on the scheduled redemption dates for the first and second tranche loan notes in 2011. In addition, TOGF agreed to waive certain restrictions in the loan note instrument on the Company's ability to raise debt financing.

On 8 February 2010, 800,000 warrants lapsed. In addition, and as a result of these warrants lapsing, an additional 430,769 warrants held by TOGI lapsed.

On 26 February 2010, the Company entered into a secured \$5,000,000 promissory note short term facility with Macquarie Bank Limited. The facility carried an interest rate of 18% per annum and was secured over the assets and undertakings of the Group.

On 8 March 2010, the Company entered into a four year Senior First Lien Secured Credit Facility (the "Senior Facility") of up to, in aggregate, \$75 million with Macquarie Bank Limited ("MBL") to finance part of the Company's planned ongoing drilling programme. The Senior Facility consists of:

- Tranche A: a \$25m facility to part fund existing exploration and development operations. Under the terms of the agreement, MBL has been allotted 8 million warrants exercisable at a price of 75.7p per share at any time over the 5 year period from drawdown of Tranche A.
- Tranche B/C: to consist in aggregate of \$50m, to fund pre agreed development work, potential future acquisitions and for general working capital purposes. The tranches can be drawn down, at MBL's sole discretion, at any time during the next three years. Under Tranche B (used for new projects) MBL would be allotted up to 12 million new warrants exercisable at a 20% premium to the previous 20 day VWAP. If any funds are drawn down under Tranche C (to fund existing projects) in addition to the 12 million warrants detailed above, MBL will be eligible for additional warrants.
- An interest rate payable ranging between 3 month US LIBOR + 7.5% and 3 month US LIBOR + 9% dependent upon the NPV of the Company's proved oil and gas reserves.
- The debt facility has a four year term expiring on 7 March 2014. Repayment is on a quarterly linear amortisation basis starting 30 months prior to final maturity date.
- The Company has already drawn down the full \$25m under Tranche A and allotted the associated warrants to MBL. The funds have been used to repay a \$5m bridging loan extended to PELE from MBL and repay trade creditors, with the remainder to be used on development projects.

Company Financial Statements

Directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group for that period. The directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with UK GAAP subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

Website publication

The directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the company'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 company's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

PetroLatina Energy Plc

Independent auditor's report to the members of PetroLatina Energy Plc For the year ended 31 December 2009

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

We have audited the financial statements of PetroLatina Energy Plc for the year ended 31 December 2009 which comprise the company balance sheet and the related notes on pages 70 to 85. The financial reporting framework that has been applied in the preparation of the company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). We have separately reported on the group financial statements.

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

Respective responsibilities of directors and auditors

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Emphasis of matter – Going concern

In forming our opinion, which is not qualified, we have considered the adequacy of the disclosures made on page 14 and note 1 of the Company financial statements concerning the company's ability to continue as a going concern. Further funds will be required to finance the Company's committed work programme.

The Directors signed an agreement for a long term debt facility on 8 March 2010, which meets a significant proportion of the committed development programme. The Directors are in advanced negotiations with a number of potential investors over the injection of sufficient new capital to meet the funding shortfall. The Directors are confident of being able to raise the necessary equity finance, in the event that the Company is unable to raise the necessary equity the Company is confident that it would be able to negotiate the draw down the second tranche of the Macquarie facility(as described in more detail in note 1) to ensure that the Company will be able to fully fund its committed development programme, however there can be no guarantee that the equity will be raised or in the event that the equity is not raised that the necessary additional facility will be made available within the necessary timeframe. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern.

Opinion on financial statements

In our opinion:

- the parent company's financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

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

PetroLatina Energy Plc
Independent auditor's report to the members of PetroLatina Energy Plc
For the year ended 31 December 2009

Independent auditor's report to the members of PetroLatina Energy Plc (continued)

Matters on which we are required to report by exception

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

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

BDO LLP

Scott Knight (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
London
United Kingdom
Date

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

PetroLatina Energy Plc
Company Balance Sheet
For the year ended 31 December 2009

	Note	2009 US\$'000	2008 US\$'000
Fixed assets			
Tangible assets	4	-	192
Intangible oil and gas assets	5	12,294	10,561
		<u>12,294</u>	<u>10,753</u>
Current assets			
Debtors	7	43,692	33,422
Cash at bank and in hand		397	1,691
Inventory		33	-
		<u>44,122</u>	<u>35,113</u>
Non-current liabilities			
Convertible Loan Note – debt portion	9	9,105	-
		<u>9,105</u>	<u>-</u>
Current liabilities			
Derivative liability	9	6,120	-
Creditors falling due within one year	8	13,106	6,030
		<u>19,226</u>	<u>6,030</u>
Total Liabilities		28,331	6,030
Net current assets		<u>24,896</u>	<u>29,083</u>
Total net assets		<u>28,085</u>	<u>39,836</u>
Capital and reserves			
Called up share capital	10	22,212	22,045
Share premium	11	76,800	76,374
Warrant and option reserve	11	2,400	1,930
Profit and loss account	11	(73,327)	(60,513)
		<u>28,085</u>	<u>39,836</u>
Shareholders' funds		<u>28,085</u>	<u>39,836</u>

The financial statements were approved by the Board of Directors and authorised for issue on 6 April 2010



Director

The notes on pages 70 to 85 form part of these financial statements.

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 to continue an ongoing extensive drilling programme in the next twelve months, which should further transform some of its oil reserves into producing reserves. Following a review of the Company's financial position and its committed exploration programme within 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 funding. The Directors signed an agreement for a long term debt facility on 8 March 2010, which meets a significant proportion of the committed development programme. The Directors are in advanced negotiations with a number of potential investors over the injection of sufficient new capital to meet the funding shortfall. The Directors are confident of being able to raise the necessary equity finance. In the event that the Company is unable to raise the necessary equity the Company is confident that it would be able to negotiate the draw-down of the second tranche of the Macquarie facility to ensure that the Company will be able to fully fund its committed development programme. However there can be no guarantee that the required equity will be raised or in the event that the equity is not raised that the necessary additional debt facility will be made available within the necessary timeframe or within 12 months from the date of these accounts.

These financial statements have been prepared on a going concern basis.

Changes to accounting policies

The Group has voluntarily adopted FRS 26. The company has taken advantage of the exemption in FRS 29 from presenting company financial instrument disclosures with the company accounts.

Financial instruments

The Company's financial instruments comprise short-term borrowings, cash at bank, convertible loan note 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 except the derivative element of the convertible loan 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.

Financial liabilities

The Company classifies its financial liabilities into categories depending on the purpose for which the liability was acquired.

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

1 Accounting policies (continued)

Convertible bond - hybrid financial instruments: Where a convertible loan meets the definition of a compound financial instrument the component parts are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements. However, where, at inception, the conversion option is such that the option will not be settled by the Company exchanging a fixed number of its own equity instruments for a fixed amount of cash, the convertible loan does not meet the definition of a compound financial instrument. In such cases, the convertible loan (the host contract) is a hybrid financial instrument and the option to convert is an embedded derivative. Attached options (options entered into in consideration for entering into the host contract) on similar terms are also embedded derivatives.

The embedded derivatives are separated from the host contract as their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value. At each reporting date, the embedded derivatives are measured at fair value with changes in fair value recognised in the income statement as they arise. The host contract carrying value on initial recognition is based on the net proceeds of issuance of the convertible loan reduced by the fair value of the embedded derivatives and is subsequently carried at each reporting date at amortised cost. The embedded derivatives and host contract are presented under separate headings in the balance sheet.

The fair value of the embedded derivatives are calculated using Black-Scholes and Monte Carlo models depending on the characteristics of the loan notes.

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 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

1 Accounting policies (continued)

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.

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.

1 Accounting policies (continued)

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 making sufficient taxable profits in the future to absorb the reversal of the underlying timing differences.

The deferred tax balance is not discounted.

2 Directors and staff

	2009	2008
	US\$'000	US\$'000
Directors' fees and emoluments	1,018	836
Wages and salaries - staff costs	132	401
Social security costs	27	38
Pension costs	58	74
Share based payment	470	401
Redundancy and severance pay	123	953
	<u>1,828</u>	<u>2,703</u>

The highest paid director in 2009 received emoluments of \$280,967. He also received share based payments of \$226,024, severance payments of \$Nil and pension contributions of \$42,150. The highest paid director in 2008 received emoluments of \$120,017. He also received share based payments of \$395,208, severance payments of \$850,000 and pension contributions of \$17,317.

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. Total pension costs paid on behalf of directors for the year was \$42,150 (2008: \$73,843).

The equity share based payment in relation to Directors during the year was \$443,007 (2008: \$400,906). No options or warrants were exercised by the Director's in the year (2008: Nil).

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

	2009	2008
Technical	1	1
Administration	5	4
	<u>6</u>	<u>5</u>

3 Loss for the financial period

The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own profit and loss account in these financial statements. The Company loss for the period after tax was \$12,814,000 (2008: \$3,731,000 loss).

4 Tangible assets

	Oil, Gas and other Fixed assets \$'000
<i>Cost</i>	
At 1 January 2009	192
Additions	-
	<hr/>
At 31 December 2009	192
	<hr/>
Transfer to intangible oil and gas assets	(192)
	<hr/>
At 31 December 2009	-
	<hr/>
At 31 December 2008	192

5 Intangible assets

	Exploration and Evaluation costs \$'000
<i>Cost</i>	
At 1 January 2009	10,561
Additions	8,131
Transfer from fixed assets	192
Impairment of assets	(6,590)
	<hr/>
At 31 December 2009	12,294
	<hr/>
<i>Net book value</i>	
At 31 December 2009	12,294
	<hr/> <hr/>
At 31 December 2008	10,561
	<hr/> <hr/>

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

In accordance with the 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 directors have reviewed the impairments required on each of the intangible asset licence areas and the details of those considerations are below.

Midas - Zoe-1

The carrying value for the Zoe-1 well on the Midas structure at 31 December 2009 was \$6.59 million. Testing commenced post year end. The results of the reservoir testing undertaken gave evidence of the success of the drilling at 31 December 2009. The results of testing evidenced that the deeper zones of Zoe-1 were proven to be non-commercial, therefore the Directors have recorded an impairment charge of \$6.59 million in the current financial year. The impairment charge represents the difference between the expected value in use and the carrying value of the Zoe-1 well.

Midas - Chuiria-1

The carrying value of the Chuiria-1 well at 31 December 2009 was \$9.4 million. As at the year end the well was on long term test with the ANH during which time the directors plan to assess whether to pursue either a long or short sidetrack option during 2010. As at 31 December 2009, there has been no evidence of impairment and the Directors will reassess this once the results of the side track option are known.

See Note 17 for details of further capital commitments.

6 Investments

As at 31 December 2009, the Company had the following subsidiaries:

	Proportion of ownership interest at:		Country of incorporation	Shareholder	Principal activity
	2009	2008			
PetroLatina (CA) Limited	100%	100%	United Kingdom	PELE	Intermediate Holding Company ("IHC")
Taghmen Argentina Limited	100%	100%	United Kingdom	PELE	Dormant
Taghmen Colombia S.L.	100%	100%	Spain	PetroLatina (CA) Limited	IHC
Petróleos Del Norte SA (see * and note 15)	100%	100%	Colombia	Taghmen Colombia S.L.	Operating Company
Transporte Del Norte SA	7%	7%	Colombia	Petróleos Del Norte SA	Operating Company
Rend Lake Corporation	84.21%	84.21%	Panama	PetroLatina (CA) Limited	IHC
Rend Lake Sucursal Colombia	100%	100%	Colombian Branch of Rend Lake Corporation	Rend Lake Corporation	99.28% Shareholder in the PetroCaribe Temporary Union, owner of the La Paloma block
Petrolatina Energy Sucursal Colombia	100%	100%	Colombian Branch of PELE	PELE	85% Shareholder in the Midas Temporary Union, owner of the Midas block

* In June 2006, the Group acquired a controlling interest of 77.76% of the issued and outstanding share capital of PDN. The remaining 22.24% of the issued and outstanding shares of PDN were held in a trust in Colombia and their release from such trust was 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% 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%. Subsequent to the year end, PELE has since diluted this 22.24% interest down to 7.58% by way of a capital injection through conversion of inter-company indebtedness in PDN's capital. Should the litigation not go in the Group's favour then the Group's ownership would remain at 92.42%.

7 Debtors

	2009 US\$'000	2008 US\$'000
Amounts due from Group undertakings	43,652	30,172
Prepayments	17	13
Other debtors	23	82
Advance Payments to Contractors	-	3,155
	43,692	33,422
	43,692	33,422

8 Creditors

	2009 US\$'000	2008 US\$'000
Trade creditors	7,794	68
Accruals	2,668	3,530
Amounts owed to Group undertakings	2,378	2,378
Other creditors	266	54
	<u>13,106</u>	<u>6,030</u>

The accruals include amounts payable relating to Colombian exploration licences - Midas. See note 5.

9 Convertible Loan

See note 17 in the Group financial statements for details of the convertible note.

	Tranche 1 21 Jan 2009 \$'000	Tranche 2 17 June 2009 \$'000	Total 2009 \$'000
Proceeds from issue of convertible loan	4,875	6,290	11,165
Loan transaction costs	(131)	(169)	(300)
Net Proceeds from convertible loan	4,744	6,121	10,865
On initial recognition the proceeds have been apportioned:			
Convertible loan debt portion - amortised cost	4,016	3,399	7,415
Derivative financial instruments - fair value	728	2,722	3,450
	4,744	6,121	10,865
Convertible loan debt portion at inception	4,016	3,399	7,415
Interest charged	956	1,026	1,982
Interest paid	(292)	-	(292)
Convertible loan - amortised cost at 31 December 2009	4,680	4,425	9,105
Derivative financial instruments - at inception	728	2,722	3,450
Fair value movement - loss	2,180	490	2,670
Derivative financial instruments - at 31 December	2,908	3,212	6,120

The fair value of the derivative financial instrument was calculated using a Black-Scholes model for the conversion option.

The inputs used were as follows:

	Tranche 1	Tranche 2
Option Term	2 years	2 years
Exercise Price (GBP pence)	20.94	25
Share Price (GBP pence) ¹	12.18	25.08
Risk-free rate	1.35%	1.67%
Expected volatility	74.6%	78.1%
Exchange rate GBP/US\$	0.7093	0.6134

¹ Net of an assumed 30% blockage discount.

The fair value of the derivative financial instruments disclosed in the financial statements was determined using a valuation technique based on assumptions that are not supported by prices from observable current market transaction in the same instrument.

There is no comparative shown as the instrument was issued in the year.

10 Share capital

	2009 Ordinary Number '000	2009 Deferred Number '000	2009 Deferred B Number '000	2008 Ordinary Number '000	2008 Deferred Number '000	2008 Deferred B Number '000
<i>Authorised</i>						
Ordinary shares of \$0.50 each	-	-	-	80,000	-	-
Ordinary shares of US\$0.10 each	224,446	-	-	-	-	-
Deferred Shares of £0.0011 (\$0.0021) each	-	50,000	-	-	50,000	-
Deferred B Shares of US\$0.10 each	-	-	175,554	-	-	-
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
<i>Aggregate nominal value</i>						
Ordinary shares of \$0.50 each	-	-	-	40,000	-	-
Ordinary shares of US\$0.10 each	22,444	-	-	-	-	-
Deferred Shares of £0.0011 (\$0.0021) each	-	105	-	-	105	-
Deferred B Shares of US\$0.10 each	-	-	17,556	-	-	-
	Number '000	Number '000	Number '000	Number '000	Number '000	Number '000
<i>Issued - allotted, called and fully paid</i>						
Ordinary shares of \$0.10 each	45,550	-	-	-	-	-
Ordinary shares of \$0.50 each	-	-	-	43,888	-	-
Deferred B Shares of US\$0.10 each	-	-	175,554	-	-	-
Deferred Shares of £0.0011 (\$0.0021) each	-	47,773	-	-	47,773	-

10 Share capital (Continued)

	2009 Ordinary US\$'000	2009 Deferred US\$'000	2009 Deferred B US\$'000	2008 Ordinary US\$'000	2008 Deferred US\$'000	2008 Deferred B US\$'000
<i>Aggregate nominal value</i>						
Ordinary Shares of US\$0.10 each	4,555	-	-	-	-	-
Ordinary shares of \$0.50 each	-	-	-	21,944	-	-
Deferred B Shares of US\$0.10 each	-	-	17,556	-	-	-
Deferred Shares of £0.0011 (\$0.0021) each	-	101	-	-	101	-
<hr/>						
<i>The issued share capital is reconciled as follows (adjusted for one to five sub-division)</i>						
	Number '000	Number '000	Number '000	Number '000	Number '000	Number '000
Balance at beginning of year	43,888	47,773	-	23,267	47,773	-
Shares issued/(converted)	1,662	-	175,554	20,621	-	-
Balance at end of year	45,550	47,773	175,554	43,888	47,773	-
<hr/>						

On 23 June 2009, the Company implemented a reorganisation of the Company's share capital, pursuant to which every Ordinary Share of US\$0.50 in issue was converted into 1 (one) New Ordinary Share of US\$0.10 and 4 (four) New Deferred B Shares of US\$0.10 each.

Details of the significant movements in share capital are set out below:

Description	Issue Price US\$	Number of Ordinary shares
Year ended 31 December 2009		
Exercise of TOGF Warrant	0.24	1,226,329
Interest on Loan Note	0.67	435,376
Total year ended 31 December 2009		1,661,705

10 Share capital (Continued)

Description	Issue Price US\$	Number of Ordinary shares
Year ended 31 December 2008		
Conversion of TOGI loan notes into shares	1.69	5,890,080
TOGI 2 nd close \$15m	1.58	9,470,919
Issued ordinary shares to Macquarie	1.95	800,000
Shares allotted to vendors of PDN	1.00	3,045,299
Greg Smith settlement	1.04	380,770
Finder's fees for Dignam Holdings Corporation	1.70	294,504
Interest due to PDN Vendors on loan settled in shares	0.70	739,573
		<hr/>
Total year ended 31 December 2008		20,621,145
		<hr/> <hr/>

The Ordinary Shares of US\$0.10 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 31 July 2009, the Company issued and allotted (credited as fully paid) 1,226,329 new ordinary shares of US\$0.10 par value each (the "Warrant Shares") to TOGF following the exercise of warrants held by it. The exercise price of US\$300,000 payable by TOGF to the Company in respect of the warrant exercise was set off in full against the arrangement fee owed by the Company to TOGF pursuant to the convertible loan note issue on 21 January 2009.

On 31 July 2009, the Company issued and allotted (credited as fully paid) a further 435,376 new ordinary shares of US\$0.10 par value each (the "Interest Shares") to TOGF in satisfaction of the first six monthly interest instalment to 21 July 2009 due in respect of the initial tranche of US\$4.875 million convertible loan notes subscribed by TOGF on 21 January 2009.

The New Deferred B Shares are fully paid deferred ordinary shares of US\$0.10 each. They have no practical economic value as they are not listed or traded on AIM, are non-voting, and carry 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.

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 practical economic value as they are not listed or traded on AIM, are non-voting, and carry 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.

11 Reserves

	Warrant and Option reserve	Share premium account	Profit and loss Account
	\$'000	\$'000	\$'000
At 1 January 2009	1,930	76,374	(60,513)
Loss for the period	-	-	(12,814)
Premium on shares	-	-	-
Issued during the period	-	426	-
Warrants issued in the period	-	-	-
Deferred consideration paid in shares	-	-	-
Share-based payments	470	-	-
At 31 December 2009	2,400	76,800	(73,327)

12 Reconciliation of movements in shareholders' funds

	2009 US\$'000	2008 US\$'000
Loss for the period	(12,814)	(3,731)
Issue of warrants	-	306
Issue of shares (net of share issue costs)	593	30,966
Shares to be issued	470	(4,560)
Net movement in shareholders' funds	(11,751)	22,981
Opening shareholders' funds	39,836	16,855
Closing shareholders' funds	28,085	39,836

13 Share based payments

Share options

At 31 December 2009 the Company had options over 2,270,000 ordinary shares of US\$0.10 each outstanding. The options had been awarded during the year to certain directors and employees under the terms of an existing unapproved share option plan. The options vest over a two year period from the date of grant and are immediately exercisable, in whole or in part, up to the fifth anniversary of the date of grant, at an exercise price of 44.5 pence per Share.

Warrants

At 31 December 2009 the following share warrants have been granted and are outstanding in respect of the ordinary shares:

Notes forming part of the financial statements for the year ended 31 December 2009

13 Share based payments (continued)

Warrants (continued)

At 31 December 2009 the following share warrants have been granted and are outstanding in respect of the ordinary shares:

	Outstanding 1 January 2008	Granted	1:5 Share Consolidation	Number of warrants Outstanding 31 December 2008	Granted	Exercised	Lapsed	Outstanding 31 December 2009	Final exercise
15 June 2006 - US\$5.05 *	7,000,000	-	(5,600,000)	1,400,000	-	-	-	1,400,000	15 June 2010
7 February 2007 - US\$2.10 *	4,000,000	-	(3,200,000)	800,000	-	-	-	800,000	7 February 2010
1 June 2007 - US\$0.50 - US\$1.00 *	3,113,124	-	(2,490,499)	622,625	-	-	-	622,625	30 April 2011
14 March 2008 - US\$1.30 *	-	400,000	(320,000)	80,000	-	-	-	80,000	14 March 2011
1 April 2008 - US\$0.50 *	-	2,900,000	(2,320,000)	580,000	-	-	-	580,000	1 April 2011
	14,113,124	3,300,000	(13,930,499)	3,482,625	-	-	-	3,482,625	
TOGF warrants (US\$)					300,000	(300,000)	-	-	
31 December 2009					300,000	(300,000)	-	3,482,625	

* The above numbers have been adjusted for the 1 for 5 share consolidation completed during 2008. There was no impact from the share sub-division completed during 2009.

13 Share based payments (continued)

Further details on options and warrants can be found in notes 20-22 on pages 57-63 of the Group financial statements.

14 Warrants

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

15 Contingent liabilities and litigation

PDN

On 16 June 2006, the Group acquired a controlling interest of 77.76% of the issued and outstanding share capital of PDN. The remaining 22.24% 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% 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%. PELE has since diluted this 22.24% interest down to 7.58% by way of a capital injection through conversion of inter-company indebtedness in PDN's capital. Should the litigation not go in the Group's favour then the Group's ownership would remain at 92.42%

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.

16 Related party transactions

Latinamerican Drilling Company (Latco), a company controlled by Tribeca, and in which Juan Carlos Rodriguez has a material interest, has entered into an agreement to provide rig services to the Company. During the year \$3,526,926 (2008: \$Nil) was incurred for services provided by Latco. At the year end, a total of \$3,104,685 (2008: \$Nil) was due and outstanding to Latco, and a total of \$Nil (2008: \$1,655,000) was held as a prepayment relating to Latco.

Transporte del Norte S.A. ("TDN"), a company controlled by Juan Carlos Rodriguez, a director and substantial shareholder in PELE, provides transportation services to the Company. During the year \$629,000 (2008: \$Nil) was incurred for services provided by TDN. At the year end, a total of \$466,000 (2008: \$Nil) was due and outstanding to TDN.

17 Capital commitments

The Company has a commitment to shoot and process 3D seismic within 2010. The total cost for these commitments is about \$2 million (2008: Nil).

18 Post balance sheet events

On 27 January 2010, the Company issued and allotted (credited as fully paid) (i) 350,911 new ordinary shares of US\$0.10 par value each ("Ordinary Shares") to TOGF in satisfaction of the first six monthly interest instalment to 17 December 2009 due in respect of the second tranche of US\$6.29 million convertible loan notes subscribed by TOGF on 17 June 2009, and (ii) a further 264,618 new Ordinary Shares to TOGF in satisfaction of the second six monthly interest instalment to 21 January 2010 due in respect of the first tranche of US\$4.875 million convertible loan notes subscribed by TOGF on 21 January 2009 (together the "Interest Shares"). The Interest Shares rank *pari passu* in all respects with the Company's existing Ordinary Shares.

18 Post balance sheet events (continued)

The Company and TOGF agreed on 27 January 2010 that all of the principal amount of the convertible loan notes held by TOGF can, at the Company's option, be mandatorily converted into new Ordinary Shares on the scheduled redemption dates for the first and second tranche loan notes in 2011. In addition, TOGF agreed to waive certain restrictions in the loan note instrument on the Company's ability to raise debt financing.

On 8 February 2010, 800,000 warrants lapsed. In addition, and as a result of these warrants lapsing, an additional 430,769 warrants held by TOGI lapsed.

On 26 February 2010, the Company entered into a secured \$5,000,000 promissory note short term facility with Macquarie Bank Limited. The facility carried an interest rate of 18% per annum and was secured over the assets and undertakings of the Group.

On 8 March 2010, the Company entered into a four year Senior First Lien Secured Credit Facility (the "Senior Facility") of up to, in aggregate, \$75 million with Macquarie Bank Limited ("MBL") to finance part of the Company's planned ongoing drilling programme. The Senior Facility consists of:

- Tranche A: a \$25m facility to part fund existing exploration and development operations. Under the terms of the agreement, MBL has been allotted 8 million warrants exercisable at a price of 75.7p per share at any time over the 5 year period from drawdown of tranche A.
- Tranche B/C: to consist in aggregate of \$50m, to fund pre agreed development work, potential future acquisitions and for general working capital purposes. The tranches can be drawn down, at MBL's discretion, at any time during the next three years. Under Tranche B (used for new projects) MBL would be allotted up to 12 million new warrants exercisable at a 20% premium to the previous 20 day VWAP. If any funds are drawn down under Tranche C (to fund existing projects) in addition to the 12 million warrants detailed above, MBL will be eligible for additional warrants.
- An interest rate payable ranging between 3 month US LIBOR + 7.5% and 3 month US LIBOR + 9% dependent upon the NPV of the company's proved oil and gas reserves.
- The debt facility has a four year term expiring on 7 March 2014. Repayment is on a quarterly linear amortisation basis starting 30 months prior to final maturity date.
- The Company has already drawn down the full \$25m under Tranche A and allotted the associated warrants to MBL. The funds have been used to repay a \$5m bridging loan extended to PELE from MBL and repay trade creditors, with the remainder to be used on development projects.

