

**COMPANY REGISTRATION NUMBER: 5173588**

**PETROLATINA ENERGY PLC**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**For the year ended 31 December 2007**

**PetroLatina Energy Plc**  
**Contents**  
**For the year ended 31 December 2007**

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**PetroLatina Energy Plc**  
**Group Overview and Achievements to date**  
**For the year ended 31 December 2007**

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

The Company held as at 30 June 2008, interests in 7 contracts in Colombia and a 20% carried interest in 3 wells and a 20% working interest 2 licence areas in Guatemala.

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

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

Ryder Scott Company, LP ("Ryder Scott"), the petroleum consultancy firm, independently audit the Company's portfolio of contracts and reserves yearly. Ryder Scott reported that as at 31 December 2007 within the Company's portfolio proved plus probable reserves ("2P reserves") net to the Company totalled 5.6 million barrels of oil equivalent ("boe") and that proved plus probable plus possible reserves ("3P reserves") net to the Company totalled 7.34 million boe.

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

**Achievements to date**

14.01.2005	Company listed on London Stock Exchange
26.07.2005	Confirmed producible oil on the Las Casas structure
19.09.2005	Awarded Guatemalan Licence A7-2005
20.02.2006	Obtained interests in La Paloma and Midas licences in Colombia
16.06.2006	Completed acquisition of Petroleos Del Norte ("PDN")
10.01.2007	Confirmed producible oil on Guatemalan Licence A7-2005
15.07.2007	Serafin well #1 tests at 14 mmcf/day
23.07.2007	Disposal of 100% interest in its Guatemalan subsidiary
29.11.2007	Extension to Tisquarama announced
25.06.2008	Updated Reserves reported
11.07.2008	Completed a US\$25m investment by Tribeca Oil & Gas Inc

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2007 and the months since the year end may ultimately prove, in the long-term, to have been one of the most significant periods in the Company's development to date.

During the period, PELE has restructured its organisation and reduced its central overhead costs. The loss from continuing operations for the Group for the year was US\$7,951,000 (2006 - US\$4,669,000). The increase in the loss relates to an increase in corporate activity with refinancing and interest charges totaling US\$2,587,000 (2006 - US\$523,000). In addition the Group incurred share based payment charges in respect of current and outgoing directors of US\$971,000 (2006 - US\$8,000). The Group expects that the fact that the above costs are largely one-off in nature and allowing for the full year effects of the restructuring, the underlying profitability of the Company should improve.

During 2006 we classified our Guatemalan business (Petrolatina Corporation, formerly Mexpetrol) as discontinued operations. Associated results of operations, financial position and cash flows are separately reported for all periods presented.

**Petrolatina Corporation**

In July 2007, we completed the sale of our Guatemalan business for US\$4,000,000 in cash. We retained a 20% carried interest in the first three workovers, and a 20% working interest in any future wells. We sold this business to focus on operations in Colombia. As a result, PELE's losses from its Guatemalan discontinued operations, net of taxes, was US\$4,000 in 2007, compared with losses of US\$34,289,000 in 2006.

The Company successfully secured an extension to the key Tisquirama licence in Colombia during the year, for the economic life of the fields.

Following these developments, the Board was restructured to achieve a greater operational focus and I believe that PELE now has a very strong team in place to take it into the second phase of its development programme in Colombia.

Since the year end we have also been successful in refinancing the Company. The US\$25 million equity investment from a portfolio investment Company of Tribecapital Partners S.A. ("Tribeca") will secure the future of the Company and enable us to fund our planned programme of exploration and appraisal wells. We currently expect to commence drilling a minimum of four wells across our three licence areas in Colombia by the end of this year. Our plan is to increase cash flow dramatically, and further develop and commercialise the Company's reserves through the drill programme.

The drilling programme should deliver a steady increase in production rates which averaged 350 barrels of oil per day ("bopd") in 2007. In addition, commercial gas sales are expected to commence from the Serafin gas field in the fourth quarter of 2008.

Since the year end, we have also announced the results of Ryder Scott's review of the Company's reserves as at 31 December 2007. Ryder Scott reported that Proved Reserves net to the Company in respect of its interests in Colombia totalled approximately 2.75 million barrels of oil equivalent, 2P reserves net to the Company totalled approximately 5.06 million boe and 3P reserves net to the Company totalled approximately 7.34 million boe. Based upon NYMEX crude oil futures prices as of 10 April 2008 used in Ryder Scott's Report, the Net Present Value at a 10 per cent. discount ("NPV10") of the Proved Reserves was US\$47.7 million. The NPV10 of the 2P reserves totalled US\$108.8 million and the NPV10 of the 3P reserves totalled US\$164.9 million.

These NPV10 valuations did not take account of the exploration potential in respect of the Company's interests in Colombia, which the Directors of PELE believe could be substantial alongside its retained interest in Guatemala. Furthermore, Ryder Scott's assessment did not include the Company's pipeline asset, which was valued at up to US\$30 million (this is carried in the financial statements at US\$12.2 million cost) on a PV12 basis by Gaffney Cline & Associates in 2006.

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**Petrolatina Corporation** *(Continued)*

With the future of the Company secured and a strong management team in place, I have decided that now is the right time for me to step down as Executive Chairman and leave the Board. I welcome Luc Gerard and Ciro Méndez to the Board and look forward to Luc, as Chairman, steering the Company into its next growth phase. I remain a significant and supportive shareholder in the Company.

**Outlook**

The outlook for 2008 is good. Significant changes have been undertaken in 2007 which will show benefit this year and in future years. We now have the funding in place to commence the drilling of four wells before the year end. The Board believes that PELE has significant potential to create value for its shareholders. Our plan is to convert our Probable and Possible Reserves into Proved Producing Reserves and considerably increase production and cash flow through the drill programme.



**Gregory Smith**  
Executive Chairman  
**11 July 2008**

## **Overview**

2007 has proven to be an important period in the development of PELE. The progress made by the Company has demonstrated that we are now on the right track and has resulted in a consolidation of our operations. The Company is now focusing its resources and efforts in developing its Colombian assets.

Net oil production for the Company in 2007 was approximately 350 bopd, but is expected to increase steadily in future years through the development of producing fields and exploration drilling.

## **Review of Operations**

### *Colombian Exploration Activities*

Exploration activities on the Midas and La Paloma licence areas started in 2006, and a new exploration block, the La Gaita licence, was granted by the Agencia Nacional de Hidrocarburos (The National Hydrocarbons Agency of Colombia "ANH") on 12 September 2007.

During 2007, PELE successfully renegotiated the conditions of the two exploration blocks that it acquired in April 2006, increasing its participation in the Midas block from 70% to 85% and in the La Paloma block from 65% to 80%.

Following the 2006 acquisition of PDN, the Company reached agreement in November 2007 with ECOPETROL S.A., the Colombian State Oil Company, on a development program for the Tisquirama Exploration and Production licence. Both ECOPETROL and the ANH have now officially approved the terms of the contract extension for the economic life of the fields.

A plan has been formulated to initiate development of the Tisquirama licence based on the recent licence extension. Important reservoir studies in the Los Angeles field, including seismic reprocessing, core analysis, and simulation study will be performed during the second half of 2008. In the case of the Santa Lucia field, the acquisition of a minimum of 54 sq. km. of 3D seismic will be carried out in the same period. The information obtained to date has been processed and interpreted and we expect that at least 7 wells will be drilled between late 2008 and early 2009. Most of these will be infill wells, which the Company believes have a high probability of success at reasonable cost.

### *RZA Pipeline*

The Company also sees important upside potential in its Rio Zulia - Ayacucho ("RZA") pipeline which in 2007 achieved a daily average throughput of 2,958 bopd from the Tibú and Río Zulia fields. ECOPETROL and PETROBRAS are currently investing US\$175 million to develop the Tibú field. Additionally, ECOPETROL has increased its production in the Tibú field with the drilling of two new wells. ECOPETROL also plans to drill 10 workovers and new wells in the Rio Zulia and predicts an increase in its production of 1,000 bopd by the end of 2008.

Eventually, future production from the Río Zulia field is expected to rise from the current level of 1,800 bopd to 15,000 bopd with reserves estimated to potentially increase to 100 million barrels. Such development could lead to a significant increase in the flow of oil throughput and in consequence an increase in the Company's RZA pipeline revenues. ECOPETROL, has also commenced an extended exploratory drilling programme near the Rio Zulia field and in close proximity to the pipeline. Due to the favourable location of our RZA pipeline, PELE believes that both pipeline revenues and the strategic and commercial value of the pipeline will increase considerably in future years as production from Tibu and Río Zulia increases.

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*Guatemalan Assets*

Despite having sold its assets (Licence A7-2005 and A-6-93), in Guatemala to Quetzal Energy Inc. on 23 July 2007, PELE retained a 20% carried interest in the first three wells to be worked over in 2008, and a 20% working interest in future wells.

*Serafin Gas Development*

During 2007, PELE also completed the first stage of its Serafin Gas development which highlighted the gas potential in the area. Well #1 was worked over in January 2007 and tested at flow rates of 14 million cubic feet of gas per day ("mmcf"). Gross reserves are estimated at between 5 and 6 billion cubic feet of gas in place. Construction of a 3.5km trunk pipeline was completed which ties the well to the now established gas pipeline network.

During the second half of 2008, the Group should satisfy the necessary conditions to bring the Serafin gas well into production. Commercial gas sales are expected to commence in the fourth quarter of 2008 which will provide valuable cash revenues to the Company to support the development of its producing fields.

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

**Financial Review**

During 2007 revenues totalled US\$7.1million (2006 - US\$4.2 million) an increase on the previous year as a result of the full year impact of its subsidiary PDN. On an annualised basis the revenues from the 2006 acquisition, PDN, were slightly lower reducing to US\$7.1 million from US\$7.6 million in 2006. The principle reason for the reduction in reserves was due to Ecopetrol's interest in well ANG10, located in the Los Angeles field, increased from 0% to 50% during the year as a result of PELE's recovering 200% of its initial capital spend on the well, as per the terms of the licence agreement.

A booked depletion, depreciation and amortization charge ("DD&A") of US\$4,786,000 (2006 - US\$1,561,000) led to a loss after tax of US\$7.96 million (2006 - loss of US\$38,958,000). This DD&A relates to the terms of the original contract which prior to the renewal was due to expire at the end of 2008. Well depletion and other petroleum asset depreciation was therefore accelerated.

Debt service payments to Macquarie Bank Limited ("Macquarie") reached US\$2,587,000 (2006 - US\$523,000) and income tax credit was US\$433,000 (2006 - US\$71,000) resulting in a continuing loss before interest, tax, depreciation and amortization of US\$1.01 million (2006 - US\$2.65 million).

Guatemalan operations accounted for a loss of US\$4,000 (2006 - US\$34,289,000) in the consolidated income statement.

During 2008, we will continue to pursue our strategy of growing PELE into one of the major players in the oil and gas industry in Colombia and capitalising on the clear opportunities to increase both production and shareholder returns.



**Juan Carlos Rodríguez**  
Interim Chief Executive Officer

**11 July 2008**

**Board of Directors**

***Gregory Charles Smith, Executive Chairman, aged 47***

Gregory Smith is the founder of PELE and executive chairman and chief executive officer of International Consolidated Minerals Inc, an AIM listed mining Company with an initial focus on Latin America. Before establishing PELE, he was the managing partner in TVL, a Company that specialises in raising venture capital for the energy and mining sector. Between 1998 and 2001 he was the chairman of Powder River Basin Gas Corporation, which was a successful operator of coal bed methane in Wyoming, US. This merged with Imperial Petroleum in April 2003. From 1993 to 2001, he was President of Renaissance Companies Inc, a structured finance Group specialising in fund raising in varying forms for the energy and real estate sectors in the US. Gregory obtained a degree in managerial sciences from the University of Nevada in 1984.

***Juan Carlos Rodríguez, Interim Chief Executive Officer, aged 46***

Juan Carlos Rodríguez is an Economist and also holds a Master Business Administration degree from the University of Illinois. He has worked at a top level with the Colombian hydrocarbon industry for the last 8 years when he joined PDN as its President. He has led discussions and negotiations with Ecopetrol including the recent 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 Interim Chief Executive Officer.

***Mark Patterson, Non-Executive Director, aged 52***

Mark Patterson was appointed to the Company's Board as Executive Director on 1st February 2007. Mark has over 25 years of experience in the oil and gas industry throughout the Americas, which significantly strengthens the management team in Central and South America. Mark is Managing Partner of Calypso Energy LLC, an independent exploration and development Company and part of the Calypso Energy Group of companies he co-founded in 2000. Previously, Mark was Executive Director of Compañía General de Combustibles S.A. through to December 1999.

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

John May is currently a director of AIM-listed TomCo Energy Plc and Red Leopard Holdings Plc, Nasdaq listed Avatar Systems Inc and London & Pacific Healthcare Inc (Pinksheets), Non-Executive Chairman of Channel Islands listed Southbank UK Plc and China Pub Company Plc and Non-Executive Director of International Consolidated Minerals Inc. and White Mountain Titanium Corporation (a US OTC Company). He was previously Finance Director of AIM listed London & Boston Investments Plc, and a non-executive Director of AIM listed Croma Group Plc. Mr May is also currently a principal of a boutique chartered accountancy practice, focusing on advising companies on finance raising, mergers and acquisitions, business strategies and entry onto the Plus and AIM markets. He was previously a Senior Partner at Horwath Clark Whitehill, a UK accountancy firm, for 17 years, including 8 years on the Managing Board. Mr May is the Policy Director and Deputy Chairman of the Small Business Bureau Limited (SBB) and Deputy Chairman of the Genesis Initiative, which are lobbying Groups to the UK government on behalf of small businesses. He is also a Conservative Borough Councillor for Surrey Heath Borough Council. Mr May qualified as a chartered accountant in 1974 having previously gained his DIA at the University of Bath Management School in 1970 and his BA from the University of London in 1969.

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<b>Directors</b>	<b>Appointed</b>	<b>Resigned</b>	<b>Designation</b>
Gregory Smith	7 September 2004	-	Executive Chairman
Juan Carlos Rodriguez	2 November 2007	-	Interim Chief Executive Officer
Mark Patterson	1 February 2007	-	Non-Executive Director
John May	2 November 2007	-	Non-Executive Director
Nicholas Gay	17 November 2004	31 January 2007	Chief Executive Officer
	31 January 2007	16 May 2007	Non-Executive Director
Jay Scott	21 December 2004	2 May 2007	Chief Operating Officer
Richard Lavers	1 June 2006	21 June 2007	Non-Executive Director
Joseph Strubel	12 January 2005	8 October 2007	Non-Executive Director
Rudolph Berends	7 March 2007	2 November 2007	Chief Executive Officer
James Guiang	12 January 2005	2 November 2007	Non-Executive Director
Secretary	Capita Company Secretarial Services Ltd – appointed 5 July 2007		
Company Number	05173588		
Incorporation	England & Wales		
Registered Office	34 Grosvenor Gardens, London, SW1W 0DH.		
Registrars	Computershare Investor Services Plc, The Pavilions, Bridgwater Road, Bristol, BS99 7NH.		
Auditors	BDO Stoy Hayward LLP, 55 Baker Street, London, W1U 7EU		
Solicitors	Stephenson Harwood, One, St Paul's Churchyard, London, EC4M 8SH		
Nominated Adviser & Broker	Strand Partners Limited, 26 Mount Row, London, W1K 3SQ		

## **Group overview**

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

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

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

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

All the contracts that the Group owns are covered by strict environmental permits and the Group's adherence to these and the new initiative that fosters quality of operations should continue to reduce any adverse impact on the areas or communities surrounding the contracts held.

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

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

The Directors present their report together with the audited financial statements for the year ended 31 December 2007. The comparative period presented was from the 1 January 2006 to 31 December 2006. See note 2 in respect of the basis of preparation.

## **Results and dividends**

The results of the Group for the period are set out on page 20 and show a loss for the period of US\$7,955,000.

The Directors do not recommend the payment of a dividend.

## **Principal activities and business review**

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

The Directors are satisfied with the results of the Group for the period and consider that the future will provide challenges and rewards for the Group.

### Key Performance Indicators

The key performance indicators of the Group are as follows:

	<b>2007</b>	<b>2006</b>
Share Price at 31 December (pence)	61.25	117.5
Cash at bank at 31 December (US\$'000)	3,542	5,652
Employee Numbers	88	84

For further details please see the Chairman's and Interim Chief Executive's report on pages 4 to 7.

### Substantial shareholdings

As at 30 June 2008 the Company was aware of the following holdings of 3% or more in the Company's issued share capital:

<b>Shareholder</b>	<b>Number of shares held</b>	<b>Percentage %</b>
RAB Capital Plc.	6,553,859	24.91%
Gregory Smith (1)	3,540,000	13.45%
Lyan Financial Corporation (2)	2,040,299	7.75%
Artemis Investment Management Ltd.	1,800,000	6.84%
Allianz (Custodian Group)	1,156,294	4.39%
Metage Capital Limited	1,138,462	4.32%
Millenium Global Investments	1,056,680	4.01%
Rorick Ventures Group Inc (2)	1,005,000	3.82%

*Notes:*

*(1) Shares are held in the name of Gregory Smith, and TVL.*

*(2) Lyan Financial Corporation and Rorick Ventures Group Inc are companies in which Juan Carlos Rodriguez, or his family, has a beneficial interest.*

### Going concern

Following a review of the Group's financial position and its budgets and plans, the Directors have concluded that sufficient financial resources will be available to meet the Group's current and foreseeable working capital requirements. These financial statements have been prepared on a going concern basis.

### 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 utilise the expertise of third party consultants to report on the reserves estimates to increase the reliability of their 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 mineral reserves will be replaced. Failure to do so could have a material and adverse impact on the Group's financial results and prospects.

### **Health, safety and environment**

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

### **Post balance sheet events**

Post balance sheet events following the period are disclosed in the note 27 of the financial statements.

### **Political and charitable donation**

The Group has made no political or charitable donations in the period (2006 - US\$14,894).

### **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 Stoy Hayward LLP have expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the annual general meeting.

### **Disclosure of information to auditors**

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

### **Annual General Meeting**

The Notice of the Company's Annual General Meeting is attached to this report to shareholders and full details of the proposed Resolutions at that meeting can be found in the Notice.

### **Signed by order of the directors**

Gregory Smith  
**Director**

Approved by the directors on: 11 July 2008

### **Directors' responsibilities**

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

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

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

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

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

## **Corporate governance and board composition**

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

### **Audit Committee**

The Board has established an Audit Committee, which comprises of John May and Mark Patterson, the two Non-executive Directors. It is responsible for ensuring that the financial performance of the Group is properly reported on and monitored, considering and setting appropriate accounting policies, and reviewing the auditors' report relating to accounts and internal control systems.

### **Remuneration Committee**

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

### **Nominations Committee**

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

### **Share dealing**

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

### **Relations with Shareholders**

Communication with shareholders is conducted through correspondence, meetings, stock exchange releases and the Company's website, [www.petrolatinaenergy.com](http://www.petrolatinaenergy.com)

### **Internal controls**

The system of controls is currently adequate and effective.

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**Directors' Remuneration Report**  
**For the year ended 31 December 2007**

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The company applied certain principles relating to directors' remuneration report as far as it is considered practicable to the Group's size and circumstances as described in the report below.

***Role of the Remuneration Committee***

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

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

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

***Membership of the Committee***

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

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

The Committee currently comprises non-executive directors John May and Mark Patterson. No directors are involved in deciding their own remuneration.

***Remuneration policy***

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

***Executive Remuneration***

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

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

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

***Non-Executive Remuneration***

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

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**Directors' Remuneration Report**  
**For the year ended 31 December 2007**

**Directors and directors' interests**

The following directors held office during the year ended 31 December 2007:

Director	Appointed	Resigned	Designation
Gregory Smith	7 September 2004	-	Executive Chairman
Juan Carlos Rodriguez	2 November 2007	-	Interim Chief Executive Officer
Mark Patterson	1 February 2007	-	Non-executive Director
John May	2 November 2007	-	Non-executive Director
Nicholas Gay	17 November 2004	31 January 2007	Chief Executive Director
Jay Scott	21 December 2004	16 March 2007	Non-Executive Director
Richard Lavers	1 June 2008	2 May 2007	Chief Operating Officer
Joseph Strubel	12 January 2005	21 June 2007	Non-Executive Director
Rudolph Berends	7 March 2007	8 October 2007	Non-Executive Director
James Guiang	12 January 2005	2 November 2007	Chief Executive Officer
			Non-Executive Director

**Directors and directors' interest 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, options and warrants were as at 31 December 2007 as follows:

Director	Number held (as at 31 Dec 2007)				Number held (as at 31 Dec 2006)		
	Shares	Ordinary shares as % of issued share capital	Options	Warrants	Shares	Options	Warrants
Gregory Smith (1)	17,700,001	15.38	-	4,000,000	14,850,001	100,000	4,250,000
Juan Carlos Rodriguez	-	-	-	-	-	-	-
Mark Patterson	-	-	-	100,000	-	-	-
John May	-	-	-	100,000	-	-	-
Nicholas Gay	455,000	0.40	-	-	780,000	300,000	250,000
Jay Scott	859,634	0.75	-	-	859,634	250,000	250,000
Richard Lavers	-	-	-	-	-	-	-
Joseph Strubel (2)	-	-	-	-	12,012,853	-	5,042,737
Rudolph Berends	900,000	0.78	-	-	-	-	-
James Guiang (3)	6,033,400	5.24	-	-	5,645,755	-	396,125

**Notes:**

- (1) Ordinary shares are held by Gregory Smith and in the name of Taghmen Ventures Limited ("TVL"), a company in which Gregory Smith has a beneficial interest in.
- (2) Shares and warrants held in the name of Millennium Global High Yield Fund.
- (3) Includes shares held in the name of Argentiere Holdings Ltd and Millennium Global Natural Resources Fund and warrants held in the name of Rhodes Ventures S.A.

All interests in shares, shown above were acquired during the financial period and there have been no movements since the year end. The directors hold no interests in warrants.

**PetroLatina Energy Plc**  
**Directors' Remuneration Report**  
**For the year ended 31 December 2007**

**Remuneration**

The following table sets out an analysis of the pre-tax remuneration for the year ended 31 December 2007 for individual directors who held office in the Company during the period. All amounts are in US dollars, and are based on a US\$2.00 to £1 exchange rate.

<b>Director</b>	<b>Basic Salary (US\$)</b>	<b>Pension<sup>2</sup> (US\$)</b>	<b>Share based payments (US\$)</b>	<b>Total received (2007) (US\$)</b>	<b>Total (2006) (US\$)</b>
Gregory Smith <sup>3</sup>	610,717	171,525	700,562	1,482,804	300,129
Juan Carlos Rodriguez	197,672	-	-	197,672	-
Mark Patterson	67,134	-	-	67,134	-
John May	11,676	-	-	11,676	-
Nicholas Gay	44,034	4,003	-	48,037	483,758
Jay Scott	86,000	-	-	86,000	266,179
Richard Lavers	20,015	-	-	20,015	40,350
Joseph Strubel	33,359	-	-	33,359	43,919
Rudolph Berends	220,168	-	270,000	490,168	-
James Guiang	36,694	-	-	36,694	14,618
<b>Total</b>	<b>1,327,469</b>	<b>175,528</b>	<b>970,562</b>	<b>2,473,559</b>	<b>1,148,953</b>

**Notes:**

1. Exchange rate: US\$2.00 = £1
2. Pension payments are made to directors to pay into their own personal pension schemes.
3. Gregory Smith was a beneficiary of the exercise of warrants by Taghmen Ventures Limited, a company in which he has a beneficial interest, for US\$0.53 per share. A gain of US\$1,612,500 was made on the exercise.

**PetroLatina Energy Plc**  
**Independent auditor's report to the shareholders of PetroLatina Energy Plc**  
**For the year ended 31 December 2007**

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

We have audited the Group financial statements (the "financial statements") of PetroLatina Energy Plc for the year ended 31 December 2007 which comprise the consolidated income statement, the consolidated balance sheet, the consolidated cash flow statement, the consolidated statement of change in equity and the related notes. These financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent Company financial statements of PetroLatina Energy Plc, on page 70, for the year ended 31 December 2007.

*Respective responsibilities of directors and auditors*

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

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

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

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

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

**Basis of audit opinion**

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

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

**PetroLatina Energy Plc**  
**Independent auditor's report to the shareholders of PetroLatina Energy Plc**  
**For the year ended 31 December 2007**

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*Opinion*

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2007 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

BDO Stoy Hayward LLP

**BDO STOY HAYWARD LLP**  
Chartered Accountants and Registered Auditors  
London

11 July 2008

**PetroLatina Energy Plc**  
**Consolidated Income Statement**  
**For the year ended 31 December 2007**

	Note	2007 US\$'000	2006 US\$'000
<b>Revenue</b>	5	7,092	4,174
Cost of sales		6,873	1,140
<b>Gross profit</b>		219	3,034
General and administration costs		6,040	7,639
<b>Loss from operations</b>	6	(5,821)	(4,605)
Finance income	7	24	388
Finance expense	7	(2,587)	(523)
<b>Loss before tax</b>		(8,384)	(4,740)
Income tax credit	8	(433)	(71)
<b>Loss from continuing operations</b>		(7,951)	(4,669)
Loss on discontinued operation, net of tax	10	(4)	(34,289)
<b>Loss for the period attributable to equity shareholders of the parent</b>	9	(7,955)	(38,958)
		<b>2007 US\$</b>	<b>2006 US\$</b>
<b>Loss per share attributable to the equity holders of the parent during the year (basic and diluted)</b>	9	0.069	0.448
<b>Loss per share - Continuing operations (basic and diluted)</b>	9	0.069	0.054

The notes on pages 25 to 65 form part of these financial statements.

**PetroLatina Energy Plc**  
**Consolidated balance sheet**  
**31 December 2007**

	Note	2007 US\$'000	2006 US\$'000
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Property, plant and equipment	11	32,407	23,287
Intangible assets	12	4,328	2,906
		<u>36,735</u>	<u>26,193</u>
<b>Current Assets</b>			
Inventories	14	52	54
Trade and other receivables	15	307	1,220
Prepayments	15	118	65
Cash and cash equivalents	23	3,542	5,652
		<u>4,019</u>	<u>6,991</u>
<b>Total Assets</b>		<u><b>40,754</b></u>	<u><b>33,184</b></u>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Provisions	19	556	857
Deferred tax liability	18	6,576	3,893
		<u>7,132</u>	<u>4,750</u>
<b>Current liabilities</b>			
Trade and other payables	16	10,380	2,246
Short term loans	17	6,388	7,658
		<u>16,768</u>	<u>9,904</u>
<b>Total Liabilities</b>		<u><b>23,900</b></u>	<u><b>14,654</b></u>
<b>Total Net assets</b>		<u><b>16,854</b></u>	<u><b>18,530</b></u>
<b>EQUITY</b>			
Share capital	20	11,735	11,077
Share premium		55,718	55,357
Shares to be issued		4,560	-
Warrant reserve		1,624	1,051
Share option reserve		-	314
Retained earnings		(56,783)	(49,269)
<b>Total equity</b>		<u><b>16,854</b></u>	<u><b>18,530</b></u>

The financial statements were approved by the Board of Directors and authorised for issue on 11 July 2008



**Greg Smith**  
**Director**

The notes on pages 25 to 65 form part of these financial statements

**PetroLatina Energy Plc**  
**Consolidated cashflow statement**  
**31 December 2007**

	Note	2007 US\$'000	2006 US\$'000
<b>Operating activities</b>			
<b>Loss for the year</b>		<b>(7,955)</b>	(38,957)
Share-based payments		1,094	846
Depreciation of property, plant and equipment		5,503	1,312
Loss on disposal of property, plant and equipment		122	-
Loss on sale of discontinuing operations	10	4	34,289
Interest income		(24)	(388)
Finance expense		778	523
Income tax expense		(433)	(71)
Exchange loss		-	38
		<hr/>	<hr/>
<b>Cash flows from operating activities before changes in working capital and provisions</b>		<b>(911)</b>	(2,408)
Decrease/(increase) in inventories		(1)	(5)
Decrease/(increase) in trade and other receivables		788	(134)
(Decrease)/increase in trade and other payables		(36)	(1,621)
Increase in provisions		-	1,646
		<hr/>	<hr/>
<b>Cash generated from operations</b>		<b>(160)</b>	(2,522)
Income taxes paid		(284)	(353)
		<hr/>	<hr/>
<b>Net cash from operating activities</b>		<b>(444)</b>	(2,875)
<b>Investing activities</b>			
Interest received		24	388
Purchase of property, plant and equipment		(298)	(1,696)
Payments for exploration and exploration		(3,760)	(13,554)
Acquisition of subsidiary (net of cash acquired)		-	(19,359)
Proceeds from sale of subsidiaries and other assets (net of cash disposed)	10	3,992	-
Proceeds from sale of fixed assets		49	-
		<hr/>	<hr/>
<b>Net cash flows from investing activities</b>		<b>7</b>	(34,221)
		<hr/> <hr/>	<hr/> <hr/>

The notes on pages 25 to 65 form part of these financial statements.

**PetroLatina Energy Plc**  
**Consolidated cashflow statement**  
**31 December 2007**

	<b>Note</b>	<b>2007</b> <b>US\$'000</b>	<b>2006</b> <b>US\$'000</b>
<b>Financing activities</b>			
Issue of ordinary share capital		-	35,429
Exercise of share warrants		<b>375</b>	125
Proceeds from short term loan		-	7,000
Repayment of short term loan		<b>(1,270)</b>	(632)
Interest paid		<b>(778)</b>	(468)
		<hr/>	<hr/>
<b>Net cash flows from Financing activities</b>		<b>(1,673)</b>	41,454
		<hr/>	<hr/>
Decrease in cash and cash equivalents		<b>(2,110)</b>	4,358
Cash and cash equivalents at the start of the period		<b>5,652</b>	1,294
		<hr/>	<hr/>
<b>Cash and cash equivalents at the end of the period</b>	23	<b>3,542</b>	5,652
		<hr/> <hr/>	<hr/> <hr/>

The notes on pages 25 to 65 form part of these financial statements.

**PetroLatina Energy Plc**  
**Consolidated statement of changes in equity**  
**For the year ended 31 December 2007**

	Called up share capital US\$'000	Shares to be issued US\$'000	Share premium US\$'000	Warrant reserve US\$'000	Share option reserve US\$'000	Retained earnings US\$'000	Total equity US\$'000
<b>Opening balance – 1 January 2006</b>	<b>5,496</b>		25,164	140	299	(10,312)	20,787
Loss for the period	-	-	-	-	-	(38,957)	(38,957)
Total recognised income and expense for the year	-	-	-	-	-	(38,957)	(38,957)
Issue of share capital	5,581	-	31,944	-	-	-	37,525
Issue of warrants	-	-	-	911	-	-	911
Share based payment	-	-	-	-	15	-	15
Issue costs	-	-	(1,751)	-	-	-	(1,751)
<b>Balance as at 31 December 2006</b>	<b>11,077</b>	<b>-</b>	<b>55,357</b>	<b>1,051</b>	<b>314</b>	<b>(49,269)</b>	<b>18,530</b>
Loss for the period	-	-	-	-	-	(7,955)	(7,955)
Total recognised income and expense for the year	-	-	-	-	-	(7,955)	(7,955)
Issue of share capital	658	-	361	-	-	-	1,019
Transfer on lapse of warrants and options	-	-	-	(127)	(314)	441	-
Issue of warrants	-	-	-	700	-	-	700
Deferred consideration payable	-	3,000	-	-	-	-	3,000
Share-based payment	-	1,560	-	-	-	-	1,560
<b>Balance as at 31 December 2007</b>	<b>11,735</b>	<b>4,560</b>	<b>55,718</b>	<b>1,624</b>	<b>-</b>	<b>(56,783)</b>	<b>16,854</b>

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

<b>Reserve</b>	<b>Descriptions and purpose</b>
Share capital	Amount subscribed for share capital at nominal value.
Share premium	Amount subscribed for share capital in excess of nominal value.
Warrant reserve	Amounts resulting from the issue of warrants.
Share option reserve	Amounts resulting from incentive stock options vesting.
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 in the period (see notes 17 and 20).

## 1. Authorisation of financial statements

The consolidated financial statements of PetroLatina Energy Plc (the "**Company**" or "**PELE**") and its subsidiaries (together the "**Group**") for the year ended 31 December 2007 were authorised by the Board of Directors on 11 July 2008 and the balance sheet was signed on the Board's behalf by Gregory Smith.

## 2. Accounting policies

### Basis of Preparation

With effect from 1 January 2007 it became mandatory for the Group to comply with International Financial Reporting Standards (IFRS).

The financial results of the Group have been prepared on a basis which is consistent with International Financial Reporting Standards (IFRS) as adopted by the European Union, for the first time, for the twelve months ended 31 December 2007. Comparative information for 2006 has been restated under IFRS. Reconciliations to IFRS from the previously published UK GAAP financial statements are summarised in the notes to the financial statements.

#### *First-time adoption of IFRS*

In preparing these financial statements, the Group has elected to apply the following transitional arrangements permitted by IFRS 1 'First-time Adoption of International Financial Reporting Standards':

- Business combinations effected before 1 January 2006 have not been restated.
- Only those exchange differences arising on the retranslation of foreign operations since 1 January 2006 have been recognised as a separate component of equity, with the related reserve being reset to zero at that date.
- IFRS 2 'Share-based payments' has been applied to employee options granted after 7 November 2002 that had not vested by 1 January 2006.

The Group has made estimates under IFRS at the date of transition, which are consistent with those estimates made for the same date under UK GAAP unless there is objective evidence that those estimates were in error, i.e. the Group has not reflected any new information in its opening IFRS balance sheet but reflected that new information in its income statement for subsequent periods.

#### *Standards, amendments and interpretations to published standards not yet effective for the year ended 31 December 2007*

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for accounting periods beginning after 1 January 2007 or later periods and which the Group has decided not to adopt early. These are:

**2. Accounting policies (Continued)**

- *IFRS 8, Operating Segments* (effective for accounting periods beginning on or after 1 January 2009). This standard sets out requirements for the disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. It replaces IAS 14, 'Segmental Reporting'. The Group expects to apply this standard in the accounting period beginning on 1 January 2009. As this is a disclosure standard it will not have any impact on the results or net assets of the Group.

- *IAS 23, Borrowing Costs (revised)* (effective for accounting periods beginning on or after 1 January 2009). The revised IAS 23 is still to be endorsed by the EU. The main change from the previous version is the removal of the option of immediately recognising as an expense borrowing costs that relate to qualifying assets, broadly being assets that take a substantial period of time to get ready for use or sale. The Group is currently assessing its impact on the financial statements.

- *IFRIC 11, IFRS 2 - Group and Treasury Share Transactions* (effective for accounting periods beginning on or after 1 March 2007). IFRIC 11 requires share-based payment transactions in which an entity receives services as consideration for its own equity instruments to be accounted for as equity settled. This applies regardless of whether the entity chooses or is required to buy those equity instruments from another party to satisfy its obligations to its employees under the share-based payment arrangement. It also applies regardless of whether: (a) the employee's rights to the entity's equity instruments were granted by the entity itself or by its shareholder(s); or (b) the share-based payment arrangement was settled by the entity itself or by its shareholder(s). Management is currently assessing the impact of IFRIC 11 on the accounts.

- *IFRIC 12, Service Concession Arrangements* (effective for accounting periods beginning on or after 1 January 2008). IFRIC 12 is still to be endorsed by the EU. IFRIC 12 gives guidance on the accounting by operators for public-to-private service concession arrangements. IFRIC 12 is not relevant to the Group's operations due to absence of such arrangements.

- *IFRIC 13, Customer Loyalty Programmes* (effective for accounting periods beginning on or after 1 July 2008). IFRIC 13 is still to be endorsed by the EU. IFRIC 13 addresses sales transactions in which the entities grant their customers award credits that, subject to meeting any further qualifying conditions, the customers can redeem in future for free or discounted goods or services. IFRIC 13 is not relevant to the Group's operations due to absence of such arrangements.

- *IFRIC 14, IAS 9 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective for accounting periods beginning on or after 1 January 2008). IFRIC 14 is still to be endorsed by the EU. IFRIC 14 clarifies when refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of IAS 19, how a minimum funding requirement might affect the availability of reductions in future contributions and when a minimum funding requirement might give rise to a liability. IFRIC 14 is not relevant to the Group's operations due to absence of such arrangements.

- *IFRIC 15, Agreements for the construction of real estate*. IFRIC 15 is not relevant to the Group's operations as it does not have any real estate construction activity.

- *IFRIC 16 Hedges of net investment in foreign option*. IFRIC 16 applies only to hedges of net investments in foreign operations. The Group does not hedge any investments at the current time.

**2. Accounting policies (Continued)**

- *Revised IFRS 3, Business Combinations and complementary Amendments to IAS 27, Consolidated and separate financial statements* (both effective for accounting periods beginning on or after 1 July 2009). This revised standard and amendments is still to be endorsed by the EU. The revised IFRS 3 and amendments to IAS 27 arise from a joint project with the Financial Accounting Standards Board (FASB), the US standards setter, and result in IFRS being largely converged with the related, recently issued, US requirements. There are certain very significant changes to the requirements of IFRS, and options available, if accounting for business combinations. The revision to IFRS 3 is not considered relevant to the Group's operations at present due to absence of such arrangements.

- *Amendment to IFRS 2, Share-based payments: vesting conditions and cancellations* (effective for accounting periods beginning on or after 1 January 2009). This amendment is still to be endorsed by the EU. The Amendment to IFRS 2 is of particular relevance to companies that operate employee share save schemes. This is because it results in an immediate acceleration of the IFRS 2 expense that would otherwise have been recognised in future periods should an employee decide to stop contributing to the savings plan, as well as a potential revision to the fair value of the awards granted to factor in the probability of employees withdrawing from such a plan. This amendment is currently not applicable as the Group does not operate employee share save schemes. Management will continue to assess the impact of the amendment prior to adoption.

- *Amendment to International Accounting Standard 1 Presentation of Financial Statements (IAS 1)* (effective for accounting periods beginning on or after 1 January 2009, yet to be endorsed by the EU) replaces IAS 1 Presentation of Financial Statements (revised in 2003) as amended in 2005.

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

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

- *Amendments to IFRS 1 and IAS 27 Cost of an Investment in a Subsidiary, Jointly-Controlled Entity or Associate* (effective for accounting periods beginning on or after 1 January 2009). These amendments are still to be endorsed by the EU. The amendments permits the entity at its date of transition to IFRSs in its separate financial statements to use a deemed cost to account for its investment in subsidiary, jointly controlled entity or associate. The deemed cost of such investment could be either the fair value of the investment at the date of transition, which would be determined in accordance with IAS 39 Financial instruments: Recognition and Measurement or; the carrying amount of the investment under previous GAAP at the date of transition. Management is currently assessing the impact of the Amendment on the accounts.

- *Improvements to IFRS* (effective for accounting periods beginning on or after 1 July 2009). This improvements project is still to be endorsed by the EU. The amendments take various forms, including the clarification of the requirements of IFRS and the elimination of inconsistencies between Standards. Management is currently assessing the impact of the Amendment on the accounts.

**2. 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 significant interCompany transactions and balances between Group entities are eliminated on consolidation.

**Segment reporting**

The Group's primary form of segmental reporting will be by business segment.

A business segment is a Group of assets or operations that are subject to risks and returns that are different to those of other business segments.

**Revenues**

Sales revenues relating to the sale of crude oil are recognised when the oil is received by the customer, and are net of taxes and royalty interests. Pipeline income is recognised as incurred 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:

**Intangible Assets – Evaluation and Exploration Assets**

In accordance with the provisions of IFRS 6, the Company has adopted an accounting policy for Evaluation and Exploration activity at the Company's transition date of 1 January 2006. The Company will continue to monitor the application of its policy with respect to any future guidance on accounting for oil and gas activities which may be issued.

## 2. Accounting policies (*Continued*)

### Oil and gas assets

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. 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. The costs incurred to evaluate potential assets prior to grant of exploration and production ("E&P") licences are expensed.

### Proven oil and gas assets

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

### Impairment review

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

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

### Intangible oil and gas assets

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

**2. Accounting policies (Continued)**

**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 and depreciated on a unit of production basis. Changes in estimates are recognised prospectively, with corresponding adjustments to the provision and the associated fixed asset.

**Property, plant, equipment and pipeline**

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

**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.

**2. Accounting policies (Continued)**

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.

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

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

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

From time to time the Group may elect to renegotiate the terms of trade receivables due from customers with which it has previously had a good trading history. Such renegotiations may lead to changes in the timing of payments rather than changes to the amounts owed and, in consequence, the new expected cashflows 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 and overdrafts repayable on demand. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

## 2. Accounting policies (Continued)

### Financial liabilities

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

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

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

### Share capital

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

### Provisions

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

### Share-based payments and warrants

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

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

### Post retirement benefits

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

**2. Accounting policies (Continued)**

**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. Where subsidiary companies functional currency is not that of the Company being the US dollar differences which arise on the translation of the assets, liabilities and the income statements of the subsidiaries at year end exchange rates are included within the cumulative translation reserve account included in equity.

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.

**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;
- restores the economic benefits of an asset which has been fully depreciated.

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

**Critical accounting judgments and key sources of estimation uncertainty**

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

- Carrying value of intangible exploration and evaluation fixed assets (note 12);
- Commercial reserves estimates; (see note 11)
- Share based payments (see note 21);
- Contingent liabilities and litigation (see note 25).

### 3. Financial instruments – Risk Management

#### *Financial instruments – Risk Management*

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

- Credit risk
- Cash flow interest rate risk
- Foreign exchange risk
- Liquidity 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 receivables
- Cash at bank
- Trade and other payables
- Short term loans

#### *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.

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 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.

**3. Financial instruments – Risk Management Financial instruments** *(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 it has minimised the exposure of the Group to cashflow interest rate risk. No subsidiary Company of the Group is permitted to enter into any borrowing facility or lease agreement without the prior consent of the Board of Directors.

**Interest rates on financial assets and liabilities**

The interest rate profile of the Group's financial assets and liabilities at 31 December 2007 was as follows:

<b>ASSETS</b>	<b>Financial assets on which floating rate interest is earned US\$'000</b>	<b>Financial assets on which no interest is earned US\$'000</b>	<b>Total 2007 US\$'000</b>
Currency			
US Dollars	3,199	-	3,199
Colombian Pesos	635	-	635
British Pounds	11	-	11
	-----	-----	-----
Total	<b>3,845</b>	-	<b>3,845</b>
	=====	=====	=====
 <b>LIABILITIES</b>			
Currency			
US Dollars	14,053	-	14,053
	-----	-----	-----
Total	<b>14,053</b>	-	<b>14,053</b>
	=====	=====	=====

3. Financial instruments – Risk Management Financial instruments (Continued)

The profile at 31 December 2006 for comparison purposes was as follows:

<b>ASSETS</b>	<b>Financial assets on which floating rate interest is earned US\$'000</b>	<b>Financial assets on which no interest is earned US\$'000</b>	<b>Total 2006 US\$'000</b>
Currency			
US Dollars	3,700	-	3,700
Colombian Pesos	2,714	-	2,714
British Pounds	387	-	387
	<hr/>	<hr/>	<hr/>
Total	6,801	-	6,801
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<b>LIABILITIES</b>	<b>Financial liabilities on which interest is paid US\$'000</b>	<b>Financial liabilities on which no interest is paid US\$'000</b>	<b>Total 2006 US\$'000</b>
Currency			
US Dollars	8,299	-	8,299
Colombian Pesos	658	-	658
	<hr/>	<hr/>	<hr/>
Total	8,957	-	8,957
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Cash at bank at floating rates consisted of demand deposits subject to floating rates which earn interest at an average rate of 7.17%.

The Group has no floating rate debt. Fixed rate debt consists of obligations under short term loan agreements of less than one year with rates fixed in advance for periods longer than three months. The average interest rate on these contracts for the year is 14.85% (2006 - 11.89%).

**3. Financial instruments – Risk Management Financial instruments (Continued)****Interest rate sensitivity analysis**

The Group reviewed the interest rate sensitivity on year-end 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 whose local operational currency is not the same as the functional currency of the Group. Although its wider market penetration reduces the Group's operational risk, the Group's net assets arising from such overseas operations are exposed to currency risk resulting in gains and losses on retranslation into US Dollars. Only in exceptional circumstances will the Group consider hedging its net investments in overseas operations as generally it does not consider that the reduction in foreign currency exposure warrants the cash flow risk created from such hedging techniques.

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

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

	<b>Colombian Peso</b>	<b>British Pound Sterling</b>
<b>Foreign currency units to US\$1.00</b>		
At 31 December 2007	<b>2,015</b>	<b>0.5007</b>
	<u>          </u>	<u>          </u>
At 31 December 2006	2,239	0.5104
	<u>          </u>	<u>          </u>

**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.

<b>US dollar equivalent of exposed net monetary assets and liabilities</b>	<b>Colombian Peso US\$'000</b>	<b>British Pound Sterling US\$'000</b>	<b>Total US\$'000</b>
At 31 December 2007	<b>(1,725)</b>	<b>89</b>	<b>(1,636)</b>
	<u>          </u>	<u>          </u>	<u>          </u>
At 31 December 2006	1,337	41	1,378
	<u>          </u>	<u>          </u>	<u>          </u>

### 3. Financial instruments – Risk Management Financial instruments *(Continued)*

#### **Foreign currency sensitivity analysis**

The Group is mainly exposed to currency rate fluctuations of the Colombian Peso versus the USUS\$, 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 2007, a 10% devaluation of the Peso against the Dollar would not have resulted in a material difference in the result of the Group (2006 - no significant difference).

#### *Liquidity risk*

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

In addition see note 24 for the term of the Group's Colombia exploration, whereby 12 months' expenditure is held in trust to ensure commitments are met.

#### **Crude oil price sensitivity analysis**

A sensitivity analysis based on a 10% price volatility assumption is used internally by management to estimate the potential impact of variations in crude oil market prices. As at 31 December 2007, a 10% increase in the average sales price obtained during the year would have increased revenues by US\$542,000 (2006 - US\$328,000) and a 10% decrease in the average sales price would have reduced revenues by US\$492,000 (2006 - US\$298,000).

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

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

#### **Capital management policies**

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

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

On a regular basis, management receives financial and operational performance reports that enable continuous management of assets, liabilities and liquidity. In addition, management communicates frequently with the Board of Directors to provide consistent information and data flow to ensure the opportunities to evaluate and measure the achievement of objectives.

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

4. Staff costs (including directors' and key management remuneration)	2007 US\$'000	2006 US\$'000
Directors' fees and emoluments	1,327	1,148
Share based payments	1,094	-
Wages and salaries	1,490	2,162
Redundancy	60	-
Social security costs	100	179
Pensions	114	88
	<u>4,185</u>	<u>3,577</u>

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

The directors believe that directors fees and emoluments represents the charge paid to key management.

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

	2007 Number	2006 Number
Administration	21	22
Technical	67	62
	<u>88</u>	<u>84</u>

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

Compensation of directors consists of:

	2007 US\$'000	2006 US\$'000
Wages and salaries	1,279	1,077
Share based payment expense	971	8
Pension costs	176	63
	<u>2,426</u>	<u>1,148</u>

The highest paid director received emoluments of US\$611,000 (2006 - (US\$445,000)). They also received share based payments of US\$701,000 (2006 - US\$8,000) and pension contributions of US\$172,000 (2006 - US\$39,100). Total pension costs paid on behalf of directors for the year was US\$176,000 (2006 - US\$63,100).

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

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

**5. Segment reporting**

In the opinion of the directors, the operations of the Group companies comprise the exploration and production of oil and gas reserves and the provision of oil pipeline services. The ongoing Group operations in one geographic area being, Latin America. Details of the operational segment disposed of in the period are disclosed in note 10.

<b>2007</b>	<b>Exploration and production of oil and gas US\$'000</b>	<b>Pipeline services US\$'000</b>	<b>Corporate US\$'000</b>	<b>Total US\$'000</b>
Revenue	5,420	1,672	-	7,092
Profit/(loss) before taxation (excluding loss on discontinued operations)	(2,298)	1,173	(7,259)	(8,384)
Total assets	25,203	9,229	6,322	40,754
Total liabilities	(14,459)	-	(9,441)	(23,900)
Capital expenditure	298	-	3,758	4,056
Depreciation, depletion and amortisation	4,286	500	-	4,786
<b>2006</b>	<b>Exploration and production of oil and gas US\$'000</b>	<b>Pipeline services US\$'000</b>	<b>Corporate US\$'000</b>	<b>Total US\$'000</b>
Revenue	3,277	897	-	4,174
Profit/(loss) before taxation (excluding loss on discontinued operations)	(2,175)	626	(3,191)	(4,740)
Total assets	21,335	9,729	2,120	33,184
Total liabilities	(14,242)	-	(412)	(14,654)
Capital expenditure	15,227	-	541	15,768
Depreciation, depletion and amortisation	1,549	271	91	1,911

**PetroLatina Energy Plc**

**Notes forming part of the financial statements for the year ended 31 December 2007**

**6. Operating loss**

	<b>2007</b>	<b>2006</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Losses from operations is stated after charging:		
Depreciation, depletion and amortisation:		
Oil and gas assets	<b>4,393</b>	1,125
Other fixed assets	<b>393</b>	436
Operating lease rentals - land and buildings	<b>226</b>	388
Share based payments expense	<b>1,094</b>	846
Fees payable to the auditor for the audit of the Company's annual financial statements	<b>200</b>	173
Fees payable to the Company's auditor and its associates for other services:		
The audit of the Company's subsidiaries, pursuant to legislation	<b>50</b>	53
Corporate finance	<b>-</b>	10

**7. Finance income and expenses**

	<b>2007</b>	<b>2006</b>
	<b>US\$'000</b>	<b>US\$'000</b>
<i>Finance income</i>		
Interest received on bank deposits	<b>24</b>	388
<b>Total interest income calculated using effective interest method</b>	<b>24</b>	388
<i>Finance expense</i>		
<b>Interest expense on financial liabilities measured at amortised cost</b>	<b>777</b>	467
<b>Total interest expense calculated using effective interest method</b>	<b>777</b>	467
Net foreign exchange loss	<b>-</b>	56
Refinancing charges	<b>1,810</b>	-
	<b>2,587</b>	523
<b>Net finance expense recognised in the income statement</b>	<b>2,563</b>	134

8. Taxation

	<b>2007</b> <b>US\$'000</b>	<b>2006</b> <b>US\$'000</b>
Total tax credit	<b>(433)</b>	<b>(71)</b>

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 US\$4,399,000 (2006 - US\$1,956,000).

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

<b>Reconciliation of the total tax expense</b>	<b>2007</b> <b>US\$'000</b>	<b>2006</b> <b>US\$'000</b>
Loss for the period	<b>(8,384)</b>	<b>(4,740)</b>
Expected tax charge based on the standard rate of corporation tax in UK of 30%	<b>(2,515)</b>	<b>(1,422)</b>
Effect of:		
Expenses not deductible for tax purposes	<b>1,659</b>	<b>(1,351)</b>
Depreciation less capital allowances	<b>(3)</b>	<b>-</b>
Losses carried forward for utilization in future periods	<b>1,143</b>	<b>3,126</b>
Overseas tax differential	<b>(717)</b>	<b>(424)</b>
Deferred Tax	<b>_____</b>	<b>_____</b>
Total tax credit for the period	<b>(433)</b>	<b>(71)</b>

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 certain subsidiaries, the timing of which cannot be reasonably foreseen.

The deferred tax release relates to the unwinding of the deferred tax liability provision that was established on the acquisition of the Group subsidiary Company PDN as required by IFRS (see note 18 for further details).

The Group had capital losses on the disposal of Petrolatina Corporation (Bahamas) of US\$352,000 (2006 - US\$Nil).

**9. Loss per share**

Loss per ordinary share is calculated by dividing the loss attributable to ordinary shareholders by the weighted number of shares in issue during the relevant financial periods. The weighted average number of equity shares in issue for the period is 114,796,231 (2006 - 86,976,013).

Losses for the Group attributable to the equity holders of the Company for the year are US\$7,955,000 (2006 - US\$38,958,000). The effect of the warrants in issue is anti-dilutive, therefore a diluted loss per share is not presented.

Losses for the Group attributable to continuing operations of the Group for the year are US\$7,951,000 (2006 - US\$4,669,000).

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

**10. Gain/(loss) on discontinued operations**

On 23 July 2007, the Group sold 100% of its interest in PetroLatina Corporation (Bahamas), to Quetzal Energy Inc.

The post-tax gain on discontinued operations was determined as follows:

	US\$'000	US\$'000
Consideration received:		
Cash		4,000
Net assets disposed:		
Property, plant and equipment	1,420	
Exploration expenditure	1,832	
Other receivables	109	
Cash at bank	8	
Trade and other payables	(20)	
Provision for decommissioning	(301)	
	<hr/>	3,048
Pre-tax gain on disposal of discontinued operation		<hr/> <b>952</b>
The net cash inflow comprises:		
Cash received		4,000
Cash at bank disposed of		(8)
		<hr/> <b>3,992</b> <hr/>

10. Gain/(loss) on discontinued operations (Continued)

	2007 US\$'000	2006 US\$'000
Result of discontinued operations		
Revenue	-	-
Cost of sales	152	792
Depreciation, depletion and amortisation	176	81
Expenses other than finance costs	628	44
Impairment of assets	-	32,741
Finance costs	-	629
Tax expense	-	2
	<u>(956)</u>	<u>(34,289)</u>
Gain from selling discontinued operations after tax	952	-
	<u>(4)</u>	<u>(34,289)</u>
Loss for the period	<u>(4)</u>	<u>(34,289)</u>
Basic loss per share	<u>0</u>	<u>(0.38c)</u>
The cash flow statement includes the following amounts relating to discontinued operations:		
Operating activities	(805)	(3,829)
Investing activities	75	(2,317)
	<u>(730)</u>	<u>(6,146)</u>
Net cash used in discontinued operations	<u>(730)</u>	<u>(6,146)</u>

Capital expenditure during the year was US\$Nil (2006 - US\$11,978,000).

On 10 May 2007 the Group made the decision to dispose of its interest in PetroLatina Corporation, its Guatemalan operations. PELE signed an agreement granting Quetzal Energy Inc the exclusive negotiation rights, for a period of four months, to acquire all the interests for total consideration of US\$4 million.

Quetzal Energy Inc is a Canadian based International Oil and Gas Company operating in Guatemala, CA. The Company was incorporated on 9 May 2007 and started operations on 1 August 2007. The president and one of the founder shareholders of Quetzal Energy, is Michael Realini, former President of PetroLatina Corporation. On 23 July 2007 the parties completed the sale of PetroLatina Corporation of US\$4 million.

Under this agreement the Group retains a 20% carried interest in the first three wells drilled. In addition the Group retains the option to participate, for a 20% cost contribution, in 20% of future exploration on any of the licence areas disposed of in the agreement.

During 2006 the Directors had reviewed the carrying value of all PELE's Guatemalan assets in the financial statements. As a result of this review, an impairment was made to historical exploration expenditure of US\$30 million and fixed assets and drilling materials inventory was written down by US\$0.35 million and US\$1.1 million respectively. Additionally, due to some uncertainty as to the recoverability of purchase VAT on materials and equipment, a further charge of US\$1.3 million was charged against 2006 income.

The net assets at 31 December 2006 after these provisions was US\$3.1 million excluding inter-Company balances, therefore the directors expected that the loss on disposal in 2007 would be minimal, after proceeds received of US\$4 million and the loss incurred on the disposal operations between 1 January 2007 and 23 July 2007, which is consistent with the loss in 2007 on disposal of discontinued operations of US\$4,000.

## 11. Property, plant and equipment

	Fixtures, fittings and equipment US\$'000	Field, plant and machinery US\$'000	Motor vehicles US\$'000	Pipelines US\$'000	Proven oil and gas assets US\$'000	Total US\$'000
<b>Cost</b>						
At 1 January 2006	313	1,206	164	-	-	1,683
Acquisition of subsidiary	169	1,734	10	13,189	7,204	22,306
Additions	21	951	105	-	619	1,696
At 31 December 2006	503	3,891	279	13,189	7,823	25,685
Acquisition of subsidiary	-	-	-	-	14,650	14,650
Additions	36	30	3	-	229	298
Transfer from exploration assets	-	-	-	-	504	504
Disposals	(162)	(48)	(7)	-	-	(217)
Disposals of subsidiary	(223)	(1,758)	(223)	-	-	(2,204)
<b>At 31 December 2007</b>	<b>154</b>	<b>2,115</b>	<b>52</b>	<b>13,189</b>	<b>23,206</b>	<b>38,716</b>
<b>Depreciation and impairment</b>						
At 1 January 2006	84	156	31	-	-	271
Charge for period	128	285	23	353	772	1,561
Charge to deferred exploration	7	184	25	-	-	216
Impairment provision (note 9)	-	350	-	-	-	350
At 31 December 2006	219	975	79	353	772	2,398
Charge for period	32	331	30	660	3,733	4,786
Disposals	(91)	-	-	-	-	(91)
Disposal of subsidiary	(130)	(560)	(94)	-	-	(784)
<b>At 31 December 2007</b>	<b>30</b>	<b>746</b>	<b>15</b>	<b>1,013</b>	<b>4,505</b>	<b>6,309</b>
<b>Net book value At 31 December 2007</b>	<b>124</b>	<b>1,369</b>	<b>37</b>	<b>12,176</b>	<b>18,701</b>	<b>32,407</b>
At 31 December 2006	284	2,916	200	12,836	7,051	23,287

Where there is depreciation on assets that relate to exploration activity the depreciation is transferred to Exploration Expenditure in Intangibles see note 12.

**11. Property, plant and equipment (Continued)****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 utilise the expertise of third party consultants to report on the reserves estimates to increase the reliability of their estimations.

**12. Intangible exploration and evaluation (E & E) assets**

	<b>2007</b>	<b>2006</b>
	<b>US\$'000</b>	<b>US\$'000</b>
At 1 January	2,906	19,871
Additions	3,758	14,072
Acquisitions	-	1,276
Transfer to oil and gas assets (see note 11)	(504)	-
Impairment provision (see note 9)	-	(32,313)
Disposals (see note 10)	(1,832)	-
	<hr/>	<hr/>
At 31 December	<b>4,328</b>	2,906
	<hr/>	<hr/>
Comprising:		
Guatemala	-	1,829
Colombia	4,328	1,077
	<hr/>	<hr/>
	<b>4,328</b>	2,906
	<hr/>	<hr/>

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

In accordance with oil and gas asset accounting policy set out in note 2, 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.

## PetroLatina Energy Plc

### Notes forming part of the financial statements for the year ended 31 December 2007

#### 13. Investments in subsidiaries

As at 31 December 2007, the Group comprised the Company and the following directly held subsidiaries:

	Proportion of ownership interest at:		Country of incorporation	Principal activity
	2007	2006		
PetroLatina (CA) Limited *	100%	100%	United Kingdom	Intermediate holding Company
Taghmen Argentina Limited *	100%	100%	United Kingdom	Dormant
Taghmen Colombia S.L.	100%	100%	Spain	Intermediate holding Company
Petroleos Del Norte SA (see note 25)	100%	100%	Columbia	Operating Company
Petrolatina Corporation	-	100%	Bahamas	Operating Company

The subsidiaries marked with an \* were held directly by PetroLatina Energy plc, the Group's parent Company.

#### 14. Inventories

	2007 US\$'000	2006 US\$'000
Crude oil inventory	52	54

#### 15. Trade and other receivables

	2007 US\$'000	2006 US\$'000
Trade receivables	307	813
Prepayments	118	65
Other receivables	-	407
	<u>425</u>	<u>1,285</u>

At 31 December 2007 there were no receivables considered past due (2006 - US\$Nil) and the Board of Directors considers that the carrying values adequately represent the fair value of all receivables. The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable set as above.

## 16. Trade and other payables

	2007 US\$'000	2006 US\$'000
Trade payables	411	418
Taxes and social security costs	172	881
Deferred consideration	7,000	-
Accruals	2,203	947
Other payables	594	-
	<u>10,380</u>	<u>2,246</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 (2006 - US\$Nil) as a finders fee due to a third party who originally identified the potential acquisition of PDN. The liability crystallised on the extension of the licence as described above.

The other payables represent amounts payable to Apex, the third party partner in one of the Group's Colombian licences, and also includes the amount payable to Gregory Smith, a director of US\$512,000 (2006 - US\$Nil) in respect of salaries and pensions due to him under his service contract, this has been settled since the year end.

The deferred consideration relates to amounts payable to the vendors of PDN. During 2006 the Group agreed to pay US\$32 million for PDN, payable in two installments. The first installment of US\$19 million was paid on 16 June 2006. The second installment was for US\$13 million and was payable when the Tisquirama licence (containing the Los Angeles and Santa Lucia fields) was extended. The Tisquirama licence was agreed in principle in November 2007 on less beneficial terms beyond those specified in the sale and purchase agreement. Accordingly the parties agreed to reduce the second installment by US\$3 million to US\$10 million. The parties further agreed that this payment would be satisfied by the payment of US\$ 7 million in cash and the satisfaction of the US\$3 million by the issuance of 3,045,299 shares in the capital of the Company.

See share capital note 20 in respect of shares to be issued. See post balance sheet event note 27 where disclosure of the settlement of the contingent consideration is further explained.

17. Borrowings

	2007 US\$'000	2006 US\$'000
Short-term bridging loan	6,388	7,000
Other loans	-	658
	<u>6,388</u>	<u>7,658</u>

The Group entered into a short term bridging loan with Macquarie. The loan carries interest at 10.5%. The loan was originally due for repayment on 28 February 2007 but various extensions were granted during the year. On 1 June 2007, the facility was extended and increased by US\$1.7 million. In consideration for increasing the facility, the Company: (1) paid Macquarie an extension and commitment fee of US\$250,000 satisfied by the issuance of 830,000 ordinary shares of US\$0.10 each in the capital of the Company, and (2) granted Macquarie a 5% overriding interest in the Group's working interest in hydrocarbons produced from La Paloma. The 5% working interest has been exchanged into 800,000 shares of US\$0.50 each (4,000,000 shares of US\$0.10 each pre consolidation of the Company's share capital) in the Company post year end. The liability was booked at the year end as it had crystallised on the refinancing. The corresponding entry was to create a US\$1,560,000 entry in shares to be issued with the charge included in finance costs. At the balance sheet date, it was repayable on demand.

18. Deferred tax

Deferred tax is calculated in full on the fair value uplift on business combinations at the prevailing tax rate that relates to the acquired businesses assets of 34% (2006 - 34%) (the Colombian tax rate).

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

	2007 US\$'000	2006 US\$'000
At 1 January	3,893	-
Arising on business combination	3,400	4,317
Income statement credit	(717)	(424)
	<u>6,576</u>	<u>3,893</u>
At 31 December		

Deferred tax liabilities were recognised in respect of business combinations entered into by the Group subsequent to its transition date to IFRS of 1 January 2006 giving rise to deferred tax liabilities.

No deferred tax 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. Provision for liabilities and charges**

	<b>Plug and abandonment provision US\$'000</b>
At 1 January 2006	301
Provided during the period	556
	<hr/>
At 31 December 2006 and 1 January 2007	857
Disposal of subsidiary	(301)
	<hr/>
<b>Balance at 31 December 2007</b>	<b>556</b>
	<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.

During the year the Group disposed of its interest in PetroLatina Corporation, which had a provision of US\$301,000 (2006 - US\$301,000) for plugging and abandonment see gain/(loss) on discontinued operations note.

**PetroLatina Energy Plc**

**Notes forming part of the financial statements for the year ended 31 December 2007**

**20. Share capital**

	2007		2006	
	No. of shares	US\$'000	No. of shares	US\$'000
<i>Authorised</i>				
Ordinary shares of US\$0.10 each	200,000	20,000	200,000	20,000
Deferred shares of £0.0011 (US\$0.0021) each	50,000	105	50,000	105
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Allotted, called up and fully paid:</i>				
Ordinary shares				
At 1 January 2007	109,757	10,976	53,951	5,395
Issued during the year	6,580	658	55,806	5,581
	<hr/>	<hr/>	<hr/>	<hr/>
Deferred shares	116,337	11,634	109,757	10,976
	47,773	101	47,773	101
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2007		11,735		11,077
		<hr/> <hr/>		<hr/> <hr/>

Details of US\$0.10 ordinary shares issued during the year are given in the table below:

Date	Description	Issue Price US\$	No. of shares
5 January 2007	Pursuant to an employment contract	0.25	500,000
13 January 2007	Pursuant to an employment contract	0.18	1,500,000
20 February 2007	Exercise of warrants	0.10	3,750,000
30 May 2007	In consideration for Macquarie loan extension	0.30	830,000
			<hr/>
			6,580,000
			<hr/> <hr/>

The valuation of the Macquarie loan extension was based upon the fair value of the services received, which resulted in 830,000 ordinary shares being issued for services with a fair value of US\$250,000.

The Ordinary Shares 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.

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

**20. Share capital** *(Continued)*

Subsequent to the year end the Company consolidated its share capital (see post balance sheet events note 27). In addition significant post balance sheet share movements are detailed in the post balance sheet events note.

As at the year end the Group was committed to issue US\$3,000,000 of US\$0.10 ordinary shares, as payment of part of the consideration due to the vendors of PDN, at fair value governed by the share price at the date of settlement. Subsequent to the year end the shares were issued see post balance sheet events note 27.

In addition after the year end the Company is due to issue 4,000,000 shares of US\$0.10 each at a fair value of US\$0.39, the share price at the date the service was performed, 1 June 2007, to Macquarie in consideration of extending and increasing the short term facility (see note 17).

**21 Share based payments**

*Share options*

At 31 December 2007, the following share options have been granted and are outstanding in respect of the ordinary shares:

	Number of options			
	Granted	Forfeited	Outstanding	Final exercise date
<i>Exercise price</i>				
At 1 January 2006 - US\$1.30	1,755,000	-	1,755,000	12 January 2010
Lapsed during 2006	-	(433,000)	(433,000)	
	<hr/>	<hr/>	<hr/>	
At 31 December 2006 - US\$1.30	1,755,000	(433,000)	1,322,000	12 January 2010
	<hr/>	<hr/>	<hr/>	
Lapsed during 2007	-	(1,322,000)	(1,322,000)	
	<hr/>	<hr/>	<hr/>	
<b>At 31 December 2007</b>	<b>1,755,000</b>	<b>(1,755,000)</b>	<b>-</b>	
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	

On 12 January 2005 the Group granted 1,755,000 US\$1.30 options to certain Directors, employees and consultants of the Group under an unapproved share option scheme.

The options are exercisable as to one-third immediately (on 12 January 2005), the second third on the first anniversary date from grant and the remaining on the second anniversary date from grant.

During the year the remaining 1,322,000 share options were forfeited because one of the conditions of the options remaining in issue was the continuation of the option holders employment with the Company. As the option holders ceased to continue to work for the Company, the options were forfeited.

*Fair Value of options*

*Inputs to the valuation model*

The fair value of awards granted under the Share Option Plan have been calculated using the Black Scholes pricing model that takes into account factors specific to share incentive plans such as the vesting periods of the Plan, the expected dividend yield on the Company's shares and expected early exercise of share options.

**21 Share based payments** *(Continued)*

<i>Grant date</i>	<i>12 January 2005</i>
Share price at date of grant	US\$1.00
Exercise price	US\$1.30
Volatility	40%
Option life	5 years
Dividend yield	0%
Risk-free investment rate	4.42%
Employee turnover	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.

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

<i>Grant date</i>	<i>12 January 2005</i>
Fair value per option	US\$0.33

21 Share based payments (Continued)

Warrants

At 31 December 2007 the following share warrants have been granted and are outstanding in respect of the ordinary shares:

	Number of warrants			Granted	Exercised	Lapsed	Outstanding 31 December 2007	Final exercise
	Granted	Exercised	Outstanding 31 December 2006					
18 July 2004 - US\$0.10	5,000,000	(1,250,000)	3,750,000	-	(3,750,000)	-	-	30 April 2007
30 July 2004 - US\$0.90	248,222	-	248,222	-	-	(248,222)	-	30 April 2007
July – November 2004 - US\$0.90	26,462,008	-	26,462,008	-	-	(26,462,008)	-	30 April 2007 (see below)
20 September 2004 - US\$0.90	250,000	-	250,000	-	-	(250,000)	-	30 April 2007
17 November 2004 - US\$0.90	1,146,125	-	1,146,125	-	-	(1,146,125)	-	30 April 2007
15 February 2006 - US\$0.9625	213,123	-	213,123	-	-	-	213,123	15 February 2009
15 June 2006 - US\$1.01	7,000,000	-	7,000,000	-	-	-	7,000,000	15 June 2010
	<u>40,319,478</u>	<u>(1,250,000)</u>	<u>39,069,478</u>	-	-	-	-	
At 31 December 2006								
7 February 2007 - US\$0.42			-	4,000,000	-	-	4,000,000	7 February 2010
1 June 2007 - US\$0.10 - US\$0.20				2,900,001			2,900,001	30 April 2011
			<u>39,069,478</u>	<u>6,900,001</u>	<u>(3,750,000)</u>	<u>(28,106,355)</u>	<u>14,113,124</u>	
<b>31 December 2007</b>								

Each warrant entitles the holder to purchase one Ordinary Share at a price of between US\$0.10 or US\$1.01 per share on or before the expiry date, after which time the warrants will be void and of no value. Each Warrant is governed by the provisions of warrant instruments representing the warrants which have been adopted by the Company. The rights conferred by the warrants are transferable in whole or in part subject to and in accordance with the transfer provisions set out in the Articles. The holders of warrants have no voting right, pre-emptive right or other right attaching to Ordinary Shares.

**21 Share based payments** *(Continued)*

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

On 18 July 2004 the Company entered into an agreement with TVL, for consideration for services provided, whereby TVL was granted warrants which entitle the holder to subscribe for 5,000,000 shares at an exercise price of US\$0.10 per share. 1,250,000 of these warrants were exercised during 2006. The final 3,750,000 warrants were exercised on 20 February 2007.

On 30 July 2004 the Company entered into an agreement with Williams De Broe Plc ("WDB"), as consideration for services provided, whereby WDB was granted warrants which entitle the holder to subscribe for 248,222 shares at an exercise price of US\$0.90 per share. The warrants are exercisable in whole or part at any time before 30 April 2007. None of these warrants have been exercised to date and have now lapsed.

On 20 September 2004 the Company entered into an agreement with TVL whereby TVL was granted warrants, as consideration for services provided, which entitle the holder to subscribe for 250,000 shares at an exercise price of US\$0.90 per share. The warrants are exercisable in whole or part at any time before 30 April 2007. None of these warrants have been exercised to date and have now lapsed.

On 17 November 2004 the Company entered into separate agreements, for consideration for services provided by Gregory Smith, Nicholas Gay and Jay Scott and separately with Middleforks Investment Ltd, Rhodes Ventures SA and Steven Wyatt whereby the holders were granted 250,000, 250,000, 250,000, 55,000, 282,792 and 58,333 warrants respectively which entitle the holder to subscribe for shares at an exercise price of US\$0.90 per share. The warrants are exercisable in whole or part at any time before 30 April 2007. None of these warrants were exercised and have now lapsed.

Between July and November 2004 26,462,008 warrants were issued to various subscribers in connection with private placement of shares. All of these warrants have now expired.

All of the above warrants do not fall within the scope of IFRS 2 (share based payments) as they vested before the effective date of the standard.

The Company entered into an agreement with Natexis Bleichroeder Inc. for consideration for services provided ("Natexis") on 15 February 2006 pursuant to which Natexis was granted 213,123 warrants which entitle the holder to subscribe for new ordinary shares at an exercise price of US\$0.9625. The warrants are exercisable in whole or part at any time within 3 years of the date of issue. None of these warrants have been exercised to date.

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 US\$1.01 per share. 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.

On 7 February 2007 the Company extended an existing employment agreement with Gregory Smith, a director of the Company. In consideration for reducing the amount of basic salary payable to Gregory Smith by the Company was granted warrants entitling him to subscribe for 4,000,000 shares at an exercise price of US\$0.42 per share. The warrants are exercisable at any time within 3 years of the date of issue. None of the warrants have been exercised to date.

**21 Share based payments (Continued)**

*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>	<i>15 February 2006</i>	<i>15 June 2006</i>	<i>7 February 2007</i>
Share price at date of grant	US\$1.07	US\$0.59	US\$0.48
Exercise price	US\$0.9625	US\$1.01	US\$0.42
Volatility	40%	40%	40%
Option life	3 years	4 years	3 years
Dividend yield	0%	0%	0%
Risk-free investment rate	4.22%	4.71%	5.37%
Employee turnover	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.

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

<i>Grant date</i>	<i>15 February 2006</i>	<i>15 June 2006</i>	<i>7 February 2007</i>
Fair value	US\$0.38	US\$0.12	US\$0.188

*Expense arising from warrants issued*

Based on the fair values shown above, the expense arising from warrants in the year is estimated to be US\$700,562 (2006 - US\$1,050,939) 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 following warrants, as described in the warrant table in note 21, were in issue to new or existing shareholders of the Company.

Between July and November 2004 26,462,008 warrants were issued to various subscribers in connection with private placements of shares. All of these warrants have now expired.

During the year the Group renegotiated the terms of some of the warrants granted July - November 2004 of US\$0.90. A total of 2,900,001 warrants were renegotiated and reissued under new terms, the warrants had no vesting conditions and had a new exercise price of US\$0.10, with extension to the period to 30 April 2011. The warrants were issued to shareholders and no service was received.

**23. Cash and Cash equivalents**

	<b>2007</b>	<b>2006</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Cash	1,787	3,751
Restricted Cash	1,755	1,901
	<hr/>	<hr/>
Total	<b>3,542</b>	5,652
	<hr/> <hr/>	<hr/> <hr/>

The Group has interests in the Midas and La Paloma exploration areas in Colombia. Under the terms of the licence the Group must hold in a separately administered trust account the US\$ equivalent of the subsequent 12 month capital spend. The cash is designated to pay for seismic, geological and geographical surveys, and exploration drilling etc as stipulated within the licence agreement. This money is held with Bancolombia Panama S.A., a financial institution with a rating of not less than Baa3/BB by Moody's and Fitels respectively.

**Major non cash transactions**

Deferred consideration of \$10m was recognised on the extension of the Tisquirama licence, a corresponding increase of US\$7m in liabilities and US\$3m in shares to be issued has been recognised.

**24 Commitments under operating leases**

As at 31 December 2007, the Group had total commitments under non-cancellable operating leases as set out below:

	<b>Land and Buildings</b>	
	<b>2007</b>	<b>2006</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Operating leases which expire:		
Less than one year	171	203
Within two to five years	180	408
	<hr/>	<hr/>
	<b>351</b>	611
	<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%.

## **25. Contingent liabilities and litigation (Continued)**

### **PDN (Continued)**

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

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

### **Damages Claim, Garibald Ciodaro Mantilla and Aserpec Ltd**

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

### **PDN damages claim: "Bellavista" case"**

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

### **PetroLatina Corporation (Bahamas)**

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

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

## **26 Related party transactions**

Joseph Strubel and James Guiang, both non-executive directors during the period, are portfolio managers for Millennium Global Natural Resources which through a fund owns 5,283,400 (2006 - 5,283,400) ordinary shares in the Company as at 31 December 2007. James Guiang, a non-executive director during the period, was beneficially interested in Argentiere holdings limited, which held 750,000 (2006 – Nil) in the Company as at 31 December 2007.

On 20 February 2007 TVL, a company in which Gregory Smith has a beneficial interest, exercised 3,750,000 (2006 - 1,250,000) warrants at an exercise price of US\$0.10 per share.

The Group sold its Guatemalan operations on 23 July 2007 to Quetzal Energy Inc, which is a Canadian based International Oil and Gas Company operating in Guatemala, CA. The Company was incorporated on 9 May 2007 and started operations on 1 August 2007. The president and one of the founder shareholders of Quetzal Energy, is Michael Realini, former President of PetroLatina Corporation.

## **27 Post balance sheet events**

On 18 February 2008 the maturity date of an existing loan from Macquarie was extended for a further 90 days in consideration of a fee of US\$100,000, and the repayment of US\$2.8 million of the outstanding facility. On 16 May 2008, the remainder of the loan was fully repaid.

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, have beneficial interests in respectively. 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 16 May 2008 the loan was fully repaid.

On 14 March 2008, the Company appointed Strand Partners Limited as its new Nominated Adviser and Broker.

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.

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

On 16 May 2008, the Company completed the initial US\$10 million tranche of proposed US\$25 million investment by Tribeca Oil and Gas, Inc. ("TOGI"), a portfolio investment Company of Tribeca, a Colombian Private Equity Firm. TOGI invested US\$10 million in the Company by way of convertible secured loan notes (the "Notes"). The Notes are convertible at TOGI's option into 5,890,080 new ordinary shares of US\$0.50 each ("Ordinary Shares"), at a conversion price of US\$1.72 (£0.86) per Ordinary Share. In the event the Notes are not converted into Ordinary Shares, the Notes carry an interest rate of 15% per annum.

Under the original terms of the PDN acquisition, a second cash payment of US\$13 million was due to be paid to the vendors of PDN upon the extension of the Tisquirama licence. As announced on 29 November 2007, PELE reached agreement with the vendors of PDN to make a cash payment of US\$7 million and to issue to the vendors PELE shares to the value of US\$3 million at a price of £0.50 per share (equivalent to £0.10 per share prior to the Company's share consolidation). On 16 May 2008, of the aforementioned cash payment of US\$7 million, US\$2.5 million was paid, and 3,045,299 Ordinary Shares were allotted to the vendors of PDN, (Lyan Financial Corp: 2,049,299 shares, and Rorick Ventures Group Inc 1,005,000 shares) companies in which Juan Carlos Rodriguez's family and Juan Carlos Rodriguez, a director of the Company, have beneficial interests respectively.

**27 Post balance sheet events** *(Continued)*

On 25 June 2008, the Company announced that Ryder Scott completed an updated assessment of the reserves, future production and income attributable to the Company's four concessions in Colombia as at 31 December 2007. Ryder Scott reported that Proved Reserves net to the Company in respect of its interests in Colombia totalled approximately 2.75 boe (corresponding figure as at 31 December 2006 - approximately 0.45 million boe), 2P reserves net to the Company totalled approximately 5.06 million boe (as at 31 December 2006 - 0.66 million boe) and 3P reserves net to the Company totalled approximately 7.34 million boe (as at 31 December 2006 - approximately 2.5 million boe). Based upon NYMEX crude oil futures prices as of 10 April 2008, the Net Present Value at a 10 per cent. discount ("NPV10") of the Proved Reserves was \$47.7 million. The NPV10 of the 2P reserves totalled US\$108.8 million and the NPV10 of the 3P reserves totalled US\$164.9 million.

On 10 July 2008, the Company issued 800,000 ordinary shares of US\$0.50 each in the capital of the Company to Macquarie, as detailed in note 17.

On 11 July 2008, the Company completed the second tranche of the proposed investment of US\$25 million in the Company by TOGI. The Notes were converted by TOGI into 5,890,080 new Ordinary Shares, at a conversion price of US\$1.72 (£0.83) per Ordinary Share. TOGI has invested a further US\$15 million in the Company by way of a subscription for 9,470,919 Ordinary Shares ("the Subscription"). TOGI holds in aggregate, 15,360,999 Ordinary Shares, representing a 35 per cent interest in the Company. All related security held by TOGI relating to the Company and members of its Group since 16 May 2008 was released. As part of the consideration for the Subscription, TOGI has also been granted 1,875,260 warrants which are automatically exercisable, for no additional consideration, into 1,875,260 Ordinary Shares if, and to the extent that, any exercise of the Company's existing outstanding 3,482,625 warrants occurs. Luc Gerard and Ciro Méndez, representatives of Tribeca, will join the Company's board as Executive Chairman and Non-executive Directors respectively, and Gregory Smith, Executive Chairman has agreed to step down from the board following publication of these results.

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

**28 Capital commitments**

There were no capital commitments at the end of the financial year for which no provision has been made.

**PetroLatina Energy Plc**  
**Notes forming part of the financial statements**  
**For the year ended 31 December 2007**

**29 Transition to IFRS**

For all periods through and including the year ended 31 December 2006, PELE prepared its financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP). These financial statements, for the year ended 31 December 2007, are the first the Group is required to prepare in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and the International Accounting Standards Board.

Accordingly, the Group has prepared financial statements, for the first time, for the year ended 31 December 2007, which comply with IFRS. In preparing these financial statements, the Group started from an opening balance sheet as at 1 January 2006, the Group's date of transition to IFRS, and made those changes in accounting policies and other restatements required by IFRS 1 for the first time adoption of IFRS. This note explains the principal adjustments made by the Group in restating its UK GAAP Balance Sheet as at 1 January 2006 and its previously published UK GAAP financial statements for the year ended 31 December 2006.

**Consolidated Income Statement**

For the period ended 31 December 2006	Note	UK GAAP US\$'000	Adjustments US\$'000	IFRS US\$'000
Revenue		4,174	-	4,174
Cost of sales	a, b, c	2,187	(1,047)	1,140
<b>Gross profit</b>		<u>1,987</u>	<u>1,047</u>	<u>3,034</u>
Administrative expenses	b, d	43,922	(36,283)	7,639
<b>Operating loss</b>		(41,935)	37,330	(4,605)
Finance income		388	-	388
Finance expense		(523)	-	(523)
<b>Loss before taxation</b>		(42,070)	37,330	(4,740)
Income tax expense/(credit)	a	353	(424)	(71)
<b>Loss from continuing operations</b>		<u>(42,423)</u>	<u>(37,754)</u>	<u>(4,669)</u>
Loss on discontinued operations, net of tax	b	-	(34,289)	(34,289)
<b>Loss for the period attributable to the equity shareholders of the parent</b>		<u>(42,423)</u>	<u>3,465</u>	<u>(38,958)</u>

**PetroLatina Energy Plc**  
**Notes forming part of the financial statements**  
**For the year ended 31 December 2007**

**Consolidated Balance Sheet**  
As at 31 December 2006

	Note	UK GAAP US\$'000	Adjustments US\$'000	IFRS US\$'000
<b>Assets</b>				
<b>Non-current assets</b>				
Intangible assets		2,906	-	2,906
Property, plant and equipment	a	19,394	3,893	23,287
<b>Current assets</b>		22,300	3,893	26,193
Inventories		54	-	54
Trade and other receivables		1,285	-	1,285
Cash & cash equivalents		5,652	-	5,652
		<b>6,992</b>	<b>-</b>	<b>6,991</b>
<b>Total assets</b>		<b>29,291</b>	<b>3,893</b>	<b>33,184</b>
<b>Liabilities</b>				
<b>Non-current liabilities</b>				
Long term provisions		857	-	857
Deferred tax liabilities		-	3,893	3,893
		<b>857</b>	<b>3,893</b>	<b>4,750</b>
<b>Current liabilities</b>				
Trade and other payables		2,246	-	2,246
Short term loans		7,658	-	7,658
		<b>9,904</b>	<b>-</b>	<b>9,904</b>
<b>Total liabilities</b>	a	<b>10,761</b>	<b>3,893</b>	<b>14,654</b>
<b>Net assets</b>		<b>18,530</b>	<b>-</b>	<b>18,530</b>
<b>Equity</b>				
Called up share capital		11,077	-	11,077
Share premium account		55,357	-	55,357
Share option reserve		314	-	314
Warrant reserve		1,051	-	1,051
Retained losses		(49,269)	-	(49,269)
<b>Total equity</b>		<b>18,530</b>	<b>-</b>	<b>18,530</b>

**PetroLatina Energy Plc**  
**Notes forming part of the financial statements**  
**For the year ended 31 December 2007**

**Cash Flow Statement**

For the period ended 31 December 2006

	Note	UK GAAP US\$'000	Adjustments US\$'000	IFRS US\$'000
<b>Cash flows from operating activities</b>				
Loss for the year	e	(42,423)	3,466	(38,957)
Share based payments	b	4,062	(3,216)	846
Exceptional items	d	35,305	(35,305)	-
Depreciation, depletion and amortisation	a,b,c	1,137	175	1,312
Loss on operations	d	-	34,289	34,289
Finance income		(388)	-	(388)
Finance expense		523	-	523
Income tax expense	a	353	(424)	(71)
Foreign exchange losses		38	-	38
		<b>(1,393)</b>	<b>(1,015)</b>	<b>(2,408)</b>
<b>Cash flows from operating activities</b>				
Increase in inventories		(5)	-	(5)
Decrease in trade and other receivables		(134)	-	(134)
Increase/(decrease) in trade and other payables		(1,621)	-	(1,621)
Increase in long-term provisions		631	1,015	1,646
		<b>(2,522)</b>	<b>-</b>	<b>(2,522)</b>
<b>Cash generated from operations</b>				
Income tax paid		(353)	-	(353)
		<b>(2,875)</b>	<b>-</b>	<b>(2,875)</b>
<b>Net cash from operating activities</b>				
<b>Investing activity</b>				
Interest received		388	-	388
Acquisition of subsidiary, net of cash acquired		(19,359)	-	(19,359)
Expenditure on tangible fixed assets		(1,696)	-	(1,696)
Expenditure on intangible fixed assets		(13,554)	-	(13,554)
		<b>(34,221)</b>	<b>-</b>	<b>(34,221)</b>
<b>Net cash flows from investing activities</b>				
<b>Financing activities</b>				
Issue of ordinary share capital		35,429	-	35,429
Exercise of warrants		125	-	125
New loan finance		7,000	-	7,000
Repayment of loan		(632)	-	(632)
Interest paid		(468)	-	(468)
		<b>41,454</b>	<b>-</b>	<b>41,454</b>
<b>Net cash flows from financing activities</b>				
<b>Increase in cash and cash equivalents</b>		<b>4,358</b>	<b>-</b>	<b>4,358</b>
<b>Cash at beginning of year</b>		<b>1,294</b>	<b>-</b>	<b>1,294</b>
<b>Cash at end of year</b>		<b>5,652</b>	<b>-</b>	<b>5,652</b>

**PetroLatina Energy Plc**  
**Notes forming part of the financial statements**  
**For the year ended 31 December 2007**

**Consolidated Balance Sheet**  
As at 1 January 2006

	Note	UK GAAP US\$'000	Adjustments US\$'000	IFRS US\$'000
<b>Assets</b>				
<b>Non-current assets</b>				
Intangible assets		1,412	-	1,412
Property, plant and equipment	c	19,870	(249)	19,621
		<u>21,282</u>	<u>(249)</u>	<u>21,033</u>
<b>Current assets</b>				
Inventories		1,363	-	1,363
Trade and other receivables		1,056	-	1,056
Deferred share costs	b	3,216	(3,216)	-
Cash and cash equivalents		1,294	-	1,294
		<u>6,929</u>	<u>(3,216)</u>	<u>3,713</u>
<b>Total assets</b>		<u>28,211</u>	<u>(3,465)</u>	<u>24,746</u>
<b>Liabilities</b>				
<b>Non-current liabilities</b>				
Long term provisions		301	-	301
<b>Current liabilities</b>				
Trade and other payables		3,657	-	3,657
<b>Total liabilities</b>		<u>3,958</u>	<u>-</u>	<u>3,958</u>
<b>Net assets</b>		<u>24,253</u>	<u>(3,465)</u>	<u>20,788</u>
<b>Equity</b>				
Called up share capital		5,496	-	5,496
Share premium account		25,164	-	25,164
Share option reserve		299	-	299
Warrant reserve		140	-	140
Retained losses		(6,846)	(3,465)	(10,311)
<b>Total equity</b>		<u>24,253</u>	<u>(3,465)</u>	<u>20,788</u>

**Notes to IFRS Adjustments Reconciliation Statements:**

- a) **Deferred taxation and fair value Oil and Gas assets:** Under IAS 12 'Income Taxes': Deferred tax is recognised on temporary differences as opposed to timing differences as under UK GAAP. For fair value adjustments to mineral reserves, mineral resources and other property, plant and equipment acquired in a business combination, the tax base is normally nil since generally no tax deduction for amortisation is obtained in the jurisdictions in which the Group operates. Under UK GAAP no deferred tax liability arose as the non-deductible amortisation was a permanent difference, however under IFRS the difference between the carrying amounts and the asset's tax base is treated as a temporary difference and gives rise to the recognition of a deferred tax liability. In 2006, the increase in the fair value of oil and gas assets and the associated deferred tax liability recognised in relation to the fair value adjustment is approximately US\$4.217m, with an associated increase in the oil and gas depletion charge and deferred tax liability release to the income statement.
- b) **Discontinued operation – Guatemala:** The wholly owned Guatemalan operation was sold on 23 July 2007 (refer to note 10). The 2006 results of this operation have been reclassified to discontinued under IFRS 5.
- c) **Under IFRS 6 'Exploration and Evaluation of Mineral Resources'**, pre-licence costs are no longer carried within intangible exploration costs, but instead are written off to the income statement as incurred. As a result, the UK GAAP intangible exploration costs of US\$0.249m has been written off to retained earnings at 1 January 2006 with a corresponding credit to the income statement in the year ended 31 December 2006 where the pre-licence costs were written off under UK GAAP.
- d) **Share-based payment charge:** Under IFRS 2 'Share-based payments', the deferred share costs carried in the balance sheet at the transition date 1 January 2006 relate to shares issued on floatation of the Company to Directors and under service agreements. At 1 January 2006 and in accordance with IFRS 2 it was necessary to write them off fully during the year as the services provided therein had been completed. The charge against the opening reserves totalled US\$3.216m.
- e) **Cash Flow Statement**

The presentation of certain items in the cash flow statement prepared under IAS 7 'Cash Flow Statements' differs to the previous presentation under UK GAAP.

Under IFRS, cash flows are segregated into three categories: operating, investing and financing. This differs from UK GAAP which requires additional sub categories. Foreign currency exchange differences are also recorded on the face of the cash flow statement under IFRS.

## Company Financial Statements

**PetroLatina Energy Plc**  
**Report of the Directors**  
**For the year ended 31 December 2007**

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The directors present their report together with the audited financial statements for the year to 31 December 2007 and its comparative period the year ended 31 December 2006.

**Results and dividends**

In accordance with the provisions of s230 of the Companies Act 1985 the Company has elected not to present a profit and loss account for the year.

The directors do not recommend the payment of a dividend (2006 - US\$Nil).

**Principal activities, review of the business and future developments**

The principal activity of the business is both as the holding Company for the Group's subsidiary companies, and as the corporate entity of the PetroLatina Energy Plc Group. In addition the Company funds oil and gas exploration in Latin America in its own right.

The directors consider that the Company will continue in its historical role described above, utilising its role as ultimate parent Company to continue to review the Company's investments in both subsidiaries and licence areas to ensure the Group maximises shareholder returns.

**Principal risks and uncertainties**

The development of the Company's principal projects are detailed in the Chairman's and Interim Chief Executive's Statement on pages 4 to 7.

The overall economics of the Company's principal projects are dependent upon underlying oil and gas prices which fluctuate based upon conditions outside the Group's control.

**Employee involvement**

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

**Policy on the payment of creditors**

The Group's policy for the year ended 31 December 2007 for all suppliers is to fix terms of payment when agreeing the terms of each business transaction, to ensure the supplier is aware of those terms and to abide by the agreed terms of payment. Trade creditor days for the Company at the year end are 41 days (2006 – 45 days).

**PetroLatina Energy Plc**  
**Report of the Directors**  
**For the year ended 31 December 2007**

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**Directors**

The Directors of the Company during the year were:

	<b>Appointed</b>	<b>Resigned</b>	<b>Designation</b>
Gregory Smith	7 September 2004	-	Executive Chairman
Juan Carlos Rodriguez	2 November 2007	-	Interim Chief Executive Officer
Mark Patterson	1 February 2007	-	Non-Executive Director
John May	2 November 2007	-	Non-Executive Director
Nicholas Gay	17 November 2004	31 January 2007	Chief Executive Officer
Jay Scott	31 January 2007	16 May 2007	Non-Executive Director
Richard Lavers	21 December 2004	2 May 2007	Chief Operating Officer
Joseph Strubel	1 June 2006	21 June 2007	Non-Executive Director
Rudolph Berends	12 January 2005	8 October 2007	Non-Executive Director
James Guiang	7 March 2007	2 November 2007	Chief Executive Officer
	12 January 2005	2 November 2007	Non-Executive Director

**Donations**

During the year, the Company made donations of US\$Nil (2006 - US\$14,894) to various charitable organisations in Guatemala and Colombia as part of its commitment to support local communities in the areas of operations. The Company made no political donations during the period.

**Post balance sheet events**

Further details of post balance sheet events can be found in the notes on pages 87 and 88.

**Auditors**

In accordance with the Companies Act 1985, a resolution for the re-appointment of BDO Stoy Hayward LLP as auditors of the Company is to be proposed at the forthcoming Annual General Meeting. All of the directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the Company'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 unaware.

**On behalf of the Board**



**Gregory Smith**  
**Director**

11 July 2008

**PetroLatina Energy Plc**  
**Directors' responsibilities**  
**For the year ended 31 December 2007**

**Directors' responsibilities**

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

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

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

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

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

**PetroLatina Energy Plc**  
**Independent auditor's report to the shareholders of PetroLatina Energy Plc**  
**For the year ended 31 December 2007**

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

We have audited the parent Company financial statements (the "financial statements") of PetroLatina Energy Plc for the year ended 31 December 2007 which comprise the balance sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the Group financial statements of PetroLatina Energy Plc, on page 18, for the year ended 31 December 2007.

*Respective responsibilities of directors and auditors*

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

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

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

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

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

*Basis of audit opinion*

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

**PetroLatina Energy Plc**  
**Independent auditor's report to the shareholders of PetroLatina Energy Plc**  
**For the year ended 31 December 2007**

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

*Opinion*

In our opinion:

- the parent Company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the parent Company's affairs as at 31 December 2007;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

BDO *Stoy Hayward LLP*

**BDO STOY HAYWARD LLP**  
Chartered Accountants and Registered Auditors  
London

11 July 2008

**PetroLatina Energy Plc**  
**Company Balance Sheet**  
**For the year ended 31 December 2007**

	Note	2007 US\$'000	2006 US\$'000
<b>Fixed assets</b>			
Tangible assets	4	193	66
Intangible oil and gas assets	5	4,329	1,319
Investments	6	-	21,788
		<u>4,522</u>	<u>23,173</u>
<b>Current assets</b>			
Debtors	7	21,102	735
Cash at bank and in hand		1,791	3,402
		<u>22,893</u>	<u>4,137</u>
<b>Current liabilities</b>			
Creditors falling due within one year	8	10,560	7,101
		<u>12,333</u>	<u>(2,964)</u>
<b>Net current assets</b>		<u>16,855</u>	<u>20,209</u>
<b>Capital and reserves</b>			
Called up share capital	9	11,735	11,077
Share premium	10	55,718	55,357
Warrant reserve	10	1,624	1,051
Share option reserve	10	-	314
Shares to be issued	10	4,560	-
Profit and loss account	10	(56,782)	(47,590)
<b>Shareholders' funds</b>		<u>16,855</u>	<u>20,209</u>

The financial statements were approved by the Board of Directors and authorised for issue on 11 July 2008



**Greg Smith**  
**Director**

**1. Accounting policies**

*Basis of preparation*

The financial statements have been prepared in US dollars ('US\$') under the historical cost convention, and in accordance with guidance in the Statement of Recommended Practice "Accounting for oil and gas, exploration, development productions and decommissioning activities", and in accordance with applicable accounting standards.

*Going concern*

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

The following principal accounting policies have been applied:

*Oil and gas exploration costs*

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

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

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

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

*Depreciation*

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

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

**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 profit and loss over the remaining vesting period.

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

*Pension costs*

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

*Investments*

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

*Operating leases*

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

*Financial liabilities and equity*

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

## PetroLatina Energy Plc

### Notes forming part of the financial statements for the year ended 31 December 2007

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#### 1 Accounting policies (*Continued*)

##### *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.

The Company used the following exchange rates within these accounts:	<b>US\$</b>
Sterling (at start of year)	1.97
Sterling (average)	2.00
Sterling (year end)	2.02

##### *Revenue*

Revenue represents management fees, net of sales tax.

##### *Deferred taxation*

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

Deferred tax balance are not discounted.

## PetroLatina Energy Plc

### Notes forming part of the financial statements for the year ended 31 December 2007

#### 2 Directors and staff

	2007 US\$'000	2006 US\$'000
Directors' emoluments	2,420	973

The highest paid Director received emoluments totalling US\$611,000 for the year (2006 - US\$445,000). They also received share based payments of US\$701,000 (2006 - US\$8,000) and pension contributions of US\$172,000 (2006 - US\$39,100).

Total pension contributions paid on behalf of Directors for the year was US\$176,000 (2006 US\$63,100).

The equity share based payment in relation to Directors during the year was US\$1,094,000 (2006 - US\$8,000).

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

	2007 US\$'000	2006 US\$'000
Directors' fees and emoluments	1,239	1,077
Wages and salaries - staff costs	530	394
Social security costs	38	127
Pension costs	151	78
Share based payment	1,094	8
Redundancy payments	61	-
	<u>3,113</u>	<u>1,684</u>

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

	2007 US\$'000	2006 US\$'000
Technical	1	1
Administration	3	3
	<u>4</u>	<u>4</u>

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

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

#### 3 Loss for the financial period

The Company has taken advantage of the exemption allowed under section 230 of the Companies Act 1985 and has not presented its own profit and loss account in these financial statements. The Company loss for the period after tax was US\$9,633,000 (2006 - US\$44,205,000 loss).

PetroLatina Energy Plc

Notes forming part of the financial statements for the year ended 31 December 2007

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**4 Tangible assets**

	<b>Total fixtures, fittings and office equipment US\$'000</b>
<i>Cost</i>	
At 1 January 2007	157
Transfer from subsidiary	187
Additions	7
Disposals	(158)
	<hr/>
<b>At 31 December 2007</b>	<b>193</b>
	<hr/>
<i>Depreciation</i>	
At 1 January 2007	91
Charge for period	-
Disposals	(91)
	<hr/>
<b>At 31 December 2007</b>	<b>-</b>
	<hr/>
<i>Net book value</i>	
<b>At 31 December 2007</b>	<b>193</b>
	<hr/>
At 31 December 2006	66
	<hr/>

**5 Intangible assets**

	<b>Exploration costs US\$'000</b>
<i>Cost</i>	
At 1 January 2007	2,607
Additions	3,758
Disposals	(2,036)
	<hr/>
<b>At 31 December 2007</b>	<b>4,329</b>
	<hr/>
<i>Amortisation</i>	
At 1 January 2007	1,288
Disposals	(1,288)
	<hr/>
<b>At 31 December 2007</b>	<b>-</b>
	<hr/>
<i>Net book value</i>	
<b>At 31 December 2007</b>	<b>4,329</b>
	<hr/>
At 31 December 2006	1,319
	<hr/>

## PetroLatina Energy Plc

### Notes forming part of the financial statements for the year ended 31 December 2007

<b>6</b>	<b>Investments</b>	<b>US\$'000</b>
	<i>Cost and net book value</i>	
	At 1 January 2007	21,788
	Disposal of Guatemala	(4,000)
	Transfer to subsidiary Company	(17,788)
		<hr/>
	<b>At 31 December 2007</b>	<b>-</b>
		<hr/> <hr/>
	At 31 December 2006	21,788
		<hr/> <hr/>

During 2006 the directors reviewed the carrying value of the investment in Guatemala and wrote it down to US\$4,000,000 which represented the expected net proceeds from the expected sale. Subsequently the Guatemalan operations were sold to Quetzal Energy Inc for US\$4 million in cash on 23 July 2007. The loss on disposal was US\$1,327,000, which related to the disposal of 100% of PetroLatina Corporation (Bahamas), the holding Company of the Group's Guatemalan operations. Despite having sold its assets (Licence A7-2005 and A - 6-93) in Guatemala to Quetzal Energy Inc, the Company retained a 20% carried interest in the first three wells to be worked over and a 20% optional working interest in any future wells.

During the year the Company transferred any interest in its principal trading subsidiary PDN to its subsidiary company, Taghmen Colombia S.L. (Spain) ("TCL") as it was originally acquired through TCL.

#### *Subsidiary and associated undertakings*

As at 31 December 2007, the Company had following subsidiaries:

	<b>Proportion of ownership interest at:</b>		<b>Country of incorporation</b>	<b>Principal activity</b>
	<b>2007</b>	<b>2006</b>		
PetroLatina (CA) Limited *	100%	100%	United Kingdom	Intermediate holding Company
Taghmen Argentina Limited *	100%	100%	United Kingdom	Dormant
Taghmen Colombia S.L.	100%	100%	Spain	Intermediate holding Company
Petroleos Del Norte SA (see note 25)	100%	100%	Columbia	Operating Company
Petrolatina Corporation	-	100%	Bahamas	Operating Company

The subsidiaries marked with an \* were held directly by PetroLatina Energy plc, the Group's parent Company.

<b>7</b>	<b>Debtors</b>	<b>2007</b>	<b>2006</b>
		<b>US\$'000</b>	<b>US\$'000</b>
	Debtors repayable within one year	-	272
	Amounts due from Group undertakings	<b>21,095</b>	391
	Prepayments	-	8
	Other debtors	<b>7</b>	64
		<hr/>	<hr/>
		<b>21,102</b>	735
		<hr/> <hr/>	<hr/> <hr/>

**PetroLatina Energy Plc**

**Notes forming part of the financial statements for the year ended 31 December 2007**

**8 Creditors**

	<b>2007</b>	<b>2006</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Trade creditors	-	135
Accruals	<b>1,846</b>	277
Amounts owed to Group undertakings	<b>1,120</b>	6,689
Other creditors	<b>594</b>	-
Deferred consideration	<b>7,000</b>	-
	<hr/>	<hr/>
	<b>10,560</b>	7,101
	<hr/> <hr/>	<hr/> <hr/>

The other creditors balance relates to the net payable to APEX the third party partner in one of the Group's Colombia exploration licences, for information on the deferred consideration go to note 16 of the Group and the amount payable to Gregory Smith, a director of the Company, of US\$512,000 (2006 - US\$Nil) in respect of salaries and pensions due to him under his service agreement, this has been settled since the year end.

**9. Share capital**

	<b>2007</b>		<b>2006</b>	
	<b>No. of</b>	<b>US\$'000</b>	<b>No. of</b>	<b>US\$'000</b>
	<b>shares</b>		<b>shares</b>	
<i>Authorised</i>				
Ordinary shares of US\$0.10 each	<b>200,000</b>	<b>20,000</b>	200,000	20,000
Deferred shares of £0.0011 (US\$0.0021) each	<b>50,000</b>	<b>105</b>	50,000	105
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Allotted, called up and fully paid:</i>				
Ordinary shares				
At 1 January 2007	<b>109,757</b>	<b>10,976</b>	53,951	5,395
Issued during the year	<b>6,580</b>	<b>658</b>	55,806	5,581
	<hr/>	<hr/>	<hr/>	<hr/>
Deferred shares	<b>116,337</b>	<b>11,634</b>	109,757	10,976
	<b>47,773</b>	<b>101</b>	47,773	101
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2007		<b>11,735</b>		11,077
		<hr/> <hr/>		<hr/> <hr/>

Details of US\$0.10 ordinary shares issued during the year are given in the table below:

<b>Date</b>	<b>Description</b>	<b>Issue</b>	<b>No. of</b>
		<b>Price</b>	<b>shares</b>
		<b>US\$</b>	
5 January 2007	Pursuant to an employment contract	0.25	<b>500,000</b>
30 May 2007	In consideration for Macquarie loan extension	0.30	<b>830,000</b>
13 January 2007	Pursuant to an employment contract	0.18	<b>1,500,000</b>
20 February 2007	Exercise of warrants	0.10	<b>3,750,000</b>
			<hr/>
			<b>6,580,000</b>

## PetroLatina Energy Plc

### Notes forming part of the financial statements for the year ended 31 December 2007

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#### 9 Share capital (Continued)

The valuation of the Macquarie loan extension was based upon the fair value of the services received, which resulted in 830,000 ordinary shares being issued for services with a fair value of US\$250,000.

The Ordinary Shares 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.

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

Subsequent to the year end the Company consolidated its share capital (see post balance sheet events note). In addition significant post balance sheet share movements are detailed in the post balance sheet events note.

The Group settled its commitment to grant US\$3,000,000 of US\$0.10 ordinary shares, as payment of part of the consideration due to the vendors of PDN, at fair value governed by the share price at the date of settlement.

Post year end the Company is due to issue 4,000,000 shares. The fair value of the services performed was US\$1,560,000 which was valued at US\$0.39 per share, the share price at the date the service was performed, 1 June 2007, to Macquarie in respect of services received in the year. This has been settled post year end.

#### 10 Reserves

	Shares to be issued US\$'000	Share option reserve account US\$'000	Warrant reserve account US\$'000	Share premium account US\$'000	Profit and loss account US\$'000
At 1 January 2007	-	314	1,051	55,357	(47,590)
Loss for the period	-	-	-	-	(9,633)
Premium on shares issued during the period	-	-	-	361	-
Shares to be issued	4,560	-	-	-	-
Warrants issued in the period	-	-	700	-	-
Transfer of lapsed options/warrants	-	(314)	(127)	-	441
<b>At 31 December 2007</b>	<b>4,560</b>	<b>-</b>	<b>1,624</b>	<b>55,718</b>	<b>(56,782)</b>

## PetroLatina Energy Plc

Notes forming part of the financial statements for the year ended 31 December 2007

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### 11 Reconciliation of movements in shareholders' funds

	<b>2007</b>	<b>2006</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Loss for the period	<b>(9,633)</b>	(44,203)
Issue of warrants	<b>700</b>	911
Share option reserve	-	15
Issue of shares (net of share issue costs)	<b>1,019</b>	35,774
Shares to be issued	<b>4,560</b>	-
	<hr/>	<hr/>
Net movement in shareholders' funds	<b>(3,354)</b>	(7,503)
Opening shareholders' funds	<b>20,209</b>	27,712
	<hr/>	<hr/>
Closing shareholders' funds	<b>16,855</b>	20,209
	<hr/> <hr/>	<hr/> <hr/>

### 12 Capital commitments

At 31 December 2007, amounts contracted for but not provided for in the financial statements amounted to US\$Nil (2006 - US\$Nil) for the Company.

## PetroLatina Energy Plc

### Notes forming part of the financial statements for the year ended 31 December 2007

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#### 13 Share based payments

##### *Share options*

At 31 December 2007, the following share options have been granted and are outstanding in respect of the ordinary shares:

<i>Exercise price</i>	Number of options			Final exercise date
	Granted	Forfeited	Outstanding	
At 1 January 2006 - US\$1.30	1,755,000	-	1,755,000	12 January 2010
Lapsed during 2006	-	(433,000)	(433,000)	
	<hr/>		<hr/>	
At 31 December 2006 - US\$1.30	1,755,000	(433,000)	1,322,000	12 January 2010
	<hr/>		<hr/>	
Lapsed during 2007	-	(1,322,000)	(1,322,000)	
	<hr/>	<hr/>	<hr/>	
<b>At 31 December 2007</b>	<b>1,755,000</b>	<b>(1,755,000)</b>	<b>-</b>	
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	

The 1,755,000 US\$1.30 options were granted to certain Directors, employees and consultants of the Group under an unapproved share option scheme. All the options were granted on 12 January 2005.

The options are exercisable as to one-third immediately (on 12 January 2005), the second third on the first anniversary date from grant and the remaining on the second anniversary date from grant.

During the year the remaining 1,322,000 share options were forfeited as a condition of the option remaining in issue was the continuation of the option holders' employment with the Company. As the option holders ceased to work for the Company the options were forfeited.

##### *Fair Value of options*

##### *Inputs to the valuation model*

The fair value of awards granted under the Share Option Plan have been calculated using the Black Scholes pricing model that takes into account factors specific to share incentive plans such as the vesting periods of the Plan, the expected dividend yield on the Company's shares and expected early exercise of share options.

<i>Grant date</i>	12 January 2005
Share price at date of grant	US\$1.00
Exercise price	US\$1.30
Volatility	40%
Option life	5 years
Dividend yield	0%
Risk-free investment rate	4.42%
Employee turnover	0

Volatility has been based on the following:

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

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

<i>Grant date</i>	12 January 2005
Fair value per option	US\$0.33

13 Share based payments (Continued)

Warrants

At 31 December 2007 the following share warrants have been granted and are outstanding in respect of the ordinary shares:

	Number of warrants			Granted	Exercised	Lapsed	Outstanding 31 December 2007	Final exercise
	Granted	Exercised	Outstanding 31 December 2006					
18 July 2004 - US\$0.10	5,000,000	(1,250,000)	3,750,000	-	(3,750,000)	-	-	30 April 2007
30 July 2004 - US\$0.90	248,222	-	248,222	-	-	(248,222)	-	30 April 2007
July – November 2004 - US\$0.90	26,462,008	-	26,462,008	-	-	(23,562,057)	2,900,001	30 April 2007 (see below)
20 September 2004 - US\$0.90	250,000	-	250,000	-	-	(250,000)	-	30 April 2007
17 November 2004 - US\$0.90	1,146,125	-	1,146,125	-	-	(1,146,125)	-	30 April 2007
15 February 2006 - US\$0.9625	213,123	-	213,123	-	-	-	213,123	15 February 2009
15 June 2006 - US\$1.01	7,000,000	-	7,000,000	-	-	-	7,000,000	15 June 2010
At 31 December 2006	40,319,478	(1,250,000)	39,069,478	-	-	-	-	
7 February 2007 - US\$0.42			-	4,000,000	-	-	4,000,000	7 February 2010
<b>31 December 2007</b>			39,069,478	4,000,000	(3,750,000)	25,206,404	14,113,124	

Each warrant entitles the holder to purchase one Ordinary Share at a price of between US\$0.10 or US\$1.01 per share on or before the expiry date, after which time the warrants will be void and of no value. Each Warrant is governed by the provisions of warrant instruments representing the warrants which have been adopted by the Company. The rights conferred by the warrants are transferable in whole or in part subject to and in accordance with the transfer provisions set out in the Articles. The holders of warrants have no voting right, pre-emptive right or other right attaching to Ordinary Shares.

**13 Share based payments** *(Continued)*

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

On 18 July 2004 the Company entered into an agreement with TVL whereby TVL was granted warrants which entitle the holder to subscribe for 5,000,000 shares at an exercise price of US\$0.10 per share. 1,250,000 of these warrants were exercised during 2006. The final 3,750,000 warrants were exercised on 20 February 2007.

On 30 July 2004 the Company entered into an agreement with WDB whereby WDB was granted warrants which entitle the holder to subscribe for 248,222 shares at an exercise price of US\$0.90 per share. The warrants are exercisable in whole or part at any time before 30 April 2007. None of these warrants have been exercised to date and have now expired.

On 20 September 2004 the Company entered into an agreement with TVL whereby TVL was granted warrants which entitle the holder to subscribe for 250,000 shares at an exercise price of US\$0.90 per share. The warrants are exercisable in whole or part at any time before 30 April 2007. None of these warrants have been exercised to date and have now expired.

On 17 November 2004 the Company entered into separate agreements, for consideration for services provided by Gregory Smith, Nicholas Gay, John Scott and separate agreements with Middleforks Investment Ltd, Rhodes Ventures SA and Steven Wyatt whereby the holders were granted 250,000, 250,000, 250,000, 55,000, 282,792 and 58,333 warrants respectively which entitle the holder to subscribe for shares at an exercise price of US\$0.90 per share. The warrants are exercisable in whole or part at any time before 30 April 2007. None of these warrants were exercised and have now expired. The warrants have not been valued since they were issued and attached to the issue of ordinary shares for consideration.

Between July and November 2004 26,462,008 warrants were issued to various subscribers in connection with private placements of shares. All of these warrants have now expired.

All of the above warrants do not fall within the scope of FRS 20 (share based payments) as they vested before the effective date of the standard.

The Company entered into an agreement with Natexis on 15 February 2006 pursuant to which Natexis was granted 213,123 warrants which entitle the holder to subscribe for new ordinary shares at an exercise price of US\$0.9625. The warrants are exercisable in whole or part at any time within 3 years of the date of issue. None of these warrants have been exercised to date.

On 15 June 2006 the Company entered into an agreement with Macquarie whereby Macquarie was granted warrants which entitle the holder to subscribe for 7,000,000 shares at an exercise price of US\$1.01 per share. 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.

On 7 February 2007 the Company extended an existing employment with Gregory Smith, a director of the Company. In consideration for reducing the amount of basis salary, Gregory Smith was granted warrants entitling the holder to subscribe for 4,000,000 shares at a basic exercise price of US\$0.42 per share. The warrants are exercisable at any time within 3 years of the date of issue. None of the warrants have been exercised to date.

**13 Share based payments (Continued)**

*Fair Value of warrants*

*Inputs to the valuation model*

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

<i>Grant date</i>	<i>15 February 2006</i>	<i>15 June 2006</i>	<i>7 February 2007</i>
Share price at date of grant	US\$1.07	US\$0.59	US\$0.48
Exercise price	US\$0.9625	US\$1.01	US\$0.42
Volatility	40%	40%	40%
Option life	3 years	4 years	3 years
Dividend yield	0%	0%	0%
Risk-free investment rate	4.22%	4.71%	5.37%
Employee turnover	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.

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

<i>Grant date</i>	<i>15 February 2006</i>	<i>15 June 2006</i>	<i>7 February 2007</i>
Fair value	US\$0.38	US\$0.12	US\$0.18

*Expense arising from warrants issued*

Based on the fair values shown above, the expense arising from warrants in the year is estimated to be US\$700,562 (2006 - US\$1,050,939) and was recorded in the profit and loss for the year. The warrants issued 1 January 2006 have not been restated as all the warrants were issued during 2004 and had vested before the transition date to FRS 20.

**14 Warrants**

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

Between July and November 2004 26,462,008 warrants were issued to various subscribers in connection with private placements of shares. All of these warrants have now expired.

During the year the Group renegotiated the terms of some of the warrants granted July - November 2004 of US\$0.90. A total of 2,900,001 warrants were renegotiated and reissued under new terms, the warrants had no vesting conditions and had a new exercise price of US\$0.10, with extension to the period to 30 April 2011. The warrants were issued to shareholders and no service was received.

## 15 Contingent liabilities

### Damages Claim, Garibald Ciodaro Mantilla and Aserpec Ltd

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

### PDN damages claim: "Bellavista" case"

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

### PetroLatina Corporation (Bahamas)

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

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

### PDN

On 16 June 2006, PELE 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%.

**15. Contingent liabilities and litigation** *(Continued)*

**PDN** *(Continued)*

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**

On 20 February 2007 TVL, a company in which Gregory Smith has a beneficial interest, exercised 3,750,000 warrants at an exercise price of US\$0.10 per share.

Joseph Strubel and James Guiang, both non-executive directors during the period, are portfolio managers for Millennium Global Natural Resources which through a fund owns 5,283,400 (2006 - 5,283,400) ordinary shares in the Company as at 31 December 2007. James Guiang, a non-executive director during the period, was beneficially interested in Argentiere holdings limited, which held 750,000 (2006 – Nil) in the Company as at 31 December 2007.

The directors have elected to use the FRS 8 'related party transactions' exemption not to disclose transactions of subsidiaries where at least 90% of its voting rights are controlled within the Group, transactions between it and other Group companies are excluded from the consolidated financial statements.

The Group sold its Guatemalan operations on 23 July 2007 to Quetzal Energy Inc, which is a Canadian based International Oil and Gas Company operating in Guatemala, CA. The Company was incorporated on 9 May 2007 and started operations on 1 August 2007. The president and one of the founder shareholders of Quetzal Energy, is Michael Realini, former President of PetroLatina Corporation.

**17 Post balance sheet events**

On 18 February 2008 the maturity date of an existing loan from Macquarie was extended for a further 90 days in consideration of a fee of US\$100,000, and the repayment of US\$2.8 million of the outstanding facility. On 16 May 2008, the remainder of the loan was fully repaid.

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, have beneficial interests in respectively. The loan carried an interest rate of 12.5% per annum. In addition, 2,900,001 warrants with an exercise price of £0.0525 (US\$0.10) were issued. On 16 May 2008 the loan was fully repaid.

On 14 March 2008, the Company appointed Strand Partners Limited as its new NOMAD.

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.

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

On 16 May 2008, the Company completed the initial US\$10 million tranche of proposed US\$25 million investment by TOGI, a portfolio investment Company of Tribeca. TOGI invested US\$10 million in the Company by way of convertible secured loan notes (the "Notes"). The Notes are convertible at TOGI's option into 5,890,080 new ordinary shares of US\$0.50 each ("Ordinary Shares"), at a conversion price of US\$1.72 (£0.86) per Ordinary Share. In the event the Notes are not converted into Ordinary Shares, the Notes carry an interest rate of 15% per annum.

**17 Post balance sheet events** (*Continued*)

Under the original terms of the PDN acquisition, a second cash payment of US\$13 million was due to be paid to the vendors of PDN upon the extension of the Tisquirama licence. As announced on 29 November 2007, PELE reached agreement with the vendors of PDN to make a cash payment of US\$7 million and to issue to the vendors PELE shares to the value of US\$3 million at a price of (£0.50) \$1.00 per share (equivalent to (£0.10) \$0.20) per share prior to the Company's share consolidation). On 16 May 2008, of the aforementioned cash payment of US\$7 million, US\$2.5 million was paid, and 3,045,299 Ordinary Shares were allotted to the vendors of PDN, (Lyan Financial Corp: 2,040,299 shares, and Rorick Ventures Group Inc: 1,050,000 shares), companies in which Juan Carlos Rodriguez and his family have a beneficial interest respectively.

On 25 June 2008, the Company announced that Ryder Scott completed an updated assessment of the reserves, future production and income attributable to the Company's four concessions in Colombia as at 31 December 2007. Ryder Scott reported that Proved Reserves net to the Company in respect of its interests in Colombia totalled approximately 2.75 million boe (corresponding figure as at 31 December 2006 - approximately 0.45 million boe), 2P reserves net to the Company totalled approximately 5.06 million boe (as at 31 December 2006 - 0.66 million boe) and 3P reserves net to the Company totalled approximately 7.34 million boe (as at 31 December 2006 - approximately 2.5 million boe). Based upon NYMEX crude oil futures prices as of 10 April 2008, the Net Present Value at a 10 per cent. discount ("NPV10") of the Proved Reserves was \$47.7 million. The NPV10 of the 2P reserves totalled \$108.8 million and the NPV10 of the 3P reserves totalled \$164.9 million.

On 10 July 2008, the Company issued 800,000 ordinary shares of \$0.50 each in the capital of the Company to Macquarie, as detailed in note 9.

On 11 July 2008, the Company completed the second tranche of the proposed investment of US\$25 million in the Company by TOGI. The Notes were converted by TOGI into 5,890,080 new Ordinary Shares, at a conversion price of £0.83 per Ordinary Share. TOGI has invested a further US\$15 million in the Company by way of a subscription for 9,470,919 Ordinary Shares ("the Subscription"). TOGI holds in aggregate, 15,360,999 Ordinary Shares, representing a 35 per cent interest in the Company. All related security held by TOGI relating to the Company and members of its Group since 16 May 2008 was released. As part of the consideration for the Subscription, TOGI has also been granted 1,875,260 warrants which are automatically exercisable, for no additional consideration, into 1,875,260 Ordinary Shares if, and to the extent that, any exercise of the Company's existing outstanding 3,482,625 warrants occurs. Luc Gerard and Ciro Méndez, representatives of Tribeca, will join the Company's board as Executive Chairman and Non-executive Directors respectively, and Gregory Smith, Executive Chairman has agreed to step down from the board following publication of these results.

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



*(Incorporated and registered in England and Wales with Registered No. 05173588)*

**Directors:**

Gregory Charles Smith (*Executive Chairman*)  
Juan Carlos Rodriguez (*Interim Chief Executive Officer*)  
Mark Allan Patterson (*Non-Executive Director*)  
James Joseph May (*Non-Executive Director*)

**Registered Office:**

34 Grosvenor Gardens  
London SW1W 0DH

\_\_\_ July 2008

***To Shareholders and, for information purposes only, to Warrantholders***

Dear Shareholder

**Notice of Annual General Meeting**

The Annual General Meeting ("Meeting") of PetroLatina Energy Plc (the "Company") is due to take place on the date and at the time and at the location set out in the attached Notice of Meeting.

The Meeting is being held to comply with Company law requirements and to pass a standard set of shareholder resolutions.

You will be given the opportunity to raise any questions in relation to such resolutions at the Meeting. Explanatory notes on the business to be considered as special business at the AGM appear on pages 91 to 93 of this document.

**Recommendation**

The directors of the Company consider that all the proposals to be considered at the Meeting are in the best interests of the Company and its members as a whole and are most likely to promote the success of the Company for the benefit of its members as a whole. The directors unanimously recommend that you vote in favour of all the proposed resolutions as they propose to do in respect of their own holdings of Ordinary Shares in the Company.

Yours faithfully

Gregory Smith  
**Chairman**

# PetroLatina Energy Plc

## Notice of Annual General Meeting

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NOTICE IS HEREBY GIVEN that an Annual General Meeting ("**AGM**") of the members of PetroLatina Energy Plc (the "**Company**") will be held at the offices of Strand Partners Limited, 26 Mount Row, London W1K 3SQ at 11:00 a.m. on 5 August 2008, for the purpose of considering and, if thought fit, passing the following resolutions of which Resolutions numbered 1 to 8 shall be proposed as ordinary resolutions and Resolution numbered 9 shall be proposed as a special resolution of the Company.

### ORDINARY RESOLUTIONS

- 1 To receive and consider the Company's accounts for the year ended 31 December 2007 and the reports of the directors and the auditors thereon.
- 2 To re-appoint pursuant to Article 187 of the Company's Articles of Association, BDO Stoy Hayward LLP as auditors of the Company until the conclusion of the next Annual General Meeting.
- 3 To authorise the directors to fix the auditors' remuneration.
- 4 To re-elect Mr Mark Patterson as a Director of the Company.
- 5 To re-elect Mr Juan Carlos Rodriguez as a Director of the Company.
- 6 To re-elect Mr John May as a Director of the Company.
- 7 To elect, Mr Luc Gerard as a director of the Company.
- 8 To elect Mr Ciro Mendez as a director of the Company.

### SPECIAL RESOLUTION

- 9 To consider, and if thought fit, to pass the following resolution which is proposed as a Special Resolution:-

THAT, the Articles of Association produced to the meeting marked "A" and initialled by the chairman of the meeting for the purpose of identification be adopted as the Articles of Association of the Company in substitution for, and to the exclusion of, the existing Articles of Association of the Company.

By order of the Board



**Gregory Smith**  
*Chairman*

11 July 2008

Details of resolutions to be proposed as special business at the Annual General Meeting

Resolution 9 is proposed as special resolutions and are special business. This means that for each of those resolutions to be passed, at least three quarters of the votes cast must be in favour of the resolution.

### Resolution 9

It is proposed in resolution 9 to adopt new Articles of Association (the 'New Articles') in order to update the Company's current Articles of Association (the 'Current Articles') primarily in order to take account of the changes in English Company law brought about by the Companies Act 2006 which are in force at the date of the meeting or are shortly to come into force. The Companies Act 2006 is being implemented in phases, accordingly, further changes to the Articles may be adopted in future.

The principal changes introduced in the New Articles are summarised below. Other changes, which are of a minor, technical or clarifying nature, and also some more minor changes which merely reflect changes made by the Companies Act 2006 have not been noted. The New Articles showing all the changes to the Current Articles are available for inspection at the Company's registered office and on the Company's website [www.petrolatinaenergy.com](http://www.petrolatinaenergy.com).

#### **1. Articles which duplicate statutory provisions**

Certain provisions in the Current Articles which replicate provisions contained in the Companies Act 2006 are to be removed in the New Articles. This is in line with the approach advocated by the Government that statutory provisions should not be duplicated in a Company's constitution. The main changes are detailed below.

#### **2. Form of resolution**

The concept of extraordinary resolutions has not been retained under the Companies Act 2006 and therefore all such references have been removed in the New Articles. All resolutions of the Company will therefore be passed as ordinary or special resolutions, as applicable.

#### **3. Convening annual general meetings and other meetings**

The provisions in the Current Articles dealing with the convening of general meetings are being changed in line with the relevant matters provided for in the Companies Act 2006. In particular an extraordinary general meeting (now called a "general meeting") to consider a special resolution can be convened on 14 days' notice whereas previously 21 days' notice was required. 21 days' notice will still be required in respect of the Company's AGM unless all of the shareholders consent to such meeting being held on shorter notice.

#### **4. Votes of members**

Under the Companies Act 2006 proxies are entitled to vote on a show of hands whereas under the Current Articles proxies are only entitled to vote on a poll. The time limits for the appointment or termination of a proxy appointment have been altered by the Companies Act 2006 so that the articles cannot provide that they should be received more than 48 hours before the meeting or in the case of a poll taken more than 48 hours after the meeting, more than 24 hours before the time for the taking of a poll, with weekends and bank holidays being permitted to be excluded for this purpose. Multiple proxies may be appointed provided that each proxy is appointed to exercise the rights attached to a different share held by the shareholder. The Companies Act 2006 also allows for multiple corporate representatives to be appointed, but if they purport to exercise their rights in different ways, the corporation is deemed to have abstained from exercising its vote.

### **5. Retirement of directors**

The Current Articles contain provisions requiring all the directors to retire from office at each annual general meeting. The New Articles require the directors to retire by rotation every three years. This new provision follows the Combined Code (although compliance with the Combined Code is not mandatory for an AIM Company, it is good corporate governance to do so).

### **6. Conflicts of interest**

The Companies Act 2006 sets out directors' general duties which largely codify the existing law but with some changes. Under the Companies Act 2006, from 1 October 2008 a director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict with the Company's interests. The requirement is very broad and could apply, for example, if a director becomes a director of another Company or a trustee of another organisation.

The Companies Act 2006 allows directors of public companies to authorise conflicts and potential conflicts, where appropriate, where the articles of association contain a provision to this effect. The Companies Act 2006 also allows the articles of association to contain other provisions so that the relevant Company's directors may avoid breaching their duties. The New Articles give the directors authority to approve conflicts and potential conflicts of interest and include other provisions to allow conflicts of interest to be dealt with in a similar way to that which was set out in the Current Articles.

There are safeguards which will apply when directors decide whether to authorise a conflict or potential conflict. First, only directors who have no interest in the matter being considered will be able to take the relevant decision, and secondly, in taking the decision the directors must act in a way they consider, in good faith, will be most likely to promote the Company's success. The directors will be able to impose limits or conditions when giving authorisation if they think this is appropriate.

The New Articles also introduce provisions relating to the receipt of confidential information, attendance at board meetings and availability of board papers in a conflict situation. This takes advantage of a new provision in the Companies Act 2006 which says that directors will not be in breach of their general duties to the Company if they act in accordance with provisions in the Company's articles dealing with conflicts and the conflict has previously been authorised by the directors. Such provisions serve to protect a director being in breach of duty after such authorisation.

### **7. Notice of board meetings**

Currently under the Current Articles, in the absence of a request, it shall not be necessary to give notice of a directors' meeting to a Director who is absent from the United Kingdom. This provision has been removed, as modern communications mean that there may be no particular obstacle to giving notice to a director who is abroad.

### **8. Directors' indemnities and loans to fund expenditure**

The New Articles extend the directors' indemnity contained in the Current Articles to reflect changes introduced by the Companies Act 2006. The Companies Act 2006 has in some areas widened the scope of the powers of a Company to indemnify directors and to fund expenditure incurred in connection with certain actions against directors. In particular, a Company that is a trustee of a pension scheme can now indemnify a director against liability incurred in connection with the Company's activities as trustee of the scheme. In addition, the existing exemption allowing a Company to provide money for the purpose of funding a director's defence in court proceedings now expressly covers regulatory proceedings and applies to associated companies.

**9. Electronic and web communications**

Provisions of the Companies Act 2006 which came into force in January 2007 enable companies to communicate with members by electronic and/or website communications. The New Articles allow communications to members in electronic form and, in addition, they also permit the Company to take advantage of the new provisions relating to website communications. Before the Company can communicate with a member by means of website communication, the relevant member must be asked individually by the Company to agree that the Company may send or supply documents or information to him by means of a website, and the Company must either have received a positive response or have received no response within the period of 28 days beginning with the date on which the request was sent. The Company will notify the member (either in writing, or by other permitted means) when a relevant document or information is placed on the website and a member can always request a hard copy version of the document or information.

### NOTES TO THE NOTICE OF EXTRAORDINARY GENERAL MEETING:

#### Entitlement to attend and vote

1. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company has specified that only those members on the register of members of the Company at 5.00 p.m. on 1 August 2008 (or in the event that this meeting is adjourned, on the register of members 48 hours before the time of any adjourned meeting) shall be entitled to attend and vote at the meeting in respect of the number of ordinary shares registered in their name at that time. Changes to the register of members after 5.00 p.m. on 1 August 2008 shall be disregarded in determining the rights of any person to attend and vote at the meeting.

#### Appointment of proxies

2. A member entitled to be present at the meeting may appoint a proxy or proxies to exercise all or any of your rights to attend, speak and vote at the AGM and you should have received a proxy form with this notice of meeting. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form. A proxy need not be a member of the Company. Forms of proxy must be received by the Registrars not later than 48 hours before the time appointed for holding the AGM (or any adjournment thereof).
3. Details of how to appoint the Chairman of the General Meeting or another person as your proxy using the proxy form are set out in the notes to the proxy form. If you wish your proxy to speak on your behalf at the AGM you will need to appoint your own choice of proxy (not the Chairman) and give your instructions directly to them.
4. You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy, the proxy form should be photocopied and the name of the proxy to be appointed indicated on each proxy form together with the number of shares that such proxy is appointed in respect of. All copies of the proxy form should then be sent by post to Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZY ;
5. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the AGM.

#### Appointment of proxy using hard copy proxy form

6. The notes to the proxy form explain how to direct your proxy how to vote on each resolution or withhold their vote. To appoint a proxy using the proxy form, the form must be:
  - completed and signed;
  - sent or delivered to Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZY; and
  - received by Computershare Investor Services PLC no later than 11.00 a.m. on 1 August 2008.
7. In the case of a member which is a Company, the proxy form must be executed under its common seal or signed on its behalf by an officer of the Company or an attorney for the Company. Any power of attorney or any other authority under which the proxy form is signed (or a duly certified copy of such power of authority) must be included with the proxy form, together with a duly completed certificate of non-revocation of such power of authority.

### Appointment of proxy by joint members

8. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).

### Changing proxy instructions

9. To change your proxy instructions simply submit a new proxy appointment using the methods set out above. Note that the cut-off time for receipt of proxy appointments (see above) also applies in relation to amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded.
10. Where you have appointed a proxy using the hard-copy proxy form and would like to change the instructions using another hard-copy proxy form, please contact Computershare Investor Services PLC.
11. If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.

### Termination of proxy appointments

12. In order to revoke a proxy instruction you will need to inform the Company. Please send a signed hard copy notice clearly stating your intention to revoke your proxy appointment to Computershare Investor Services PLC at The Pavilions, Bridgwater Road, Bristol BS99 6ZY.

In the case of a member which is a Company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the Company or an attorney for the Company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power of authority) must be included with the revocation notice together with a duly completed certificate of non-revocation of such power or authority.

The revocation notice must be received by Computershare Investor Services PLC by no later than 11.00 a.m. on 1 August 2008. If you attempt to revoke your proxy appointment but the revocation is received after the time specified then, subject to the paragraph directly below, your proxy appointment will remain valid.

13. Completion of a form of proxy will not preclude a member from attending and voting in person. If you have appointed a proxy and attend the AGM in person, your proxy appointment will automatically be terminated.

### Issued shares and total voting rights

14. As at 5.00 p.m. on \_\_\_ July 2008, the Company's issued share capital comprised 43,888,570 ordinary shares of US\$0.50 each fully paid. Each ordinary share carries the right to one vote at a general meeting of the Company and, therefore, the total number of voting rights in the Company as at 5.00 p.m. on 11 July 2008 is 43,888,570.

### Communication

15. Except as provided above, members who have general queries about the EGM should use the following means of communication (no other methods of communication will be accepted):

- calling Computershare's shareholder helpline on 0870 707 1336;
- in writing to the Company by fax to 0207 259 0009.

You may not use any electronic address provided either:

- in this notice of extraordinary general meeting; or
- any related documents (including the Executive Chairman's letter and proxy form),

to communicate with the Company for any purposes other than those expressly stated.

**Nominated persons**

16. If you are a person who has been nominated under section 146 of the Companies Act 2006 to enjoy information rights (**Nominated Person**):
- You may have a right under an agreement between you and the member of the Company who has nominated you to have information rights ("Relevant Member") to be appointed or to have someone else appointed as a proxy for the AGM.
  - If you either do not have such a right or if you have such a right but do not wish to exercise it, you may have a right under an agreement between you and the Relevant Member to give instructions to the Relevant Member as to the exercise of voting rights.
  - Your main point of contact in terms of your investment in the Company remains the Relevant Member (or, perhaps, your custodian or broker) and you should continue to contact them (and not the Company) regarding any changes or queries relating to your personal details and your interest in the Company (including any administrative matters). The only exception to this is where the Company expressly requests a response from you.

**PetroLatina Energy Plc**

**Notice of Annual General Meeting**

**PETROLATINA ENERGY PLC**

*(Incorporated and registered in England and Wales with Registered No. 05173588)*

**FORM OF PROXY**

Please print in BLOCK CAPITALS.

I/We,.....

of .....

am/are (a) member(s) of PetroLatina Energy Plc (the "Company"), entitled to attend and vote at any general meeting of the Company.

I/We, being a holder(s) of Ordinary Shares of US\$0.50 each in the Company, hereby appoint the Chairman of the Meeting, or (see note 3)

.....as my/our proxy to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held at the offices of Strand Partners Limited, 26 Mount Row, London W1K 3SQ at 11:00 a.m. on 5 August 2008, and at any adjournment thereof and on any proposed amendments to the resolutions. The proxy will vote on the following resolutions, as indicated:

	FOR	AGAINST	WITHHELD
<b>ORDINARY RESOLUTIONS</b>			
1. to receive and consider the Company's accounts for the year ended 31 December 2007 and the reports of the directors and the auditors thereon;			
2. to re-appoint pursuant to Article 187 of the Company's Articles of Association, BDO Stoy Hayward LLP as auditors of the Company until the conclusion of the next Annual General Meeting;			
3. to authorise the directors to fix the auditors' remuneration;			
4. to re-elect Mr Mark Patterson as a director of the Company, having been made a director previously, and being eligible for re-election;			
5. to re-elect Mr Juan Carlos Rodriguez as a director of the Company, having been made a director previously, and being eligible for re-election;			
6. to re-elect Mr John May as a director of the Company, having been made a director previously, and being eligible for re-election;			
7. to elect, Mr Luc Gerard as a director of the Company;			
8. to elect, Mr Ciro Mendez as a director of the Company;			
<b>SPECIAL RESOLUTION</b>			
9. To consider, and if thought fit, to pass the following resolution which is proposed as a Special Resolution:-  THAT, the Articles of Association produced to the meeting marked "A" and initialled by the chairman of the meeting for the purpose of identification be adopted as the Articles of Association of the Company in substitution for, and to the exclusion of, the existing Articles of Association of the Company.			

# PetroLatina Energy Plc

## Notice of Annual General Meeting

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Please indicate with an "X" in the space provided how you wish your vote to be cast in respect of each resolution. If you sign and return this form without indicating how the proxy is to vote, he/she will have discretion to vote either way or to abstain.

Signature(s): ..... Date:.....2008

### NOTES:

1. As a member of the Company you are entitled to appoint a proxy to exercise all or any of your rights to attend, speak and vote at an AGM of the Company. You can only appoint a proxy using the procedures set out in these notes.
2. Appointment of a proxy does not preclude you from attending the AGM and voting in person. If you have appointed a proxy and attend the AGM in person, your proxy appointment will automatically be terminated.
3. A proxy does not need to be a member of the Company but must attend the AGM to represent you. To appoint as your proxy a person other than the Chairman of the AGM, insert their full name in the box. If you sign and return this proxy form with no name inserted in the box, the Chairman of the AGM will be deemed to be your proxy. Where you appoint as your proxy someone other than the Chairman, you are responsible for ensuring that they attend the AGM and are aware of your voting intentions. If you wish your proxy to make any comments on your behalf, you will need to appoint someone other than the Chairman and give them the relevant instructions directly.
4. You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy, the proxy form should be photocopied and the name of the proxy to be appointed indicated on each proxy form together with the number of shares that such proxy is appointed in respect of. All copies of the proxy form should then be sent to Computershare Investor Services PLC at the address, fax number or email address given below.
5. To direct your proxy how to vote on the resolutions mark the appropriate box with an "X". To abstain from voting on a resolution, select the relevant "Withheld" box. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the meeting.
6. To appoint a proxy using this form, the form must be:
  - completed and signed;
  - sent or delivered to Computershare Investor Services PLC by post to PO Box 1075, The Pavilions, Bridgwater Road, Bristol BS99 3FA; and
  - received by Computershare not later than 48 hours before the time of the meeting or adjourned meeting.
7. In the case of a member which is a Company, this proxy form must be executed under its common seal or signed on its behalf by an officer of the Company or an attorney for the Company.
8. Any power of attorney or any other authority under which this proxy form is signed (or a duly certified copy of such power or authority), and a duly completed certificate of non-revocation of such power or authority must be included with the proxy form.
9. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).
10. If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.
11. For details of how to change the proxy instructions or revoke your proxy appointment see the notes to the notice of AGM.

## **PetroLatina Energy Plc**

### **Notice of Annual General Meeting**

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12. Pursuant to Regulation 41(1) of the Uncertificated Securities Regulations 2001, to be entitled to vote at the meeting (and for the purposes of the determination by the Company of the number of votes that may be cast) members must be entered on the register of members of the Company by 5.00 p.m. on 11 July 2008.