

**PetroLatina Energy Plc (formerly
Taghmen Energy Plc)**

Report and Financial Statements

Year Ended

31 December 2006

PetroLatina Energy Plc (formerly Taghmen Energy Plc)

Annual report and financial statements for the year ended 31 December 2006

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PetroLatina Energy Plc (formerly Taghmen Energy Plc)

Directors and advisers

Directors	Gregory Smith Rudolph Berends Mark Patterson Joseph Strubel James Guiang	(Chairman) (President & Chief Executive Officer) – appointed 7 March 2007 (Non-Executive Director) – appointed 1 February 2007 (Non-Executive Director) (Non-Executive Director)
Secretary	Ian Refault	appointed 25 August 2006
Company number	05173588	
Registered office and business address	c/o Blake Cassels & Graydon LLP, 7 th Floor, 10 Lloyds Avenue, London, EC3N 3AX.	
Registrars	Computershare Investor Services Plc, The Pavilions, Bridgwater Road, Bristol, BS99 7NH.	
Auditors	BDO Stoy Hayward LLP, 8 Baker Street, London, W1U 3LL.	
Solicitors	Blake Cassels & Graydon LLP, 7 th Floor, 10 Lloyds Avenue, London, EC3N 3AX.	
Nominated adviser and broker	Seymour Pierce Limited.	
Country of Incorporation	Great Britain	
Legal form	Public Limited Company	

PetroLatina Energy Plc (formerly Taghmen Energy Plc)

Chief Executive's Statement

Chief Executive's Statement

The past year has seen some large steps forward in the development of PetroLatina but we have also experienced disappointments.

Operations Review

In April 2006 the Group acquired interests in two exploration blocks in Colombia with a 70% interest in Midas and an indirect 65% interest in La Paloma. On 16 June 2006 PetroLatina subsequently acquired Petroleos Del Norte ("PDN"), a small operating company with production from three licences in the Middle Magdalena Valley, a prolific oil and gas region of Colombia. The Group holds 50% and 25% interests in the Los Angeles and Santa Lucia fields respectively on the Tisquirama licence and a 100% interest in the Dona Maria field on the Lebrija licence, which together provided daily crude oil production of approximately 500 barrels of oil per day ("bopd") in 2006. PetroLatina acquired PDN for \$32 million, \$13 million of which is payable on the successful extension of the Tisquirama licence from 2009 to 2025, being the technical life of the fields.

PDN also owns the Rio Zulia - Ayacucho ("RZA") pipeline which transports crude oil from the Tibu and Rio Zulia fields in the Catatumbo Basin of east-central Colombia. Daily post acquisition crude throughput was 2,742 bopd in 2006. Through these acquisitions PetroLatina has established a core operational base in Colombia, an established oil and gas country with increasingly favourable investment opportunities and reduced political risk.

At the same time the Group have experienced discouraging drilling results in Guatemala. Guatemala has continued to prove to be both geologically challenging and a difficult environment to work in. Having proven high quality oil to be in place through the drilling of the 3X well and the 1X sidetrack on the 6-93 acreage, a combination of lack of reservoir pressure and geological complexity rendered production from these wells uneconomic. Also, a three well work-over programme on the A7-2005 Atzam / Tortugas licence was hindered by the local Municipality, which controls the Tortugas salt dome and the surrounding area, who refused the Company access to this area of the licence which PetroLatina believe to hold the best potential for early production from Guatemala.

Outlook

I do not, however, wish to dwell on the past but look to the future. Since my appointment in March 2007 I have thoroughly reviewed the operational and financial structure of the Group with a view to increasing financial efficiency whilst enhancing the value inherent in the oil and gas assets therein.

Colombia holds the potential of both immediate and sustained future growth. We have a small but stable production from the PDN operating subsidiary which offers some development potential, plus some exciting exploration acreage in the La Paloma and Midas blocks.

To realise this upside PetroLatina needs firstly to secure the extension of the Tisquirama licence, where PDN holds the majority of its producing interests, to 2025. I can report to you that discussions are proceeding to find mutually beneficial terms with our partners Ecopetrol and PetroSantander to secure this extension. The Group is also finalising the logistics necessary to bring the Serafin gas well into production in August 2007, which will provide additional revenue to the Company. Serafin was successfully worked over in the first quarter 2007,

Secondly, the La Paloma and Midas exploration blocks provide the Group with the potential to substantially increase reserves. The newly acquired seismic data on the La Paloma block shows a well defined four way dip closure at base Tertiary / Cretaceous level and the Midas block also has interesting prospects. PetroLatina has successfully negotiated a reduction in the carried interests of the local partners in both blocks, resulting in the Group now holding a working interest of 80% in both. The Group is now proceeding with the next phase on both blocks and is currently considering a farm out of Midas.

PetroLatina Energy Plc (formerly Taghmen Energy Plc)

Chief Executive's Statement (*Continued*)

Financial

I know it has been a concern of some shareholders as to the financial underpinning of the Group going forward. I can report that PetroLatina is currently in discussion with Macquarie Bank in relation to the terms of a \$20 million debt facility to provide funds for the second stage payment for PDN and the further development on the PDN fields. This funding is intimately tied to the securing of the licence extension. Macquarie also has a separate mandate to provide finance for the second phase commitment on the La Paloma licence, being the re-entry of an existing well or the drilling of one new exploration well. In addition, PetroLatina has taken steps to materially reduce overhead and in doing so will centralise its operational and technical management in Colombia and reduce its London office to a small representative presence.

Regarding Guatemala, the decision has been made by the Board of Directors to farm out PetroLatina's interests. PetroLatina has signed a \$175,000 four month option contract with a potential local buyer to acquire all the interests for \$ 4 million. Under this agreement the Group shall retain a 20% carried interest in the first three wells. Following this decision, the Directors have reviewed the carrying value of all PetroLatina's Guatemalan assets in the financial statements. As a result of this review, an impairment has been made to historical exploration expenditure of \$30 million and fixed assets and drilling materials inventory have been written down by \$0.35 and \$1.1 million respectively. Additionally, due to some uncertainty as to the recoverability of purchase VAT on materials and equipment, a further charge of \$1.3 million has been charged against 2006 income.

Due primarily to the above one off charges, PetroLatina is reporting an operating loss in the 2006 financials of \$42 million.

Technical

The Group has taken a different approach to last year in reporting oil and gas reserves. Colombian reserves detailed on page 45 of this document show proven reserves only and represent production to the end of the current licence term only, being 1 March 2009. This approach is consistent with international reserve reporting standards. Guatemalan reserves represent the A7-2005 licence / Tortugas reserves only, following unsuccessful drilling at Las Casas in 2006.

In summary, I believe that the recent restructuring of PetroLatina will significantly enhance the efficiency of the business going forward and sets foundations to realise our goal of providing shareholders with the growth potential they deserve.

I would like to thank you for your continued support and I look forward to bringing you good news during 2007 and beyond.

Signed

Rudolph Berends

President and Chief Executive Officer

PetroLatina Energy Plc (formerly Taghmen Energy Plc)

Report of the Directors for the year ended 31 December 2006

The Directors present their report together with the audited financial statements for the year to 31 December 2006.

The prior period relates to the period from incorporation (7 July 2004) to 31 December 2005.

Effective 24 July 2006 the Company changed its name from Taghmen Energy Plc to PetroLatina Energy Plc to more fully reflect its Latin American focus.

Results and dividends

The results of the Group for the year are set out on page 13 and show a loss for the year of \$42,422,962 (2005 - \$6,846,524 restated).

The Directors have carried out a detailed review of the carrying value of all the Company's oil and gas assets. This review has resulted in an exceptional charge in the accounts of \$38,521,457 (2005 - \$2,014,333). Detail of exceptional charges can be found in note 3.

The results for 2006 include a non cash charge for equity settled share based payments of \$846,185 (2005 restated - \$299,138). The Directors continue to monitor administrative costs closely and further details of the operations are set out in the Chief Executive's Statement on pages 4 and 5.

The Directors do not recommend the payment of a dividend.

Principal activities, review of business and future developments

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 year and consider that the future will provide challenges and rewards for the Group. A full review of activities and prospects can be found in the Chief Executive's Statement on pages 4 and 5.

Key performance indicators of the Group are represented by the unaudited supplementary oil and gas information on page 45.

Principal risks and uncertainties

The development of the Group's principal projects are detailed in the Chief Executive's Statement on pages 4 and 5. The overall economics of the Group'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.

PetroLatina Energy Plc (formerly Taghmen Energy Plc)

Report of the Directors for the year ended 31 December 2006 (Continued)

Disabled persons

Though the Group does not currently employ any disabled persons, it is the Group's policy to recruit disabled workers for those vacancies that they are able to fill. All necessary assistance with training courses will be given to disabled persons. Arrangements will be made, wherever possible, for retraining employees who become disabled, to enable them to perform work identified as appropriate to their aptitudes and abilities.

Policy on the payment of creditors

The Group's policy for the year ended 31 December 2006 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 45 days (2005 – 45 days).

Financial instruments

Details of the use of financial instruments by the Company and its subsidiary undertakings are contained in note 31 of the financial statements.

Substantial shareholdings

With the exception of the following, the Directors are not aware of any person, who has interests in 3% or more of the issued share capital of the Company, as at 22 March 2007.

Name of holder	Number of ordinary shares	Percentage of issued shares %
RAB Capital	22,989,602	20.17%
Taghmen Ventures Ltd / Gregory Smith	17,700,001	15.53%
Artemis Investment Management Ltd	9,000,000	7.89%
Continental Capital SPC	5,922,853	5.20%
Allianz SE	5,615,385	4.93%
Millennium Global Natural Resources Fund	5,283,400	4.63%
OZ Management LLC	3,779,394	3.32%
AXA Framlington Investment Management	3,500,000	3.07%

Directors and their interests

The Directors of the Company during the year were:

Gregory Smith (Chairman)	appointed 7 July 2004
Nicholas Gay (President and Chief Executive Officer)	appointed 17 November 2004
Jay Scott (Chief Operations Officer)	appointed 21 December 2004
Joseph Strubel (Non-Executive Director)	appointed 12 January 2005
James Guiang (Non-Executive Director)	appointed 12 January 2005
Richard Lavers (Non-Executive Director)	appointed 1 June 2006

Messrs Gay, Scott and Lavers have resigned from the Board since the year end

PetroLatina Energy Plc (formerly Taghmen Energy Plc)

Report of the Directors for the year ended 31 December 2006 (Continued)

	31 December 2006			31 December 2005		
	Ordinary Shares	Warrants	Options	Ordinary Shares	Warrants	Options
Gregory Smith	14,850,001	4,250,000	100,000	13,600,001	5,500,000	100,000
Nicholas Gay	780,000	250,000	300,000	750,000	250,000	300,000
Jay Scott	859,634	250,000	250,000	750,000	250,000	250,000
Joseph Strubel (1)	12,012,853	5,042,737	-	7,158,765	5,042,737	-
James Guiang (2)	5,645,755	396,125	-	1,000,000	396,125	-
Richard Lavers	-	-	-	-	-	-

(1) Shares and warrants are held in the name of Millennium Global High Yield Fund

(2) Includes shares held in the name of Argentiere Holdings Ltd and Millenium Global Natural Resources Fund and warrants held in the name of Rhodes Ventures S.A.

On 17 January 2006, Millennium Global High Yield Fund, a company in which Joseph Strubel is portfolio manager, purchased 1,106,194 ordinary shares for cash at \$0.904 per share or \$1,000,000.

On 31 March 2006, Taghmen Ventures Limited, a company in which Greg Smith has a beneficial interest, exercised 1,000,000 warrants at \$0.10 per ordinary share [at a gain of \$0.741 per share or \$741,000].

On 4 August 2006, Taghmen Ventures Limited, a company in which Greg Smith has a beneficial interest, exercised 250,000 warrants at \$0.10 per ordinary share [at a gain of \$0.51 per share or \$127,800].

On 31 August 2006, Millennium Global High Yield Fund, a company in which Joseph Strubel is portfolio manager, purchased 4,854,088 ordinary shares for cash at \$0.38 per share or \$1,844,553 and Millennium Global Natural Resources Fund, a company in which James Guiang is portfolio manager, purchased 5,645,755 ordinary shares for cash at \$0.38 per share or \$2,145,387.

No Directors exercised their options in the period.

All holdings are beneficially held unless otherwise stated.

On 1 February 2007, Millennium Global High Yield Fund, a company in which Joseph Strubel is portfolio manager, sold 12,012,853 ordinary shares for cash at \$0.47 per share or \$5,646,041.

On 20 February 2007, Taghmen Ventures Limited, a company in which Greg Smith has a beneficial interest, exercised 3,750,000 warrants at \$0.10 per ordinary share [at a gain of \$0.44 per share or \$1,636,800].

No Director had any direct interest in the shares of subsidiary undertakings or any other Group undertakings.

Donations

During the year, the Group made donations of \$14,894 (2005 - \$4,074) to various charitable organisations in Guatemala as part of its commitment to support local communities in the areas of operations. The Group made no political donations during the period.

PetroLatina Energy Plc (formerly Taghmen Energy Plc)

Report of the Directors for the year ended 31 December 2006 (Continued)

Post balance sheet events

Further details of post balance sheet events can be found in note 32.

Going concern note

Further details regarding the going concern of the Company can be found in note 1.

Corporate governance

The Directors support the recommendations of the Combined Code on Corporate Governance. As the Group continues to grow, the Directors will review their compliance with the Code from time to time and will adopt such of the provisions as they consider to be appropriate to the size of the Group.

Auditors

All of the current 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.

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.

On behalf of the Board

Gregory Smith

Director

12 June, 2007

PetroLatina Energy Plc (formerly Taghmen Energy Plc)

Statement of Directors responsibilities for the year ended 31 December 2006

Directors' responsibilities

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 Group and parent company and of the profit or loss of the Company for that year. In preparing those financial statements, the Directors are required to:

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

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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 (formerly Taghmen Energy Plc)

Report of the Independent Auditors

To the shareholders of PetroLatina Energy Plc

We have audited the Group and parent Company financial statements (the “financial statements”) of PetroLatina Energy Plc for the year ended 31 December 2006 which comprise the consolidated profit and loss account, the consolidated and parent Company balance sheets, the consolidated cash flow statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The Directors’ responsibilities for preparing the financial statements in accordance with applicable law and the 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 are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors’ Report is consistent with the financial statements, if 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. The other information comprises only the Directors’ Report, the Chief Executive’s Statement and the supplementary oil and gas information. 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. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group’s and Company’s circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), of the state of the Group's affairs as at 31 December 2006 and of its loss for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), of the state of the parent company's affairs as at 31 December 2006;
- 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.

Emphases of matter

Uncertainty over value of pipeline

In forming our opinion, which is not qualified, we have considered the adequacy of the disclosures made in note 10 to the financial statements concerning the uncertainties over the valuation of that asset. The pipeline is included at its fair value at acquisition of \$10 million. The valuation is based in part on assumptions regarding future revenues over which there is significant uncertainty. If assumptions regarding future revenues do not materialise, the value of the pipeline would be reduced to approximately \$1 million. The Directors are satisfied that the pipeline has been included in the financial statements at its recoverable amount. The financial statements do not include any adjustments that would result if the assumptions regarding future pipeline revenues do not materialise.

Going concern

In forming our opinion, which is not qualified, we have considered the adequacy of the disclosures made in note 1 to the financial statements concerning the ability of the Group to continue as a going concern. Further funds will be required to finance the Group's development work programme. The Directors are confident of being able to raise these funds and are in advanced negotiations with a third party. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the ability of the Group to continue as a going concern. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

BDO STOY HAYWARD LLP

*Chartered Accountants
and Registered Auditors*
London

12 June, 2007

PetroLatina Energy Plc (formerly Taghmen Energy Plc)

Consolidated profit and loss account for the year ended 31 December 2006

	Note	31 December 2006 Continuing Operations \$'000	31 December 2006 Acquisitions \$'000	31 December 2006 Total \$'000	31 December 2005 (Restated) \$'000
Turnover					
Revenue from oil sales	2	-	3,277	3,277	-
Pipeline income		-	897	897	-
		<u>-</u>	<u>4,174</u>	<u>4,174</u>	<u>-</u>
Cost of sales:					
Field and pipeline operating costs		-	(1,177)	(1,177)	-
Depletion and depreciation of oil and gas assets		(31)	(979)	(1,010)	-
		<u>(31)</u>	<u>2,018</u>	<u>1,987</u>	<u>-</u>
Gross profit					
Administrative expenses					
Exceptional - impairment items	3	(34,029)	(1,276)	(35,305)	(2,014)
Exceptional – amortisation of deferred share costs		(3,216)	-	(3,216)	-
Other general and administrative expenses		<u>(3,682)</u>	<u>(1,720)</u>	<u>(5,402)</u>	<u>(5,010)</u>
Total administrative expenses		<u>(40,927)</u>	<u>(2,996)</u>	<u>(43,923)</u>	<u>(7,024)</u>
Operating loss	4	<u>(40,958)</u>	<u>(978)</u>	<u>(41,936)</u>	<u>(7,024)</u>
Interest payable	6	(445)	(78)	(523)	(40)
Interest receivable		383	6	389	217
		<u>(41,020)</u>	<u>(1,050)</u>	<u>(42,070)</u>	<u>(6,847)</u>
Loss on ordinary activities before taxation					
Current tax charge for the year	7	-	(353)	(353)	-
		<u>(41,020)</u>	<u>(1,403)</u>	<u>(42,423)</u>	<u>(6,847)</u>
Loss for the year					
Loss per share					
Basic and diluted loss per ordinary share	8			(49c)	(15c)

All recognised gains and losses in the current year are included in the profit and loss account.

The notes on pages 17 to 44 form part of these financial statements.

PetroLatina Energy Plc (formerly Taghmen Energy Plc)**Consolidated balance sheet at 31 December 2006**

		31 December 2006	31 December 2005
	Note	\$'000	(Restated)
			\$'000
Fixed assets			
Tangible oil and gas assets	10	19,395	1,412
Intangible oil and gas assets	11	2,905	19,870
Investments	12	41	-
		<hr/>	<hr/>
		22,341	21,282
Current assets			
Stocks	13	54	1,363
Debtors	14	1,244	1,056
Deferred share costs due within one year	14	-	1,773
Deferred share costs due after one year	14	-	1,443
Cash at bank and in hand		5,652	1,294
		<hr/>	<hr/>
		6,950	6,929
Current liabilities			
Creditors falling due within one year	15	(2,246)	(3,659)
Short term loans	30	(7,658)	-
		<hr/>	<hr/>
Net current (liabilities) / assets		(2,954)	3,270
		<hr/>	<hr/>
Total assets less current liabilities		19,387	24,552
Provisions for liabilities and charges	17	(857)	(300)
		<hr/>	<hr/>
Total net assets		18,530	24,252
		<hr/>	<hr/>
Capital and reserves			
Called up share capital	18	11,077	5,496
Share premium	19	55,357	25,164
Warrant reserve	19	1,051	140
Stock option reserve	19	315	299
Profit and loss account	19	(49,270)	(6,847)
		<hr/>	<hr/>
Shareholders' funds		18,530	24,252
		<hr/>	<hr/>

The financial statements were approved by the Board of Directors and authorised for issue on 12 June, 2007

Gregory Smith
Rudolph Berends

Directors

The notes on pages 17 to 44 form part of these financial statements.

PetroLatina Energy Plc (formerly Taghmen Energy Plc)**Company balance sheet at 31 December 2006**

		31 December 2006	31 December 2005
	Note	\$'000	(Restated) \$'000
Fixed assets			
Tangible oil and gas assets	10	66	111
Intangible oil and gas assets	11	1,319	997
Investments	12	21,788	4,352
		<hr/>	<hr/>
		23,173	5,460
Current assets			
Debtors	14	735	18,485
Deferred share costs due within one year	14	-	1,773
Deferred share costs due after one year	14	-	1,443
Cash at bank and in hand		3,403	1,286
		<hr/>	<hr/>
		4,138	22,987
Current liabilities			
Creditors falling due within one year	15	(412)	(385)
Convertible loan	15/16	-	(350)
		<hr/>	<hr/>
Net current assets		3,726	22,252
		<hr/>	<hr/>
Total assets less current liabilities		26,899	27,712
Long term liabilities			
Creditors falling due after one year	15	(6,689)	-
		<hr/>	<hr/>
Total net assets		20,210	27,712
		<hr/>	<hr/>
Capital and reserves			
Called up share capital	18	11,077	5,496
Share premium	19	55,357	25,164
Warrant reserve	19	1,051	140
Stock option reserve	19	315	299
Profit and loss account	19	(47,590)	(3,387)
		<hr/>	<hr/>
Shareholders' funds		20,210	27,712
		<hr/>	<hr/>

The financial statements were approved by the Board of Directors and authorised for issue on 12 June, 2007

Gregory Smith
Rudolph Berends

Directors

The notes on pages 17 to 44 form part of these financial statements.

PetroLatina Energy Plc (formerly Taghmen Energy Plc)

Consolidated cash flow statement for the year ended 31 December 2006

		31 December 2006		31 December 2005 (Restated)	
	Note	\$'000	\$'000	\$'000	\$'000
Net cash outflow from operating activities	27		(2,523)		(5,166)
Returns on investments and servicing of finance					
Interest received		388		217	
Interest paid		(468)		-	
Net cash (outflow) / inflow from returns on investments and servicing of finance			(80)		217
Taxation			(353)		-
Capital expenditure and financial investment					
Purchase of tangible fixed assets		(1,696)		(1,175)	
Exploration costs		(13,554)		(12,665)	
			(15,250)		(13,840)
Acquisitions and disposals					
Acquisition of subsidiary	22	(19,586)		(3,352)	
Cash acquired with subsidiary	22	227		30	
			(19,359)		(3,322)
Cash outflow before use of liquid resources and financing			(37,565)		(22,111)
Management of liquid resources					
Other liquid funds		(934)		(967)	
			(934)		(967)
Financing					
Issue of ordinary share capital (net of issue costs)		35,429		22,405	
Exercise of share warrants		125		1,000	
Short term loan		7,000		-	
Repayment of convertible loan		(350)		-	
Repayment of short term loan		(281)		-	
			41,923		23,405
Increase in cash	29		3,424		327

The notes on pages 17 to 44 form part of these financial statements.

PetroLatina Energy Plc (formerly Taghmen Energy Plc)

Notes forming part of the financial statements for the year ended 31 December 2006

1 Accounting policies

Basis of preparation

The financial statements have been prepared in US dollars (\$) 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.

In preparing these financial statements the Group has adopted for the first time FRS 20 'Share based payments' (see policy below).

Going concern

The Directors are currently seeking to extend the term of the Tisquirama licence in Colombia which currently expires in 2009 until 2025. Under the terms of the acquisition of PDN, contingent consideration of \$13m is payable should the licence term be extended. Additional development capital of approximately \$4m would also be required at this point.

The Directors are currently in advanced negotiations with an International bank for a long term debt facility which would fund the additional consideration and the development costs. The Directors believe that the licence will be extended and are therefore confident of being able to secure the relevant funding. However, whilst negotiations with the debt provider are at an advanced stage there can be no guarantee that this will be successfully concluded.

If the licence extension is not granted the Directors will be forced to dispose of the Group's assets and interests in licences in order to settle the Group's liabilities.

These financial statements have been prepared on a going concern basis, as based upon the above, the Directors believe this to be appropriate. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

The following principal accounting policies have been applied:

Basis of consolidation

The consolidated financial statements incorporate the results of PetroLatina Energy Plc and all of its subsidiary undertakings as at 31 December 2006 using the acquisition method of accounting. Under the acquisition method, the results of subsidiary undertakings are included from the date of acquisition.

Turnover

Oil sales revenue includes the sales value, net of sales taxes and overriding royalties.

Pipeline revenue consists of pipeline throughput tariffs.

1 Accounting policies (Continued)

Oil and gas assets and pipeline

Oil and gas expenditures have been accounted for under the full cost method of accounting.

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.

Costs relating to evaluated properties within each pool are depleted on a unit of production method based on the commercial proven and provable reserves for the pool. The amortisation calculation takes account of the estimated future costs of development of recognised proved and probable reserves, based on current price levels. Changes in reserve quantities and cost estimates are recognised prospectively.

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

Depletion of oil and gas assets

Oil and gas assets are depleted under a unit of production method on the proven reserves over the term of the licences.

Decommissioning

Provision for plug and abandonment costs is recognised in full at the commencement of drilling. The amount recognised is the present value of the estimated future expenditure determined in accordance with local conditions and requirements. A corresponding fixed asset of an amount equivalent to the provision is also created. This is subsequently depreciated as part of the capital costs of the production. Any change in the present value of the estimated expenditure is reflected as an adjustment to the provision and the fixed assets.

PetroLatina Energy Plc (formerly Taghmen Energy Plc)

Notes forming part of the financial statements for the year ended 31 December 2006 (Continued)

1 Accounting policies (Continued)

Stock

Stock, which comprises oil in tanks and pipelines as well as materials, are stated at the lower of cost and net realisable value.

Deferred share costs

Where shares are issued in exchange for services the fair value of the consideration is calculated by reference to the market value of shares issued. Where there is no readily available market price the fair value is assessed by reference to shares issued for cash and the Directors' estimates of fair value at the date of the agreement. The fair value of the consideration is then amortised over the period of the agreement or until such time when services are no longer required.

Investments

Fixed assets investments are stated at cost less provision for diminution in value.

Current asset investments are stated at the lower of cost and net realisable value.

Foreign currency

Foreign currency transactions of individual companies 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.

The results of overseas operations are translated at the average rates of exchange during the period and their balance sheets translated into US dollars at the rates of exchange ruling on the balance sheet date. Exchange differences which arise from translation of the opening net assets and results of foreign subsidiary undertakings and from translating the profit and loss account at an average rate are taken to reserves.

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 Group used the following exchange rates within these accounts:

	\$
Sterling (average)	1.84
Sterling (year end)	1.96

Financial instruments

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

PetroLatina Energy Plc (formerly Taghmen Energy Plc)

Notes forming part of the financial statements for the year ended 31 December 2006 (*Continued*)

1 Accounting policies (*Continued*)

Financial instruments (continued)

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

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

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.

Operating leases

All leases included in the financial statements are treated as operating leases. There are no financial or hire purchase leases.

Share-based payments

During the year, the Group adopted FRS 20 (share based payments) for the first time. Details of the impact of this adoption on the current year and prior period's accounts are included in note 23. 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. 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 equity instruments are granted to persons other than employees, the income statement is charged with the fair value of goods and services received.

Pension costs

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

Liquid resources

For the purposes of the cash flow statement, liquid resources are defined as current asset investments and short term deposits.

PetroLatina Energy Plc (formerly Taghmen Energy Plc)

Notes forming part of the financial statements for the year ended 31 December 2006 (Continued)

1 Accounting policies (Continued)

Finance costs

Finance costs are charged to profit over the term of the debt so that the amount charged is at a constant rate on the carrying value. Finance costs include issue costs, which are initially recognised as a reduction in the proceeds of the associated capital instrument.

2 Segmental analysis and operations

Geographical market by origin:

	31 December 2006			December 2005		
	Revenue	(Loss) before tax	Net assets	Revenue	(Loss) before tax	Net assets
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
United Kingdom	-	(6,392)	58,022	-	(3,387)	27,712
Latin America	4,174	(35,678)	(39,492)	-	(3,460)	(3,460)
	<u>4,174</u>	<u>(42,070)</u>	<u>18,530</u>	<u>-</u>	<u>(6,847)</u>	<u>24,252</u>
<i>Class of business</i>						
Oil exploration and development	<u>4,174</u>	<u>(42,070)</u>	<u>18,530</u>	<u>-</u>	<u>(6,847)</u>	<u>24,252</u>

31 December 2005 comparatives are restated to account for provisions of FRS20.

3 Exceptional items

	2006	2005
	\$'000	\$'000
<i>Exceptional - impairment</i>		
Impairment of Guatemalan exploration expenditure	29,969	-
Write down of plant and equipment in Guatemala	350	-
Provision for lower value of inventory in Guatemala	1,142	-
Write down of irrecoverable VAT in Guatemala	1,280	-
Exploration costs written off	<u>2,564</u>	<u>-</u>
	35,305	-
<i>Exceptional - other</i>		
Amortisation of deferred share costs	<u>3,216</u>	<u>2,014</u>
	38,521	2,014

Following the decision to farm out the Guatemalan assets, it was necessary to write down exploration expenditure and fixed assets (plant and equipment) and to make a full provision against supplies inventory. Charges against income were \$29,969,121, \$350,000 and \$1,141,643 respectively. In addition, there is some doubt as to the recoverability of VAT on asset and material purchases in Guatemala and hence a 100% write down of \$1,279,772 against this receivable has been included in the financial statements.

PetroLatina Energy Plc (formerly Taghmen Energy Plc)

Notes forming part of the financial statements for the year ended 31 December 2006 (Continued)

3 Exceptional items (Continued)

Exploration costs relate to historical expenditure by the Company on potential acquisitions of oil and gas assets and other business development costs. Several of the related projects undertaken were unsuccessful and consequently it was necessary to write off \$2,564,254 during the year.

Deferred share costs relate to shares issued on flotation of the Company to Directors and under service agreements. Initially these costs were amortised over a 5 year period but the Directors have deemed it necessary to write them off fully during the year as the services provided therein have been completed. The charge against income during the year was \$3,215,667 (2005 - \$2,014,333).

4 Operating loss:

	2006	2005
	\$'000	\$'000
This is arrived at after charging:		
Auditors' remuneration – Group - Audit	120	98
- Corporate finance*	10	166
Amounts paid to subsidiary auditors	53	25
Auditors' remuneration – Company - Audit	120	98
- Corporate finance*	10	166
Operating lease rental - land and buildings	388	332
Equity settled share based payments	846	299
Depreciation of tangible assets	1,137	271
Exchange loss	38	300
Pension costs	88	79
	<u> </u>	<u> </u>

* In 2006, fees were paid to the auditors of \$10,000 for services relating to the Company's acquisition of Petroleos del Norte, this forming part of the acquisition cost.

5 Directors and staff

	2006		2005	
	Group	Company	Group	Company
	\$'000	\$'000	\$'000	\$'000
Directors' emoluments	1,149	973	1,531	1,234
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

The highest paid Director received emoluments totalling \$444,648 for the year (2005 \$597,809) and pension contributions of \$39,100 (2005 \$46,057).

Total pension contributions paid on behalf of Directors for the year was \$63,100 (2005 \$70,057).

Information on share options and warrants held by Directors can be found in the Directors Report on page 8.

The equity share based payment in relation to Directors during the year was \$7,791 (2005 - \$215,724)

PetroLatina Energy Plc (formerly Taghmen Energy Plc)

Notes forming part of the financial statements for the year ended 31 December 2006 (Continued)

5 Directors and staff (continued)

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.

	2006		2005	
	Group \$'000	Company \$'000	Group \$'000	Company \$'000
Directors' fees and emoluments	1,149	973	1,531	1,234
Wages and salaries - staff costs	2,162	498	1,199	189
Social security costs	179	127	125	90
Pension costs	88	78	79	53
	<u>3,578</u>	<u>1,676</u>	<u>2,934</u>	<u>1,566</u>

At year end 1,322,000 share options have been granted to and are outstanding in respect of ordinary shares to Directors and staff of the company.

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

	2006		2005	
	Group \$'000	Company \$'000	Group \$'000	Company \$'000
Technical	62	1	19	-
Administration	22	3	13	3
	<u>84</u>	<u>4</u>	<u>32</u>	<u>3</u>

6 Interest payable and similar charges - Group

	2006 \$'000	2005 \$'000
Convertible Loans	56	40
Short Term Loan	467	-
	<u>523</u>	<u>40</u>

7 Taxation on profit from ordinary activities

	2006 \$'000	2005 \$'000
<i>UK corporation tax</i>		
Current tax on profits of the period	-	-
<i>Foreign corporation tax</i>		
Current tax on profits for period	353	-
<i>Deferred tax</i>		
Deferred tax charge	-	-
	<u>353</u>	<u>-</u>

PetroLatina Energy Plc (formerly Taghmen Energy Plc)

Notes forming part of the financial statements for the year ended 31 December 2006 (Continued)

7 Taxation on profit from ordinary activities (continued)

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

	2006	2005 (Restated)
	\$'000	\$'000
Loss on ordinary activities before tax	(42,070)	(6,847)
Profit on ordinary activities at the standard rate of corporation tax in the UK of 30%	(12,621)	(2,054)
Effects of:		
Overseas tax rate differential	(413)	-
Expenses not deductible for tax purposes	10,261	1,630
Tax losses carried forward for utilisation in future periods	3,126	424
Current tax charge for period	353	-

Factors affecting future tax

At the balance sheet date the Group had a deferred tax asset relating to UK tax losses of \$1,428,000 (2005 - \$334,000) that has not been recognised as there is insufficient evidence of future taxable profits. These losses can be carried forward indefinitely.

The Group currently pays tax in Colombia at a corporation tax rate of 35%. No provision has been made for a deferred tax asset arising on Colombia tax losses carried forward of \$840,000. These losses can be carried forward for a total of five years.

8 Loss per share

The calculation of the loss earnings per share is based on the loss after tax of \$42,422,962 (2005 - \$6,846,523 restated) and on 86,976,013 (2005 - 44,832,917) ordinary shares being the weighted average number of ordinary shares in issue during the period.

In the current period the Group has made a loss therefore the effect of the options is considered to be anti-dilutive.

9 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 Group loss for the period includes a Company loss after tax of \$44,204,646 (2005- \$3,386,329 restated).

PetroLatina Energy Plc (formerly Taghmen Energy Plc)

Notes forming part of the financial statements for the year ended 31 December 2006 (Continued)

10 Tangible assets	Fixtures, fittings and office equipment \$'000	Field plant and machinery \$'000	Motor vehicles \$'000	Pipeline \$'000	Proven oil & gas assets \$'000	Total \$'000
<i>Cost</i>						
At 1 January 2006	313	1,206	164	-	-	1,683
Acquisition of subsidiaries	169	1,734	10	10,000	6,077	17,990
Additions	21	951	105	-	619	1,696
At 31 December 2006	503	3,891	279	10,000	6,696	21,369
<i>Depreciation</i>						
At 1 January 2006	84	156	31	-	-	271
Provided for in the year						
Charged to profit & loss	128	285	23	271	430	1,137
Charged to deferred exploration	7	184	25	-	-	216
Impairment provision	-	350	-	-	-	350
At 31 December 2006	219	975	79	271	430	1,974
<i>Net book value</i>						
At 31 December 2006	284	2,916	200	9,729	6,266	19,395
At 31 December 2005	229	1,050	133	-	-	1,412

The pipeline asset refers to the Rio Zulia – Ayacucho pipeline in Colombia. The carrying value of this asset is based on an independent report, commissioned by the Group prior to the acquisition of PetroLeos Del Norte in June 2006, that includes certain values attributed from future crude throughput volumes and subsequent revenue increases from third party owned oil and gas fields adjacent to the pipeline. There is uncertainty as to the timing and the amount of production from these fields and also whether any additional crude production will utilise the Group's Rio Zulia – Ayacucho pipeline. Should the adjacent fields not prove to be economically viable or if the field development plan does not utilise the pipeline the carrying value of the pipeline would be reduced to approximately \$1 million. Nevertheless, the Directors are satisfied that the pipeline has been included in the financial statements at its recoverable amount.

PetroLatina Energy Plc (formerly Taghmen Energy Plc)

Notes forming part of the financial statements for the year ended 31 December 2006 (*Continued*)

10 Tangible assets (*continued*)

Company	Total fixtures, fittings and office equipment \$'000
<i>Cost</i>	
At 1 January 2006	150
Additions	7
At 31 December 2006	157
<i>Depreciation</i>	
At 1 January 2006	39
Charge for period	52
At 31 December 2006	91
<i>Net book value</i>	
At 31 December 2006	66
At 31 December 2005	111

PetroLatina Energy Plc (formerly Taghmen Energy Plc)

Notes forming part of the financial statements for the year ended 31 December 2006 (*Continued*)

12 Investments

Company	\$'000
<i>Cost and net book value</i>	
At 1 January 2006	4,352
Additions	19,586
Provision against investment in Guatemala	(352)
Provision against investment in Colombia	(1,798)
	<hr/>
At 31 December 2006	21,788
	<hr/> <hr/>
At 31 December 2005	4,352
	<hr/> <hr/>

Company investment additions relate to the acquisition of Petroleos del Norte as detailed in note 22.

Following the impairment of the carrying value of the Guatemalan exploration assets, and a review of the carrying value of assets in Colombia the Directors have deemed it prudent to write down the investments in the Company balance sheet by \$352,248 and \$1,797,903 respectively.

Group investments of \$41,230 relate to minority holdings in non oil and gas businesses in Colombia.

Subsidiary and associated undertakings

The following were subsidiary undertakings at the end of the year and have all been included in the consolidated financial statements:

Name	Country of incorporation or registration	Proportion of voting rights and ordinary share capital held	Nature of business
PetroLatina Corporation	Bahamas	100%	Oil & Gas Exploration
Taghmen Argentina Limited	UK	100%	Oil & Gas Exploration
PetroLatina (CA) Limited	UK	100%	Oil & Gas Exploration
Taghmen Colombia S.L.	Spain	100%	Oil & Gas Exploration
Petroleos del Norte S.A.	Colombia	100%	Oil & Gas Exploration
Rend Lake Corporation	Panama	68.4%	Oil & Gas Exploration

13 Stocks

	Group	
	2006	2005
	\$'000	\$'000
Crude oil inventory	59	75
Drilling materials	1,137	1,288
Provision against inventory in Guatemala	(1,142)	-
	<hr/>	<hr/>
	54	1,363
	<hr/> <hr/>	<hr/> <hr/>

PetroLatina Energy Plc (formerly Taghmen Energy Plc)

Notes forming part of the financial statements for the year ended 31 December 2006 (Continued)

13 Stocks

Following a review of inventory stocks in the field in Guatemala there is uncertainty as to the net realisable value of inventory items relating to drilling materials and crude oil inventory. Although value can be generally but not specifically attributable, the Directors have decided to take a cautious approach to valuation and have thus made a 100% provision against these items.

14 Debtors

	Group 2006 \$'000	Company 2006 \$'000	Group 2005 \$'000	Company 2005 \$'000
Debtors repayable after more than one year	273	272	776	-
Debtors repayable within one year	813	-	-	-
Amounts owed from Group undertakings (repayable after more than one year)	-	391	-	18,395
Prepayments	65	8	133	53
Other debtors	93	64	147	37
	<u>1,244</u>	<u>735</u>	<u>1,056</u>	<u>18,485</u>
Deferred share costs due within one year	-	-	1,773	1,773
Deferred share costs due after one year	-	-	1,443	1,443
	<u>1,244</u>	<u>735</u>	<u>4,272</u>	<u>21,701</u>

15 Liabilities

	Note	Group 2006 \$'000	Company 2006 \$'000	Group 2005 \$'000	Company 2005 \$'000
Current liabilities					
Creditors falling due within one year					
Trade creditors		418	135	1,000	49
Other taxes and social security		881	-	33	25
Interest on convertible loans		17	17	40	40
Interest on short term loan		78	-	-	-
Accruals		852	260	2,236	271
Convertible loan notes	16	-	-	350	350
		<u>2,246</u>	<u>412</u>	<u>3,659</u>	<u>735</u>
Long term Liabilities					
		Group 2006 \$'000	Company 2006 \$'000	Group 2005 \$'000	Company 2005 \$'000
Creditors falling due after one year					
Amounts owed to Group undertakings		-	6,689	-	-
		<u>-</u>	<u>6,689</u>	<u>-</u>	<u>-</u>

PetroLatina Energy Plc (formerly Taghmen Energy Plc)

Notes forming part of the financial statements for the year ended 31 December 2006 (Continued)

16 Convertible Loan Notes

	Group 2006 \$'000	Company 2006 \$'000	Group 2005 \$'000	Company 2005 \$'000
Convertible loan notes	-	-	350	350
	<u>-</u>	<u>-</u>	<u>350</u>	<u>350</u>
	<u>-</u>	<u>-</u>	<u>350</u>	<u>350</u>

On 16 November 2004, the Company entered into the following fixed-rate loan agreements with Taghmen Ventures Limited:

A \$150,000 10% fixed rate convertible loan note redeemable on maturity on 30 July 2006. The loan note holder may convert the whole, but not part, into Ordinary Shares at the price of \$1.00 per share between 16 November 2004 and 30 July 2006. The Company had no right to convert the loan note.

A \$200,000 10% fixed rate convertible loan note which had to be redeemed on maturity on 30 July 2006. The loan note holder may convert the whole, but not part, into 307,692 Ordinary Shares at the price of \$0.65 per share and 307,692 warrants entitling the holder to subscribe for Ordinary Shares at \$0.65 between 16 November 2004 and 30 July 2006. The Company had no right to convert the loan note.

On 30 July 2006 the maturity date for both loan notes was extended to 31 December 2006.

The abovementioned loan notes were settled in full on 21 December 2006.

17 Provision for liabilities and charges - Group

	Plug & Abandonment Provision \$'000
At 1 January 2006	300
Provided during the period	557
	<u>857</u>
Balance at 31 December 2006	<u>857</u>

PetroLatina Energy Plc (formerly Taghmen Energy Plc)

Notes forming part of the financial statements for the year ended 31 December 2006 (Continued)

17 Provision for liabilities and charges – Group (continued)

PetroLatina Corporation (formerly Mexpetrol (Guatemala) Corporation) must repair any damage caused to the Guatemala State or to individuals and their property, including damage resulting from environmental pollution. Where a material liability for site restoration exists after a well has been drilled, a provision for plugging and abandonment is recognised. The amount recognised is the present value of estimated future expenditure determined in accordance with local conditions and requirements.

18 Share capital

Authorised	Number		Number	
	2006	2006	2005	2005
	'000	\$'000	'000	\$'000
Ordinary shares of \$0.10 each	200,000	20,000	150,000	15,000
Deferred shares of £0.0011 (approx. \$0.0021) each	50,000	105	50,000	105
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Allotted, issued and fully paid	Number		Number	
	2006	2006	2005	2005
	'000	\$'000	'000	\$'000
Ordinary shares of \$0.10 each	109,757	10,976	53,951	5,395
Deferred shares of £0.0011 (approx. \$0.0021) each	47,773	101	47,773	101
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
		11,077		5,496
		<u> </u>		<u> </u>

PetroLatina Energy Plc (formerly Taghmen Energy Plc)

Notes forming part of the financial statements for the year ended 31 December 2006 (Continued)

18 Share capital (Continued)

Consideration received in respect of the issues of Ordinary Shares during the year was as follows:

	Date	Issue price \$	Number of shares '000	Consideration \$'000	Share Capital \$'000	Share premium \$'000
Ordinary shares of \$0.10 each in issue at 1 January 2006			53,951	30,559	5,395	25,164
Issues pursuant to equity offerings	17 January 2006	0.90	1,106	1,000	111	889
	10 February 2006	0.96	27,273	26,309	2,727	23,582
	31 August 2006	0.38	21,000	7,949	2,100	5,849
	22 September 2006	0.38	4,865	1,842	487	1,355
Issued in lieu of compensation	20 March 2006	0.96	312	300	31	269
Issues pursuant to exercise of warrants	24 March 2006	0.10	1,000	100	100	-
	10 August 2006	0.10	250	25	25	-
			109,757	68,084	10,976	57,108
Share issue costs						(1,751)
Balance						55,357

PetroLatina Energy Plc (formerly Taghmen Energy Plc)

Notes forming part of the financial statements for the year ended 31 December 2006 *(Continued)*

18 Share capital *(Continued)*

At 31 December 2006 the Company had granted options over ordinary shares as follows:

EMI Scheme

Exercise price	Date of grant	Term	Opening balance as at 1 January 2006	Granted in year	Exercised in year	Lapsed in year	Closing balance as at 31 December 2006
\$1.30	12 January 2005	5 years	1,755,000	-	-	433,000	1,322,000
			<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
			1,755,000	-	-	433,000	1,322,000
			<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

The purpose of the Share Option Plan is to enable the Company to motivate and appropriately reward the directors and senior employees. Any employee or director of the Group and any consultant to the Group is eligible to participate in the Share Option Plan. At any time, the aggregate number of options granted under the Share Option Plan and any options granted under any other employer share scheme which the Company may establish in the current year and the preceding 9 years may not exceed 10 per cent of the Company's issued Ordinary Share capital. The exercise price will not be less than the market price of an Ordinary Share at the date of grant. One third of the options shall become exercisable on the grant of an option; one third on the first anniversary; and the final one third on the second anniversary of the date of grant.

On 12 January 2005, the Board granted a total of 1,755,000 Options with an exercise price of \$1.30 per Ordinary Share. 433,000 options lapsed during the year.

PetroLatina Energy Plc (formerly Taghmen Energy Plc)

Notes forming part of the financial statements for the year ended 31 December 2006 (Continued)

18 Share capital (Continued)

At 31 December 2006 the Company had granted warrants over ordinary shares as follows:

Warrants

Exercise price	Date of grant	Date of expiry	Opening balance as at 1 January 2006	Granted in year	Exercised in year	Lapsed in year	Closing balance as at 31 December 2006
\$0.10	18 July 2004	30 April 2007	5,000,000	-	1,250,000	-	3,750,000
\$0.90	July to November 2004	30 April 2007	28,106,355	-	-	-	28,106,355
\$0.9625	15 February 2006	15 February 2009	-	213,123	-	-	213,123
\$1.01	15 June 2006	15 June 2010	-	7,000,000	-	-	7,000,000
			33,106,355	7,213,123	1,250,000	-	39,069,478

Each warrant entitles the holder to purchase one Ordinary Share at a price of between \$0.10 or \$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.

On 15 February 2006, warrants with an exercise price of \$0.9625 were issued to Natexis in association with services provided on issue of shares.

On 15 June 2006, warrants with an exercise price of \$1.01 were issued to Macquarie Bank in connection with the provision of short term financing for acquiring PDN during the year (see note 22). Under FRS 20 these warrants have been valued using the Black Scholes methodology (see note 23).

During the period 1,250,000 Warrants at \$0.10 per share were exercised by Taghmen Ventures Limited.

PetroLatina Energy Plc (formerly Taghmen Energy Plc)

Notes forming part of the financial statements for the year ended 31 December 2006 (Continued)

19 Reserves

Group	Share option reserve account \$'000	Warrant reserve account \$'000	Share premium account \$'000	Profit and loss account \$'000
At 1 January 2006 (restated)	299	140	25,164	(6,847)
Loss for the year	-	-	-	(42,423)
Premium on shares issued during the year	-	-	31,944	-
Issue costs	-	-	(1,751)	-
Warrants issued in the year	-	911	-	-
Share option charge in the year	16	-	-	-
At 31 December 2006	315	1,051	55,357	(49,270)
Company				
At 1 January 2006 (restated)	299	140	25,164	(3,387)
Loss for the period	-	-	-	(44,203)
Premium on shares issued during the period	-	-	31,944	-
Issue costs	-	-	(1,751)	-
Warrants issued in the period	-	911	-	-
Share option charge in the period	16	-	-	-
At 31 December 2006	315	1,051	55,357	(47,590)

20 Reconciliation of movements in shareholders' funds

	2006		2005 (Restated)	
	Group \$'000	Company \$'000	Group \$'000	Company \$'000
Loss for the period	(42,423)	(44,203)	(6,847)	(3,387)
Warrant reserve	911	911	140	140
Share option reserve	16	16	299	299
Issue of shares (net of share issue costs)	35,774	35,774	30,660	30,660
Net movement in shareholders' funds	(5,722)	(7,502)	24,252	27,712
Opening shareholders' funds	24,252	27,712	-	-
Closing shareholders' funds	18,530	20,210	24,252	27,712

PetroLatina Energy Plc (formerly Taghmen Energy Plc)

Notes forming part of the financial statements for the year ended 31 December 2006 (Continued)

21 Capital commitments

At 31 December 2006, amounts contracted for but not provided for in the financial statements amounted to \$11.85 million for the Group and nil for the Company. This relates to the minimum agreed expenditure in the first three years in respect of the A7-2005 (Tortugas) Licence in Guatemala.

22 Acquisition of Petroleos del Norte S.A.

The Company has agreed to pay US \$32 million for Petroleos del Norte S.A. ("PDN"), payable in two installments. The first installment of US \$19 million was paid on 16 June 2006. The second installment is for US \$13 million and is payable when the Tisquirama licence (containing the Los Angeles and Santa Lucia fields) has been extended. The second installment may be reduced should the terms under which the Tisquirama licence is extended change beyond those specified in the sale and purchase agreement. In addition, a commission of \$1.25 million is payable to a third party 5 days following licence extension. Due to uncertainty as to the length of negotiations related to the extension of the Tisquirama licence and the exact amount that will be paid on extension, management has not accounted or provided for the second installment or the commission in these financial statements.

In exchange for the payment of the first installment, PetroLatina has 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, PetroLatina believes that the litigation will ultimately result in the shares held in trust being returned to PDN for cancellation, which would result in PetroLatina holding 100% of the issued and outstanding shares of PDN.

No minority interest has been accounted for as it is believed the Company owns, in effect, 100% of PDN.

As stated above, on 16 June 2006, the Company acquired control of PDN for a consideration of US \$19,113,229, which includes an adjustment of US \$113,229 for certain working capital but excludes professional fees.

In calculating the goodwill arising on acquisition, the fair market value of net assets of PDN have been assessed and adjustments from book value have been made as necessary. These adjustments are summarised in the following table.

	Book value	Fair value adjustments	Fair value on acquisition
	\$	\$	\$
Fixed Assets			
- Pipeline	620,430	9,379,570	10,000,000
- Oil and Gas assets	4,672,669	3,317,783	7,990,452
- Intangible assets	1,276,467	-	1,276,467
- Other Long term Investments	262,397	(146,754)	115,643
	<u>6,831,963</u>	<u>12,550,599</u>	<u>19,382,562</u>
Current Assets			
- Debtors	1,373,740	(39,925)	1,333,815
- Inventory	48,905	-	48,905
- Cash	226,512	-	226,512
	<u>8,481,120</u>	<u>12,510,674</u>	<u>20,991,794</u>
Total Assets			
- Creditors	(466,110)	-	(466,110)
- Loans	(940,021)	-	(940,021)
Net Assets	<u>7,074,989</u>	<u>12,510,674</u>	<u>19,585,663</u>

PetroLatina Energy Plc (formerly Taghmen Energy Plc)

Notes forming part of the financial statements for the year ended 31 December 2006 (Continued)

22 Acquisition of Petroleos del Norte S.A. (continued)

The Consideration for acquisition was made up as follows:

	\$
Cash	12,113,229
Proceeds of loan (see note 30)	7,000,000
Professional Fees	472,434
Total consideration	<u>19,585,663</u>
Fair value of nets assets acquired (above)	<u>19,585,663</u>
Goodwill arising on acquisition	<u>-</u>

The fair value adjustment to the carrying cost of the pipeline was determined by the Directors based on a Gaffney Cline report commissioned as part of the due diligence work.

The fair value of all the other non oil and gas assets and liabilities relates to the assessed fair value of these balances on acquisition.

For the period prior to acquisition, being 1 January to 15 June 2006, PDN recorded a loss of \$318,347 as summarised below:

	\$
Revenue	<u>3,575,329</u>
Profit from operations	109,172
Finance costs	(79,018)
Finance income	4,489
Profit before taxation	34,643
Taxation	<u>(352,990)</u>
Loss for the period	<u>(318,347)</u>

In the post acquisition period, PDN recorded a net loss of \$1,403,559. This loss has been consolidated into the Group's net earnings.

For the previous financial period, being 1 January to 31 December 2005, PDN recorded a net profit of \$868,553.

23 Share based payments

Share options

At 31 December 2006, the following share options have been granted and are outstanding in respect of the ordinary shares:

	Number of options			Final exercise date
	Granted	Exercised	Outstanding	
<i>Exercise price</i>				
At 31 December 2005 - \$1.30	1,755,000	-	1,755,000	12 January 2010
Lapsed during 2006	<u>(433,000)</u>	-	<u>(433,000)</u>	
At 31 December 2006 - \$1.30	<u>1,322,000</u>	-	<u>1,322,000</u>	12 January 2010

The 1,755,000 \$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.

PetroLatina Energy Plc (formerly Taghmen Energy Plc)

Notes forming part of the financial statements for the year ended 31 December 2006 (Continued)

23 Share based payments (Continued)

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.

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>	<i>12 January 2005</i>
Share price at date of grant	\$1.00
Exercise price	\$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	\$0.33

Expense arising from share-based payments

Based on the fair values shown above, the expense arising from share options in the year is estimated to be \$15,845 and was recorded in the profit and loss account for the year. The 2005 comparatives have been restated and the charge to the profit and loss account for that period is \$299,138.

The effects of the restatement on these financial statements is summarised below:

	\$'000
Increase in loss for the year	(299)
Increase in Share Option Reserve	<u>299</u>
Change in equity	-
	<hr/>

For details of the restatement of the share option reserve and profit and loss account see note 20.

PetroLatina Energy Plc (formerly Taghmen Energy Plc)

Notes forming part of the financial statements for the year ended 31 December 2006 (Continued)

23 Share based payments (Continued)

Warrants

At 31 December 2006 the following share warrants have been granted and are outstanding in respect of the ordinary shares:

	Number of warrants			Final exercise
	Granted	Exercised	Outstanding	
18 July 2004 - \$0.10	5,000,000	-	5,000,000	30 April 2007
30 July 2004 - \$0.90	248,222	-	248,222	30 April 2007
July – October 2004 - \$0.90	26,462,008	-	26,462,008	30 April 2007
20 September 2004 - \$0.90	250,000	-	250,000	30 April 2007
17 November 2004 - \$0.90	1,146,125	-	1,146,125	30 April 2007
15 February 2006 - \$0.9625	213,123	-	213,123	15 February 2009
15 June 2006 - \$1.01	<u>7,000,000</u>	-	<u>7,000,000</u>	15 June 2010
At 31 December 2006	40,319,478	-	40,319,478	
Exercised / lapsed during 2006	-	<u>1,250,000</u>	-	
At 31 December 2006	40,319,478	1,250,000	39,069,478	

On 18 July 2004 the Company entered into an agreement with Taghmen Ventures Limited (“TVL”) whereby TVL was granted warrants which entitle the holder to subscribe for 5,000,000 shares at an exercise price of \$0.10 per share. The warrants are exercisable in whole or part at any time before 30 April 2007. 1,000,000 of these warrants were exercised on 31 March 2006, and 250,000 on 4 August 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”) whereby WDB was granted warrants which entitle the holder to subscribe for 248,222 shares at an exercise price of \$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 Taghmen Ventures Limited (“TVL”) whereby TVL was granted warrants which entitle the holder to subscribe for 250,000 shares at an exercise price of \$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 with Gregory Smith, Nicholas Gay, John Scott, 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 \$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. 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 vest before the effective date of the standard.

PetroLatina Energy Plc (formerly Taghmen Energy Plc)

Notes forming part of the financial statements for the year ended 31 December 2006 (Continued)

23 Share based payments (Continued)

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

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

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 introduction of FRS20.

<i>Grant date</i>	<i>15 February 2006</i>	<i>15 June 2006</i>
Share price at date of grant	\$1.07	\$0.59
Exercise price	\$0.9625	\$1.01
Volatility	40%	40%
Option life	3 years	4 years
Dividend yield	0%	0%
Risk-free investment rate	4.22%	4.71%
Employee turnover	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>
Fair value	\$0.38	\$0.12

Expense arising from warrants issued

Based on the fair values shown above, the expense arising from warrants in the year is estimated to be \$846,185 and was recorded in the profit and loss account for the year, whilst the expense relating to the 15 February 2006 issue has been set against the share premium account (included in share issue costs). The 31 December 2005 comparatives have not been restated as all prior year warrants were issued during 2004 and thus precede FRS20.

PetroLatina Energy Plc (formerly Taghmen Energy Plc)

Notes forming part of the financial statements for the year ended 31 December 2006 (Continued)

24 Contingent liabilities

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 sold to Petdegua S.A. certain machinery which was part of the drilling tower. According to Petdegua S.A., this machinery was never delivered.

On 12 August 2002, Cadex issued another lawsuit in the Third Civil Court of First Instance against PetroLatina. This claim is based on an agreement for the purchase of shares and other assets owned by PetroLatina. 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.

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.

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 \$325,000 plus legal costs and interest.

b) On 16 June 2006, PetroLatina 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, PetroLatina believes that the litigation will ultimately result in the shares held in trust being returned to PDN for cancellation, which would result in PetroLatina 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%.

c) As of 31 December 2006 work on the Tortugas area of the A7-2005 licence in Guatemala has been suspended pending a force majeure application on 8 December 2006 to the Ministry of Energy and Mines. The application was filed after the Municipality of Cobán denied PetroLatina access to the Tortugas area to work over two existing wells. The application requested a one year deferral of all work programme obligations on the A7-2005 licence and exemption from all obligations from the two existing wells situated in the Tortugas area of the licence. The implications of this contingency, subject to confirmation from the Ministry of Energy, is that firstly no further work can be carried out on the Tortugas area of the licence for the short term and secondly that all obligations related to this area of the licence will be deferred. However, if the force majeure application is rejected then current commitments of \$11.85 million remain valid.

25 Commitments under operating leases

As at 31 December 2006, the Group had annual commitments under non-cancellable operating leases as set out below:

	Land and Buildings	
	2006	2005
	\$'000	\$'000
Operating leases which expire:		
Less than one year	203	85
Within two to five years	408	117
After five years	-	-
	<hr/>	<hr/>
	611	202
	<hr/>	<hr/>

PetroLatina Energy Plc (formerly Taghmen Energy Plc)

Notes forming part of the financial statements for the year ended 31 December 2006 (Continued)

26 Related party transactions

Joseph Strubel is portfolio manager for Millennium Global High Yield Fund which owns 12,012,853 ordinary shares in the Company as at 31 December 2006.

Millennium Global High Yield Fund received \$73,708 during the year for Mr. Strubels services in 2005 and 2006.

Jim Guiang is portfolio manager for Millennium Global Natural Resources Fund which owns 5,283,400 ordinary shares in the Company as at 31 December 2006. As a non executive director, Mr. Guiang received \$36,854 for his services in 2006.

27 Reconciliation of operating loss to net cash outflow from operating activities

	2006	2005
	\$'000	(Restated) \$'000
Operating loss	(41,936)	(7,024)
Exceptional loss	38,521	2,014
Depreciation	1,137	271
(Decrease) / Increase in creditors	(1,621)	1,111
Increase in debtors	(134)	(942)
Increase in stock	(5)	(1,345)
Increase in provision against investments	74	-
Exchange loss	38	300
Equity settled share based payments	846	299
Increase in provision	557	150
	<hr/>	<hr/>
Net cash outflow from operating activities	(2,523)	(5,166)
	<hr/> <hr/>	<hr/> <hr/>

28 Reconciliation of net cash inflow to movement in net funds

	2006	2005
	\$'000	\$'000
Increase in cash in the period	3,424	327
Cash inflow from changes in liquid resources	934	967
	<hr/>	<hr/>
Change in net fund resulting from cash flows	4,358	1,294
Opening net funds	1,294	-
	<hr/>	<hr/>
Closing net funds	5,652	1,294
	<hr/> <hr/>	<hr/> <hr/>

PetroLatina Energy Plc (formerly Taghmen Energy Plc)

Notes forming part of the financial statements for the year ended 31 December 2006 (Continued)

29 Analysis of net debt

	Note:	At 1 January 2006 \$'000	Cash flow \$'000	At 31 December 2006 \$'000
<i>Cash:</i>				
Cash at bank and in hand		327	3,424	3,751
Other liquid sources		967	934	1,901
<i>Debt:</i>				
Short term loans	30	-	(7,658)	(7,658)
Net funds (debt)		1,294	(3,300)	(2,006)

30 Short term loans

As part of the acquisition of PDN, the Company took out a \$7 million bridge loan from Macquarie Bank Limited. The loan expires on 15th March 2007 and carries an interest rate of LIBOR plus 5.5%. The loan is secured against the assets of PetroLatina and its subsidiaries, including PDN. On 28 February 2007 the maturity date of the loan was extended to 15 May 2007 and on 30 May 2007 the maturity date was extended further to 15 August 2007.

It is intended to replace the loan with a long term reserve based loan in due course.

The residual loan balance of \$658,418 relates to short term loans in Colombia repayable by 17 November 2007.

31 Financial instruments

Foreign currency

International operations consist of oil and gas exploration, development and production in Guatemala and Colombia pursuant to certain contracts. These activities are accounted for using the United States dollar as the functional currency. The Group is partially exposed to currency risk from holding balances in local Guatemala and sterling currency.

The Group and Company have no material financial assets other than short-term debtors and cash, and no financial liabilities other than short-term creditors and short term loans.

There are no material differences between the carrying amounts of the financial assets and their fair values. Details regarding financial liabilities are disclosed in note 15.

Debtors and creditors due in less than one year have been excluded from the above disclosures as permitted by FRS13.

PetroLatina Energy Plc (formerly Taghmen Energy Plc)

Notes forming part of the financial statements for the year ended 31 December 2006 (Continued)

32 Post balance sheet events

On 1 February 2007 the Millennium Global High Yield Fund, a company of which Joseph Strubel, a non-executive director of the Company, is portfolio manager, assigned 12,012,853 ordinary shares in the Company at 24p per share to Continental Capital SPC, a company of which the Millennium Global High Yield Fund is currently the majority shareholder. Following this transaction, the Millennium Global High Yield Fund no longer holds any shares in the capital of the Company.

On 10 May 2007 the Company entered into an agreement with Quetzal Energy Inc. whereby on payment of \$175,000, Quetzal Energy Inc., on completion of satisfactory due diligence on all the Guatemalan assets held by the Company over a four month period, have the option to purchase 100% of those assets for a purchase price of \$4 million.

On 11 May 2007 the Company entered into an agreement that increased its interest from 70% to 85% in the Midas exploration block in Colombia. At the same time, and under the terms of a prior verbal agreement, the Company has agreed to the 5% future participation of Apex Energy Inc. in the Midas project. Additionally, on 11 May 2007 the Company entered into an agreement that increased its indirect interest in the La Paloma exploration block in Colombia from 65% to 80%.

On 5 June 2007 the Company issued 830,000 new ordinary shares to Macquarie Bank Limited as partial consideration for the agreement with Macquarie to make available an extension of \$1.7 million to the Company's existing loan facility to fund the second exploration phase of the La Paloma block in Colombia.

PetroLatina Energy Plc (formerly Taghmen Energy Plc)

Supplementary oil and gas information (unaudited)

Proven, probable and possible reserves are estimated quantities of commercially producible hydrocarbons which the existing geological, geophysical and engineering data show to be recoverable in future years from known reservoirs. The proved reserves included herein conform to the definition approved by the Society of Petroleum Engineers (SPE) and the World Petroleum Congress (WPC). The probable and possible reserves included herein conform to definitions of probable and possible reserves approved by the SPE/WPC using the deterministic methodology.

The following tables show estimates of the Group's net proved, probable and possible reserves of crude oil and natural gas at 1 January and 31 December 2006.

(Sources: Colombia - Ryder Scott Petroleum Consultants, Guatemala - Oilfield Development Specialists)

Estimated net proved and probable reserves of crude oil

	Proved Colombia barrels (000's)	Proved Guatemala barrels (000's)	Probable Guatemala barrels (000's)	Possible Guatemala barrels (000's)	Total All barrels (000's)
2006					
Subsidiary undertakings					
At 1 January 2006					
Developed	-	-	-	-	-
Undeveloped	-	405	1,347	23,087	24,839
	-	405	1,347	23,087	24,839
Changes in year attributable to:					
Acquisitions	622	-	-	-	622
Revision of previous estimates	-	(96)	(1,060)	(19,811)	(20,967)
Production	(177)	-	-	-	(177)
At 31 December 2006	445	309	287	3,276	4,317
Developed	445	-	-	-	445
Undeveloped	-	309	287	3,276	3,872
	-	309	287	3,276	3,872

Estimated net proved and probable reserves of natural gas

	Proved Colombia cu ft (millions)	Proved Guatemala cu ft (millions)	Probable Guatemala cu ft (millions)	Possible Guatemala cu ft (millions)	Total All cu ft (millions)
2006					
Subsidiary undertakings					
At 1 January 2006					
Developed	-	-	-	-	-
Undeveloped	-	-	-	-	-
	-	-	-	-	-
Changes in year attributable to:					
Acquisitions	1,258	-	-	-	1,258
Revision of previous estimates	-	-	-	-	-
Production	-	-	-	-	-
At 31 December 2006	1,258	-	-	-	1,258
Developed	-	-	-	-	-
Undeveloped	1,258	-	-	-	1,258
	1,258	-	-	-	1,258