PETRODORADO
Excellence with Agility

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

MANAGEMENT'S REPORT

The accompanying consolidated financial statements and related financial information are the responsibility of management, and have been prepared in accordance with International Financial Reporting Standards. They include certain amounts that are based on estimates and judgments relating to matters not concluded by year-end. Financial information presented elsewhere in this document is consistent with that contained in the consolidated financial statements.

In management's opinion, the consolidated financial statements have been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies adopted by management. If alternate accounting methods exist, management has chosen those policies it deems the most appropriate in the circumstances. Management has established systems of accounting and internal control that provide reasonable assurance that assets are safeguarded from loss or unauthorized use, and produce reliable accounting records for the preparation of financial information. Policies and procedures are maintained to support the accounting and internal control systems.

The Company retains independent petroleum consultants, Petrotech Engineering Ltd., to conduct independent evaluations of the Company's oil reserves. The independent external auditors, KPMG LLP, have conducted an examination of the consolidated financial statements on behalf of shareholders. The auditors have unrestricted access to the Company and the Audit Committee.

The Board of Directors, currently composed of three independent and one non-independent director, carries out its responsibility for the consolidated financial statements principally through its Audit Committee, consisting of three members, all of whom are independent directors. This Committee reviews the consolidated financial statements with management and the auditors, as well as recommends to the Board of Directors the external auditors to be appointed by the shareholders at each annual meeting. The Audit Committee meets at least quarterly to review and approve interim financial statements prior to their release, and recommend their approval to the Board of Directors.

The Board of Directors on the recommendation of the Audit Committee has approved the consolidated financial statements and information as presented.

"Krishna Vathyam"
President and CEO

"Chris Reid"
VP of Finance and CFO

Calgary, Canada
April 19, 2012

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Petrodorado Energy Ltd.

We have audited the accompanying consolidated financial statements of Petrodorado Energy Ltd., which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, the consolidated statements of loss and comprehensive loss, shareholders' equity and cash flows for the years ended December 31, 2011 and December 31, 2010, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Petrodorado Energy Ltd. as at December 31, 2011, December 31, 2010 and January 1, 2010, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Accountants

Calgary, Canada
April 19, 2012

PETRODORADO ENERGY LTD.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Expressed in U.S. Dollars)

	December 31, 2011	December 31, 2010 (Note 25)	January 1, 2010 (Note 25)
Assets			
Current Assets			
Cash and cash equivalents	**$ 9,207,878**	$ 12,061,874	$ 913,642
Short-term investments	**30,863,984**	8,482,868	68,109,697
Accounts receivable (Note 8)	**182,235**	2,553,113	78,399
Share subscriptions receivable	**-**	-	124,936
Inventory	**-**	468,421	-
Prepaid expenses and deposits	**12,837**	34,855	39,652
	40,266,934	23,601,131	69,266,326
Non-current Assets			
Restricted cash and other receivables (Note 9)	**13,394,447**	10,205,397	1,800,397
Deposits on acquisition	**-**	-	1,882,000
Exploration and evaluation assets (Note 11)	**59,697,822**	42,739,226	5,640,442
Property, plant and equipment (Note 12)	**4,125,180**	9,091,846	19,115
	$ 117,484,383	$ 85,637,600	$ 78,608,280
Liabilities and Shareholders' Equity			
Current Liabilities			
Accounts payable and accrued liabilities (Note 8)	**$ 3,727,943**	$ 2,791,663	$ 937,248
Due to shareholders	**-**	-	395,220
Equity tax payable (Note 14)	**703,540**	-	-
	4,431,483	2,791,663	1,332,468
Non-current Liabilities			
Decommissioning obligations (Note 13)	**615,916**	742,605	-
Equity tax payable (Note 14)	**1,254,599**	-	-
	6,301,998	3,534,268	1,332,468
Shareholders' Equity			
Share capital (Note 15)	**102,918,335**	62,975,253	53,571,334
Warrants (Note 15)	**19,412,050**	20,813,991	23,010,776
Contributed surplus (Note 15)	**7,698,893**	5,178,731	-
Retained earnings (deficit)	**(19,262,918)**	(10,516,410)	693,702
Accumulated other comprehensive income	**416,025**	3,651,767	-
	111,182,385	82,103,332	77,275,812
	$ 117,484,383	$ 85,637,600	$ 78,608,280

Commitments (Note 21)

See accompanying notes to the consolidated financial statements.

Approved by the Board of Directors:

"Robert Cross"
Chairman of the Board of Directors

"Doug Urch"
Chairman of the Audit Committee

PETRODORADO ENERGY LTD.

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

(Expressed in U.S. Dollars)

	For the year ended December 31, 2011	For the year ended December 31, 2010 (Note 25)
Revenue:		
Oil and gas revenue, net of royalties	**$ 3,740,806**	$ 1,216,499
Interest and other	**423,735**	180,580
	4,164,541	1,397,079
Expenses:		
Operating expenses (Note 16)	**1,330,679**	1,611,703
General and administrative	**3,509,952**	2,504,592
Business development expenses	**188,864**	715,441
Pre-licensing costs	**-**	120,295
Foreign exchange loss (gain)	**(2,488,377)**	2,422,358
Stock-based compensation	**2,053,022**	4,359,330
Equity tax expense (Note 14)	**2,580,852**	-
Depletion and depreciation	**1,130,824**	851,983
Impairment of property, plant and equipment (Note 12)	**4,400,000**	-
Finance costs (Note 17)	**205,233**	21,489
	12,911,049	12,607,191
Loss for the year	**$ (8,746,508)**	$ (11,210,112)
Other comprehensive income (loss):		
Currency translation adjustment	**(3,235,742)**	3,651,767
Comprehensive loss for the year	**$ (11,982,250)**	$ (7,558,345)
Loss per share – basic and diluted (Note 15)	**$ (0.02)**	$ (0.03)
Weighted average number of common shares outstanding	**472,068,975**	396,700,204

See accompanying notes to the consolidated financial statements.

PETRODORADO ENERGY LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in U.S. Dollars)

Cash flows provided by (used in):		For the year ended December 31, 2011		For the year ended December 31, 2010
Operating activities				
Loss	$	(8,746,508)	$	(11,210,112)
Adjustments for:				
Impairment of property, plant and equipment		4,400,000		-
Stock-based compensation		2,053,022		4,359,330
Unrealized foreign exchange loss (gain)		(2,430,423)		3,186,471
Depletion and depreciation		1,130,824		851,983
Finance costs		205,233		21,489
Equity tax expense		2,580,852		-
Abandonment costs paid		(147,861)		-
Equity taxes paid (Note 14)		(777,921)		-
		(1,732,782)		(2,790,839)
Change in non-cash working capital (Note 24)		430,239		(578,343)
		(1,302,543)		(3,369,182)
Investing activities				
Acquisition of exploration and evaluation assets		(21,691,456)		(37,437,143)
Acquisition of property, plant and equipment		(564,158)		(42,644)
Short-term investments		(23,210,915)		59,898,800
Disposal of exploration and evaluation assets		5,200,000		-
Acquisition of PetroSouth, net of cash (Note 7)		-		(1,351,052)
Acquisition of Holywell, net of cash (Note 7)		-		(4,530,556)
Change in deposits on acquisition		-		132,000
Change in restricted cash		(3,189,050)		(8,405,000)
Change in non-cash working capital (Note 24)		3,367,358		(877,166)
		(40,088,221)		7,387,239
Financing activities				
Shares issued, net of costs		33,929,240		-
Options and warrants exercised, net of costs		4,611,901		7,207,134
Receipt of share subscriptions receivable		-		124,936
Payment of amount due to shareholders		-		(395,220)
		38,541,141		6,936,850
Cash from (used in) operating, investing and financing activities		(2,849,623)		10,954,907
Effect of exchange rate on cash		(4,373)		193,325
Change in cash		(2,853,996)		11,148,232
Cash, beginning of year		12,061,874		913,642
Cash, end of year	$	9,207,878	$	12,061,874

Cash is defined as cash and cash equivalents.

See accompanying notes to the consolidated financial statements.

PETRODORADO ENERGY LTD.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Expressed in U.S. Dollars)

For the year ended December 31, 2010

	Number of Common Shares		Share capital		Warrants		Contributed Surplus		Retained Earnings (deficit)		Accumulated Other Comprehensive Income		Total
Balance at January 1, 2010	394,218,311	$	53,571,334	$	23,010,776	$	-	$	693,702	$	-	$	77,275,812
Loss									(11,210,112)				(11,210,112)
Currency translation adjustment											3,651,767		3,651,767
Warrants excercised for cash (Note 15)	20,460,706		7,120,796										7,120,796
Transfer of warrants assigned fair value			2,196,785		(2,196,785)								-
Stock-based compensation (Note 15)							5,178,731						5,178,731
Option exercised	910,000		86,338										86,338
Balance at December 31, 2010	415,589,017	$	62,975,253	$	20,813,991	$	5,178,731	$	(10,516,410)	$	3,651,767	$	82,103,332

For the year ended December 31, 2011

	Number of Common Shares		Share capital		Warrants		Contributed Surplus		Deficit		Accumulated Other Comprehensive Income		Total
Balance at December 31, 2010	**415,589,017**	**$**	**62,975,253**	**$**	**20,813,991**	**$**	**5,178,731**	**$**	**(10,516,410)**	**$**	**3,651,767**	**$**	**82,103,332**
Loss									**(8,746,508)**				**(8,746,508)**
Currency translation adjustment											**(3,235,742)**		**(3,235,742)**
Warrants exercised for cash (Note 15)	**13,058,049**		**4,611,901**										**4,611,901**
Transfer of warrants assigned fair value			**1,401,941**		**(1,401,941)**								**-**
Stock-based compensation (Note 15)							**2,520,162**						**2,520,162**
Shares issued, net of costs (Note 15)	**53,900,000**		**33,929,240**										**33,929,240**
Balance at December 31, 2011	**482,547,066**	**$**	**102,918,335**	**$**	**19,412,050**	**$**	**7,698,893**	**$**	**(19,262,918)**	**$**	**416,025**	**$**	**111,182,385**

See accompanying notes to the consolidated financial statements.

Note 1 Corporate Information

Petrodorado Energy Ltd. ("Petrodorado" or the "Company") is a public oil and natural gas exploration company primarily engaged in exploration and development activities in Colombia, Peru and Paraguay. The Company's head office is located at Suite 1000, 205 – 5th Avenue SW, Calgary, Alberta, T2P 2V7, Canada with an additional office located in Bogota, Colombia. The Company's shares are listed and publicly traded on the TSX Venture Exchange under the trading symbol PDQ. The Company's oil and gas interests are principally in the pre-production stage and other than for two blocks in Colombia, the Company has not yet determined whether all of its petroleum and natural gas properties contain reserves that are economically recoverable. Accordingly, the recoverability of amounts recorded as petroleum and natural gas properties is dependent upon the existence and discovery of economically recoverable oil and gas reserves, confirmation of the Company's interests in the properties, the political stability of Colombia, Peru and Paraguay and the ability of the Company to secure adequate sources of financing to fund the development of its assets and put them into production and then achieving future profitable operations. The outcome of these matters cannot be predicted with certainty at this time.

Note 2 Basis of presentation

Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The consolidated financial statements represent the Company's initial presentation of its results and financial position under IFRS. The Company adopted IFRS in 2011 with a transition date of January 1, 2010. As such, IFRS 1 "First-Time Adoption of International Financial Reporting Standards" was applied as part of this transition. A summary of significant accounting policies applied are presented in Note 4.

These are the Company's first annual consolidated financial statements prepared in accordance with IFRS. The transition to IFRS resulted in changes to the Company's previous accounting policies as applied and disclosed in the consolidated financial statements for the year ended December 31, 2010, prepared in accordance with Canadian GAAP. A summary of the significant changes to the Company's accounting policies is disclosed in Note 25 along with the impact of the changeover to IFRS on the comparative periods. The consolidated financial statements were approved and authorized for issuance by the Company's Board of Directors on April 19, 2012.

Basis of Measurement

The consolidated financial statements have been prepared on a historical cost basis except that financial instruments are measured at fair value through profit or loss. The methods used to measure fair values are discussed in Note 5.

Functional and Presentation Currency

Unless otherwise stated, these consolidated financial statements are presented in United States (US) dollars. The Company's functional currency is the Canadian dollar while each of its subsidiaries has a US dollar functional currency, which is the primary economic environment in which each subsidiary operates.

Note 3 Significant accounting judgements, estimates and assumptions

The timely preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the recorded amounts of assets and liabilities and disclosures of contingencies, if any, at the date of the annual consolidated financial statements and the reported amounts of revenue and expenses during the reporting period.

Specifically, amounts recorded for depreciation and depletion expense, decommissioning obligations, stock-based compensation, and income taxes are based on estimates.

Furthermore, assets are aggregated into cash-generating units ("CGUs"), for the purpose of calculating impairment, based on their ability to generate largely independent cash inflows. By their nature, the carrying value of the Company's assets in future periods are subjected to measurement uncertainty on account of corresponding assumptions and estimates.

These estimates include petroleum and natural gas reserves, future petroleum and natural gas prices and cost estimates, future interest and currency exchange rates, volatility of the Company's shares and the expected life of stock options and forfeiture rates, future tax rates and timing of estimated reversals and likelihood of deferred tax assets being realized, future abandonment costs, timelines to abandonment and future costs to develop those reserves as well as other fair value assumptions. By their nature, these estimates are subject to change and the impact on the annual consolidated financial statements of changes in such estimates in future periods could be material.

Note 4 Summary of significant accounting policies

a) Consolidation

These consolidated financial statements comprise the financial statements of the Company and its wholly-owned subsidiaries. Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

All intercompany transactions and balances are eliminated upon consolidation.

The following table summarizes the Company's subsidiaries, the location of their registered offices, and the Company's ownership interest.

Subsidiaries	Country of Incorporation	Ownership Interest As at December 31 2011	Ownership Interest As at December 31 2010	Ownership Interest As at January 1 2010
Petrodorado Ltd.	Canada	100%	100%	100%
Petrodorado South America S.A.	Panama	100%	100%	-
Petrodorado South America S.A. Sucursal Colombia	Colombia	100%	100%	-
PetroSouth Energy Corporation	British Virgin Islands	100%	100%	-
PetroSouth Energy Corporation Sucursal Colombia	Colombia	100%	100%	-
Petrodorado Antilles Holdings N.V.	Netherland Antilles	100%	100%	-
Petrodorado Peru N.V.	Netherland Antilles	100%	100%	-
Petrodorado Paraguay N.V.	Netherland Antilles	100%	100%	-

b) Oil and gas properties and other property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated depletion and depreciation and accumulated impairment losses. The initial cost of an asset comprises its purchase price or construction cost, any cost directly attributable to bringing the asset into operation, including costs transferred from exploration and evaluation assets, the initial estimate of the decommissioning obligation, directly attributable general and administrative costs, and for qualifying assets, finance costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. Expenditure on the construction, installation or completion of infrastructure facilities such as pipelines and the drilling of development wells, including unsuccessful development or delineation wells, is capitalized in oil and gas properties when they increase the future economic benefits embodied in the specific asset to which they relate. The costs of day to day servicing are expensed as incurred. Property, plant and equipment is grouped into CGUs for impairment testing purposes.

Depletion, depreciation and amortization

Oil and gas properties are depleted using the unit-of-production method based on estimated proven and probable reserves, before royalties, as determined by independent petroleum engineers. The Company's reserves are determined pursuant to National Instrument 51-101, Standards of Disclosure for Oil and Gas Acitivities. For purposes of this calculation, natural gas is converted to equivalent volumes of crude petroleum based on the approximate energy equivalent ratio of six thousand cubic feet of natural gas to one barrel of crude oil. Capitalized costs subject to depletion include estimated future costs to be incurred in developing proved and probable reserves. When significant parts of an item of property, plant and equipment have different useful lives, then they are accounted for and depreciated as separate components.

Furniture and equipment are depreciated over their estimated remaining lives using the declining balance method of depreciation. Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount with any gain or loss recognized in earnings.

Farm-outs – outside the exploration and evaluation phase

In accounting for a farm-out arrangement the Company derecognizes the proportion of the asset that it has sold to the farmee and recognizes the consideration received or receivable from the farmee, which represents any cash received plus the fair value of the interest retained by the farmor. The Company recognizes a gain or loss on the transaction for the difference between the net disposal proceeds, being the cash received plus the fair value of the interest retained, and the carrying amount of the asset disposed of.

c) Exploration and evaluation assets

All license acquisition, exploration and appraisal costs of technical services and studies, seismic acquisition, exploratory drilling and testing are initially capitalized by well, field, unit of account or specific exploration unit as appropriate. Expenditures incurred during the various exploration and appraisal phases are carried forward, until the existence of commercial reserves and when the technical feasibility and commercial viability are demonstrable. Commercial reserves are typically considered to have been achieved when proven and/or probable reserves have been assigned. Commercial viability and technical feasibility is often demonstrated through the receipt by the Company of development licenses on oil and gas assets previously being evaluated under exploration licenses. If commercial reserves have been discovered and technical feasibility and commercial viability are demonstrable, the carrying value of the exploration and evaluation assets, after any impairment loss, is reclassified as oil and gas properties. If technical feasibility and commercial viability cannot be demonstrated upon completion of the exploration phase, the carrying value of the exploration and evaluation costs incurred are expensed in the period this determination is made. Exploration and evaluation assets are not depleted or depreciated.

Exploration and evaluation assets are tested for impairment when indicators of impairment are present, and when exploration and evaluation assets are transferred to oil and gas properties, at the CGU level.

Pre-license costs
Costs incurred prior to having obtained the legal rights to explore an area are expensed to the consolidated statement of income as they are incurred.

Farm-outs – in the exploration and evaluation phase
The Company does not record any expenditure made by the farmee on its account. It also does not recognize any gain or loss on its exploration and evaluation farm-out arrangements, but redesignates any costs previously capitalized in relation to the whole interest as relating to the partial interest retained. Any cash consideration received directly from the farmee is credited against costs previously capitalized in relation to the whole interest with any excess over those costs accounted for by the farmor as a gain on disposal.

d) Impairment of assets

Non-financial assets
The Company assesses at each reporting date whether there is an indication that an asset may be impaired. Exploration and evaluation assets are assessed for impairment when they are reclassified to oil and gas properties and also if facts and circumstances suggest that the carrying amount exceeds the recoverable value, at which point the Company estimates the asset's recoverable amount. For non-financial assets, the recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value-in-use. Individual non-financial assets are grouped into CGUs for impairment assessment purposes, which is the lowest level at which there are identifiable cash inflows that are largely independent of the cash inflows of other groups of non-financial assets. Where the carrying amount of a CGU exceeds its recoverable amount, the non-financial asset is considered impaired and is written down

to its recoverable amount. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Fair value less cost to sell is determined as the amount that would be obtained from the sale of a CGU in an arm’s length transaction between knowledgeable and willing parties. The fair value less cost to sell of oil and gas properties is generally determined as the net present value of the estimated future cash flows expected to arise from the continued use of the CGU, including any expansion prospects, and its eventual disposal, using assumptions that an independent market participant may take into account. These cash flows are discounted by an appropriate discount rate which would be applied by such a market participant to arrive at a net present value of the CGU. Furthermore, exploration and evaluation assets are allocated to related CGUs when they are assessed for impairment, both at the time of triggering events as well as at the time of their transfer to oil and gas properties.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the CGU’s recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset’s recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of income.

Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that financial asset. An impairment loss in respect of a financial asset, measured at amortized cost, is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Material financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

For financial assets, an impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized.

All impairment losses are recognized in the consolidated statement of income.

e) Decommissioning obligations

A decommissioning obligation is recognized when the Company has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made. A corresponding amount equivalent to the decommissioning obligation is also recognized as part of the cost of the related oil and gas properties or exploration and evaluation assets. The amount recognized is the estimated cost of decommissioning, discounted to its present value at a risk-free interest rate.

Changes in the estimated timing of decommissioning or decommissioning cost estimates, or discount rate are recognized prospectively by recording an adjustment to the decommissioning obligation, and a corresponding adjustment to the corresponding asset. The unwinding of the discount on the obligation is included as a finance cost.

f) Revenue recognition

Revenue from the sale of oil and gas is recognized when the significant risks and rewards of ownership have been transferred. This generally occurs when product is physically delivered and the title passes to the buyers and collection is reasonably assured. Revenue is stated after deducting royalties, sales taxes, excise duties and similar levies.

g) Joint operations

The Company’s oil and gas exploration, development and production activities involve jointly controlled assets. Accordingly the consolidated financial statements reflect only the Company’s proportionate interest in these jointly controlled assets and a proportionate share of the relevant revenue and related costs.

h) Financial instruments

Financial assets
Financial assets are classified as either financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, or available for sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, transaction costs. The Company considers whether a contract contains an embedded derivative when the Company first becomes a party to the contract. Embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract. The Company determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial period end.

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss includes financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments or a financial guarantee contract. Gains or losses on investments held for trading are recognized in profit or loss.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the effective interest rate. The amortization is included in finance income in the consolidated statement of income. The losses arising from impairment are recognized in the consolidated statement of income as a finance cost.

The Company has designated its cash and cash equivalents, short-term investments and restricted cash as fair value through profit or loss. Accounts receivable, cash calls receivable and other receivables are classified as loans and receivables. Currently, none are considered to be held-to-maturity investments or available-for-sale financial assets.

Cash and cash equivalents

Cash and cash equivalents in the consolidated statement of financial position comprise cash at banks and at hand and short-term deposits with an original maturity of three months or less.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Financial liabilities

Financial liabilities are classified as financial liabilities at fair value through profit or loss, or other liabilities, as appropriate. The Company determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognized initially at fair value and in the case of other liabilities, net of directly attributable transaction costs.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit and loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognized in profit and loss.

Other liabilities

After initial recognition, other liabilities are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the consolidated statement of income when the liabilities are derecognized as well as through the effective interest rate method amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs. The amortization is included in finance cost in the consolidated statement of income.

Accounts payable and accrued liabilities and equity tax payable are classified as other liabilities.

Share Capital

Common shares are classified as shareholders' equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from shareholders' equity, net of any tax effects.

i) Foreign currency translation

The Company's functional currency is the Canadian dollar while each of its subsidiaries has a US dollar functional currency. Transactions in currencies other than each entity's functional currency are initially recorded at the exchange rate as at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the closing rate as at the date of the consolidated statement of financial position. All differences are recorded in net earnings or loss. Non-monetary items are translated using the historical exchange rates as at the dates of the initial transactions.

The Company's consolidated financial statements are reported in US dollars, which is the Company's presentation currency. In translating the financial results from Canadian dollars to US dollars, the Company uses the following method: assets and liabilities are translated at the exchange rate in effect as at the date of the consolidated statement of financial position; revenues and expenses are translated at the rate effective at the time of the transaction or the average rate for the period; and shareholders' equity is translated at the rate effective at the time of the transaction. Unrealized gains and losses resulting from the translation to the US dollar presentation currency are included in other comprehensive income.

j) Income taxes

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statement of income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax

Deferred income tax is provided using the balance sheet method on temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- Where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting earnings nor taxable earnings or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable earnings will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized. The carrying amount of deferred income tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each statement of financial position date and are recognized to the extent that it has become probable that future taxable earnings will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of the reporting period.

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statement of income. Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

k) Per share amounts

Basic per share information is computed by dividing the earnings by the weighted average number of shares outstanding during the reporting period. The Company utilizes the treasury stock method in the determination of the diluted per share amounts. Under this method, the diluted weighted average number of shares is calculated assuming the proceeds that arise from the exercise of outstanding, in-the-money options and warrants are used to purchase common shares of the Company at their average market price for the period. The weighted average number of shares outstanding is then adjusted by the net change.

l) Stock-Based Compensation

The Company follows the fair-value method for valuing stock options and other dilutive instruments granted to employees and directors. Under this method, the compensation cost is measured at the grant date using the Black-Scholes option pricing model and expensed over the vesting period of the instrument granted as stock-based compensation expense with a corresponding increase to contributed surplus. The contributed surplus balance is reduced as stock options and other dilutive instruments are exercised with the amount previously recognized plus any consideration received credited to share capital. The portion of stock-based compensation directly attributable to exploration and evaluation activities is capitalized to the corresponding asset. The Company has included an estimated forfeiture rate for stock options that will not vest, which is adjusted to reflect actual forfeitures upon final vesting of the award.

m) Inventory

The Company recognizes crude oil inventory held in storage tanks. They are valued at the lower of cost or net realizable value. Cost is determined on a first-in, first-out basis and relates to the direct cost of production on an actual basis.

n) Business combinations and goodwill

On the acquisition of a subsidiary, the acquisition method of accounting is used whereby the purchase consideration transferred is allocated to the identifiable assets, liabilities and contingent liabilities (identifiable net assets) on the basis of fair value at the date of acquisition. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of closing.

Goodwill is initially measured at cost being the excess of the cost of the business combination over the Company’s share in the net fair value of the acquiree’s identifiable assets, liabilities and contingent liabilities. If the fair value attributable to the Company’s share of the identifiable net assets exceeds the fair value of the consideration, the Company reassesses whether it has correctly identified and measured the assets acquired and liabilities assumed and recognizes any additional assets or liabilities that are identified in that review. If an excess remains after reassessment, the Company recognizes the resulting gain in profit or loss on the acquisition date.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's CGUs that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

o) Finance costs and interest income

Finance costs comprise bank and interest expenses, accretion of the discount on the decommissioning obligation and equity tax payable, and any impairment losses recognized on financial assets.

Interest income is recognized as it accrues in profit or loss, using the effective interest method.

Note 5 Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Property, plant and equipment and exploration and evaluation assets
The fair value of property, plant and equipment and exploration and evaluation assets recognized in a business combination, is based on market values. The market value of property, plant and equipment and exploration and evaluation assets is the estimated amount for which the assets could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of oil and natural gas interests (included in property, plant and equipment) and exploration and evaluation assets is estimated with reference to the discounted cash flows expected to be derived from oil and natural gas production based on externally prepared reserve reports. The risk-adjusted discount rate is specific to the asset with reference to general market conditions.

Financial assets and other liabilities
The fair value of financial assets and other liabilities (see Note 4 (f)) is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. At December 31, 2011, December 31, 2010 and January 1, 2010, the fair value of these balances approximated their carrying value due to their short term to maturity.

Stock options and warrants
The fair value of employee stock options and warrants is measured using a Black-Scholes option pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical

experience and general option and warrant behaviour), expected dividends, expected forfeiture rate and the risk-free interest rate (based on government bonds).

Note 6 Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. This listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt those standards when they become effective.

Income taxes
In December 2010, the IASB amended IAS 12 for the recovery of underlying assets and the impact on deferred taxes. The amendments provide a solution to the problem of assessing whether recovery would be through use or through sale when the asset is measured at fair value under IAS 40 Investment Property, by adding the presumption that the recovery would normally be through sale. The amendment also incorporates the remaining guidance in SIC-21 Income Taxes – recovery of Revalued Non-depreciable Assets, as SIC-21 has been withdrawn. The effective date of amendment is January 1, 2012. The Company is currently evaluating the impact of these amendments on its consolidated financial statements.

Financial Instruments
IFRS 9 Financial instruments ("IFRS 9") was issued by the IASB on November 12, 2009 and will replace IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2015. The Company is currently evaluating the impact of IFRS 9 on its consolidated financial statements.

Consolidated Financial Statements
IFRS 10 Consolidated Financial Statements was issued by the IASB on May 12, 2011 and establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This IFRS requires an entity that is a parent to present consolidated financial statements, defines the principle of control and establishes control as the basis for determining which entities are consolidated in the consolidated. IFRS supersedes IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation—Special Purpose Entities and is effective for annual periods beginning on or after January 1, 2013. The Company is currently evaluating the impact of IFRS 10 on its consolidated financial statements.

Joint Arrangements
IFRS 11 Joint Arrangements was issued by the IASB on May 12, 2011 and establishes principles for financial reporting by parties to a joint arrangement. This IFRS requires a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and classifies joint arrangements into two types: joint operations and joint ventures. This IFRS also requires a joint operator to recognize and measure the assets and liabilities (and recognize the related revenues and expenses) in relation to its interest in the arrangement whereas requires a joint venturer

to recognize an investment and to account for that investment using the equity method. IFRS 11 supersedes IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities—Non-Monetary Contributions by Venturers and is effective for annual periods beginning on or after January 1, 2013. The Company is currently evaluating the impact of IFRS 11 on its consolidated financial statements.

Disclosure of Interest in Other Entities

IFRS 12 Disclosure of Interests in Other Entities was issued by the IASB on May 12, 2011 and applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. This IFRS requires an entity to disclose information that enables users of financial statements to evaluate: (a) the nature of, and risks associated with, its interests in other entities; and (b) the effects of those interests on its financial position, financial performance and cash flows. IFRS 12 is effective for annual periods beginning on or after January 1, 2013. The Company is currently evaluating the impact of IFRS 12 on its consolidated financial statements.

Fair Value Measurement

IFRS 13 Fair Value Measurement was issued by the IASB on May 12, 2011 and defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. This IFRS applies to IFRSs that require or permit fair value measurements, or disclosures about fair value measurements, and it does not require fair value measurements in addition to those already required or permitted by other IFRSs. IFRS 13 is effective for annual periods beginning on or after January 1, 2013. The Company is currently evaluating the impact of IFRS 13 on its consolidated financial statements.

Separate Financial Statements

As a result of the issue of the new consolidation suite of standards, IAS 27 Separate Financial Statements has been reissued as the consolidation guidance will now be included in IFRS 10. IAS 27 will now only prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. These amendments are effective for annual periods beginning on or after January 1, 2013 and early adoption is permitted. The Company is currently evaluating the impact of IAS 27 on its consolidated financial statements.

Investments in Associates and Joint Ventures

As a consequence of the issue of IFRS 10, IFRS 11 and IFRS 12, IAS 28 has been amended and will provide the accounting guidance for investments in associates and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The amended IAS 28 will be applied by all entities that are investors with joint control of, or significant influence over, an investee. These amendments are effective for annual periods beginning on or after January 1, 2013 and early adoption is permitted. The Company is currently evaluating the impact of these amendments on its consolidated financial statements.

Note 7 Acquisitions

Acquisition of Holywell Resources S.A.

On February 1, 2010, the Company acquired all of the issued and outstanding shares of Holywell from a private vendor. The assets of Holywell principally included an undivided 20% working interest in the Buganviles Block located in the upper Magdalena Valley in central Colombia. This acquisition was completed to facilitate the Company’s strategy to increase its presence in Colombia and build on its existing participation interest in the Buganviles Block. The aggregate purchase price was $6,334,000, with deposits of $1,750,000 paid to December 31, 2009 towards this purchase and the balance of $4,584,000 paid in full, upon closing.

The results of Holywell, renamed Petrodorado South America S.A., have been included in the accounts of the Company commencing February 1, 2010. The transaction was accounted for using the acquisition method of accounting. The fair values assigned to the net assets and liabilities and consideration paid are as follows:

Net assets acquired at fair value		
Cash and cash equivalents	$	53,444
Accounts receivable		68,373
Exploration and evaluation assets		6,500,000
Accounts payable and accrued liabilities		(287,817)
	$	6,334,000
Consideration		
Cash	$	6,334,000

Acquisition of PetroSouth Energy Corp.

On October 27, 2010, the Company acquired PetroSouth Energy Corp. ("PetroSouth") for cash consideration of $1,500,000. The assets of PetroSouth principally included an undivided 20% working interest in the Talora Block in Colombia. This acquisition was completed to facilitate the Company's strategy to increase its presence in Colombia and build on its existing participation interest in the Talora Block.

The results of PetroSouth have been included in the accounts of the Company commencing October 27, 2010. The transaction was accounted for using the acquisition method of accounting. The fair values assigned to the net assets and liabilities and consideration paid are as follows:

Net assets acquired at fair value		
Cash and cash equivalents	$	148,948
Accounts receivable		41,967
Exploration and evaluation assets		1,503,194
Accounts payable and accrued liabilities		(194,109)
	$	1,500,000
Consideration		
Cash	$	1,500,000

Note 8 Cash Calls

Cash calls are comprised of funds advanced to operating partners with respect to exploration and development activities in blocks in which the Company is a non-operating partner. As these funds are expended by the operating partner, recognition of these expenditures is realized as they are booked to property, plant and equipment. At December 31, 2011, net expenditures applicable to the Company as realized by the operators were in excess of all previously advanced funds resulting in a payable position for the Company. Specifically, $3,039,872 of the accounts payables balance at year end is associated with cash calls payable, where no portion of the accounts payable balance as at December 31, 2010 was associated with cash calls, as the Company was in a cash call receivable position of $2,249,657.

Note 9 Restricted Cash and Other Receivables

On June 12, 2009, the Company entered into a joint farm-in participation agreement with an unrelated company (the La Maye Operator) to earn a 20% working interest in four wells in the La Maye Block in the country of Colombia. This agreement required Petrodorado to advance $3,500,000 into an escrow account. Petrodorado authorizes draws on this escrow account as certain development milestones are met. As at December 31, 2011, $1,699,582 (December 31, 2010: $3,192,643) had been drawn from this account, leaving $1,800,418 (December 31, 2010 - $307,357) in the escrow account. Included in the balance at December 31, 2010 were other receivable amounts of $1,493,040.

As of December 31, 2011, funds totalling $3,182,714 are also included in restricted cash, which relate to projected exploration activities in the Talora Block in the near future. Of this balance, $2,882,714 constitutes assigned funds of the Company as the operator of the Talora block as well as cash calls paid by non-operator partners. Another $300,000 is held as a guarantee deposit on committed exploration activities in the Talora Block as required by the Agencia Nacional De Hidrocarburos (“ANH”).

Additionally, term deposits totalling $8,411,315 (December 31, 2010 - $8,405,000), which were established to secure the Credit Facility and the Letters of Credit referred to in Note 10 of these statements, are also included in the restricted cash balance.

Note 10 Credit Facility

The Company has a $5 million revolving demand loan facility (the “Credit Facility”) with a Canadian chartered bank (the “Lender”). The Credit Facility is available by way of account overdraft in US dollars or by letters of credit up to $4.8 million. As at December 31, 2011, no overdrafts were drawn under this Credit Facility. Any outstanding amounts will bear interest at the Lender’s US base rate plus an applicable margin. The Credit Facility is secured by security agreement over cash, credit balances and deposit instruments in the amount of $5 million. On July 7, 2010, a letter of credit for $4.8 million was issued under the credit facility to guarantee the Company’s drilling obligations with ONGC Videsh Ltd. on the CPO-5 Block on Colombia, that are required to be completed by June 25, 2012.

On December 21, 2010, a further $3.0 million letter of credit was issued through a Colombian bank to Agencia Nacional De Hidrocarburos (“ANH”) in respect of the drilling obligations on this CPO-5 Block. This letter of credit is secured by a $3 million term deposit made at the Colombian bank.

A $403,920 letter of credit was issued through a Colombian bank on December 20, 2010 to ANH to guarantee the Company's capital expenditure obligations with its partner, Pacific Rubiales, in the Tacacho Block. This letter of credit is secured by a $405,000 term deposit made at the Colombian bank.

Note 11 Exploration and Evaluation assets

As at January 1, 2010	$ 5,640,442
Additions	38,977,660
Acquisitions (Note 7)	8,003,194
Reclassifications to oil and gas properties	(9,882,070)
As at December 31, 2010	42,739,226
Additions	22,158,596
Disposal	(5,200,000)
As at December 31, 2011	**$ 59,697,822**

On October 16, 2011, Petrodorado executed a farm-out agreement allocating a 30% working interest in the Talora Block to Sintana Energy upon fulfilment of the terms of the farm-out, reducing its overall working interest to 65%. The terms of the farm-out included: 1) a bonus payment of $5.2 million; 2) the farmee paying 60% of first well costs up to a maximum of $3.9 million, with costs after the maximum to be paid at 30%; and 3) the farmee paying 45% of the second well costs up to a maximum of $2.925 million, with costs after the maximum to be paid at 30%. The receipt of the $5.2 million bonus payment was treated as a reduction of past exploration and evaluation costs incurred in the Talora Block with no gain or loss on disposal recognized.

For the year ended December 31, 2011, the Company capitalized $552,128 of general and administrative expenses (December 31, 2010 - $834,282) and $467,140 of stock-based compensation (December 31, 2010 - $819,401) to exploration and evaluation assets. The Company does not hold any tangible exploration assets.

The Corporation has applied and is awaiting approval from the Colombian government on an extension to an existing exploration license. In the event the license is not extended $12,235,287 of exploration and evaluation costs incurred would be considered impaired. The current exploration license is set to expire on June 30, 2012. The Company considers it probable that the extension will be granted.

Note 12 Property, Plant and Equipment

Cost	Oil and Gas Properties	Furniture and equipment	Total
As at January 1, 2010	$ -	$ 20,908	$ 20,908
Additions	-	42,644	42,644
Reclassifications from exploration and evaluation assets	9,882,070	-	9,882,070
As at December 31, 2010	9,882,070	63,552	9,945,622
Additions	184,367	379,791	564,158
As at December 31, 2011	**$ 10,066,437**	**$ 443,343**	**$ 10,509,780**

Accumulated depletion and depreciation	Oil and Gas Properties	Furniture and equipment	Total
As at January 1, 2010	$ -	$ 1,793	$ 1,793
Additions	841,042	10,941	851,983
As at December 31, 2010	841,042	12,734	853,776
Additions	946,247	184,577	1,130,824
Impairment loss	4,400,000	-	4,400,000
As at December 31, 2011	**$ 6,187,289**	**$ 197,311**	**$ 6,384,600**

Net book value			
As at January 1, 2010	**$ -**	**$ 19,115**	**$ 19,115**
As at December 31, 2010	**$ 9,041,028**	**$ 50,818**	**$ 9,091,846**
As at December 31, 2011	**$ 3,879,148**	**$ 246,032**	**$ 4,125,180**

For the year end December 31, 2011, depletion of oil and gas properties of $946,247 (December 31, 2010 – $841,042) was incurred and was calculated including estimated future development costs of $610,710 (December 31, 2010 – $610,710).

During the year ended December 31, 2011, the Company recognized a $4.4 million impairment relating to its Moriche CGU. The impairment is the result of decreases in the future cash flows estimated on the Moriche property due to extensions in the production profile of the reserves and increased future expenses for anticipated ongoing maintenance. The impairment is the difference between the period-end net book value of that CGU and the assessed recoverable amount. The recoverable amount was determined based on fair value less costs to sell. Fair value was derived based on market information for the CGU. Following completion of the write-down, the CGU has a carrying value of approximately $3.9 million.

Note 13 Decommissioning Obligations

The Company's decommissioning obligations result from ownership interests in oil and gas properties, including well sites, gathering systems and processing facilities, and exploration and evaluation assets. The Company estimates the total undiscounted amount of cash flows required to settle its decommissioning obligation at December 31, 2011 to be $393,000 for well sites ($535,500 at December 31, 2010), which will be incurred in approximately 10 years, and $198,000 for pipelines ($198,000 at December 31, 2010) which will be incurred in approximately 20 years. The fair value of the decommissioning obligations at December 31, 2011 and December 31, 2010 was calculated using a risk free rate of 3% and an average inflation factor of 3%. Settlement of the obligations will be funded from general corporate funds at the time of retirement or removal. As at December 31, 2011, no funds have been set aside to settle these obligations. Changes to decommissioning obligations were as follows:

	2011	2010
Balance, beginning of the year	**$ 742,605**	$ -
Liabilities, incurred during the year	**-**	721,116
Liabilities settled during the year	**(147,861)**	-
Accretion expense for the year	**21,172**	21,489
Balance, end of the year	**$ 615,916**	$ 742,605

Note 14 Equity Tax

The Colombian Congress passed a law, effective January 1, 2011, which imposed a one-time 6% equity tax levied on Colombian operations. As at December 31, 2011, the Company has recognized an equity tax expense of $2,580,852 which is based on the Company's net worth in Colombia at January 1, 2011 and is payable in eight equal instalments between 2011 and 2014. The amount recognized is calculated by discounting the future net worth tax payments by the credit-adjusted risk-free rate of 8%.

December 31, 2010	$ -
Amount expensed during the year	2,580,852
Accretion expense (Note 17)	184,061
Net foreign exchange gain	(28,853)
Payments made in the year	(777,921)
December 31, 2011	1,958,139
Current portion	(703,540)
Non-current portion	$ 1,254,599

Note 15 Share Capital

a) Authorized

Unlimited common shares – with no par value, entitling holders to vote and dividends if declared.

b) Issued

Common shares

	Number of Common Shares	Amount
Balance, January 1, 2010	394,218,311	$ 53,571,334
Options exercised	910,000	86,338
Warrants exercised for cash	20,460,706	7,120,796
Transfer of assigned fair value from warrants	-	2,196,785
Balance, December 31, 2010	415,589,017	$ 62,975,253
Warrants exercised for cash	13,058,049	4,611,901
Transfer of assigned fair value from warrants	-	1,401,941
Shares issued for cash (i)	53,900,000	35,935,400
Share issue costs	-	(2,006,160)
Balance, December 31, 2011	482,547,066	$ 102,918,335

(i) On March 1, 2011, the Company closed a bought deal prospectus offering by issuing a total of 53,900,000 common shares at a price of CDN$0.65 per common share for aggregate gross proceeds of CDN$35,035,000 (USD$35,935,400) with related share issue costs of $2,006,160.

c) Warrants

A summary of the changes in share purchase warrants is presented below:

	Number of Warrants	Amount
Balance, January 1, 2010	214,285,000	$ 23,010,776
Warrants exercised	(20,460,706)	(2,196,785)
Balance, December 31, 2010	193,824,294	$ 20,813,991
Warrants exercised	(13,058,049)	(1,401,941)
Balance, December 31, 2011	180,766,245	$ 19,412,050

The warrants are exercisable immediately at a price of CDN $0.35 per share until December 3, 2012 when they expire.

d) Stock Options

The Company has adopted a formal rolling stock option plan whereby options can be granted from time to time to directors, employees and consultants at the discretion of the Board of Directors. The number of options that can be granted is limited to 10% of the total shares issued and outstanding. A summary of the changes in stock options is presented below:

	Number of Options	Weighted Average Exercise Price (CDN$)	
Balance, January 1, 2010	910,000	$	0.10
Options exercised (i)	(910,000)		0.10
Options issued (i)	30,000,000		0.49
Forfeitures (i)	(1,333,333)		0.49
Balance, December 31, 2010	28,666,667	$	0.49
Options issued (ii)	10,980,000		0.36
Expired options (ii)	(1,000,001)		0.49
Forfeitures (ii)	(666,666)		0.49
Balance, December 31, 2011	37,980,000	$	0.45
Exercisable, December 31, 2011	**21,660,001**	**$**	**0.47**

(i) On the date of the reverse take-over acquisition of the Company by Petrodorado Ltd., there were 910,000 stock options outstanding that were a continuation of the Company's existing stock option plan. The options were all exercisable at a price of CDN $0.10 per common share and were exercised prior to their expiry on March 21, 2010. The weighted average trading price on the date of exercise was $0.52 per common share. On January 31, 2010, the Company granted 28,000,000 stock options to its directors, officers and key employees at a price of CDN $0.49 per common share. On May 1, 2010, the Company granted 1,000,000 stock options to a new employee at a price of CDN $0.49 per common share. On September 1, 2010, a grant of 1,000,000 options was made to a new officer at a price of CDN $0.49 per common share, concurrent with the forfeiture of 1,333,333 unvested options previously granted to an exiting officer. All options are for a five year term, and vested one-third on the date of grant and one-third on the first anniversary date and one-third on the second anniversary date from the grant date.

(ii) On January 6, 2011, the Company granted 1,000,000 options to acquire common shares to a new officer, at a price of CDN $0.73 per common share. The options are for a five year term, expiring on January 6, 2016 and vest one-third on June 1, 2011, one-third on the first anniversary date and one-third on the second anniversary date from the grant date. On May 2, 2011, the Company granted 1,500,000 options to acquire common shares to two employees, at a price of CDN $0.55 per common share. The options are for a five year term, expiring on May 2, 2016 and vest one-third on May 2, 2011, one-third on the first anniversary date and one-third on the second anniversary date from the date of grant. On September 12, 2011, the Company granted 750,000 stock options to a new employee at a price of CDN $0.49 per common share and 730,000 stocks options to existing employees at a price of CDN $0.35 per common share. On November 30, 2011, the Company granted 7,000,000 options to acquire common shares to the directors of the Company at a price of CDN $0.25 per common share. The options are for a five year term, expiring on November 30, 2016 and vest one-third on November 30, 2011, one-third on the first anniversary date and one-third on the second anniversary date from the grant date. Of the options previously granted to exiting officers, 666,666 were forfeited on February 28, 2011, 333,334 expired on May 29, 2011, and 666,667 expired on August 31, 2011.

The following summarizes information about stock options outstanding as at December 31, 2011:

Exercise Prices (CDN$)	Number of Options Outstanding	Weighted Average Term to Expiry (Years)	Number of Options Exercisable
0.25	7,000,000	4.92	2,333,332
0.35	730,000	4.70	243,331
0.49	27,750,000	3.14	18,250,004
0.55	1,500,000	4.34	500,000
0.73	1,000,000	4.02	333,334
	37,980,000	3.57	21,660,001

The options were allocated a value using the Black-Scholes option pricing model to estimate the fair value with the following weighted average assumptions:

	2011	2010
Expected forfeiture rate	10.00%	10.00%
Risk-free interest rate	1.46% to 2.34%	2.10% to 2.99%
Expected dividend yield	0%	0%
Expected stock price volatility	79% to 85%	60% to 66%
Expected option life	5 years	5 years
Fair value of options granted	CDN $0.099 to $0.476	CDN $0.259 to $0.276

During the year ended December 31, 2011, the Company recognized $2,053,022 (December 31, 2010 - $4,359,330) of stock-based compensation expense and capitalized $467,140 (December 31, 2010 – $819,401) to property, plant and equipment and to exploration and evaluation assets, for a total of $2,520,162 (December 31, 2010 - $5,178,731) that was recorded as contributed surplus.

For purposes of the loss per share calculations for the years ended December 31, 2010 and 2011, there is no difference between the basic loss per share and the diluted loss per share amounts. This is due to exercisable stock options and warrants being anti-dilutive given the Company realized losses in both years.

Note 16 Operating Costs

During the year ended December 31, 2011 the Company reached an agreement with the operator of its ME-1 well providing for the recovery of approximately $1.2 million of operating costs related to prior year’s production.

Note 17 Finance costs

	For the years ended December 31	
	2011	2010
Accretion of decommissioning obligations (Note 13)	**$ 21,172**	$ 21,489
Accretion of equity tax payable (Note 14)	**184,061**	-
	$ 205,233	$ 21,489

Note 18 Income Taxes

Reconciliation of effective tax rate

Income tax expense varies from the amount that would be computed by applying the expected basic federal and provincial income tax rates for Canada at December 31, 2011 of 26.50% to the loss before income taxes. A reconciliation of this difference is presented below. This statutory rate differs from the statutory rate in 2010 of 28.00%, based on a substantive enactment of legislation to reduce the federal tax rate by 1.5% on January 1, 2011.

	2011	2010
Loss before income taxes	**$ (8,746,508)**	$ (11,210,112)
Tax rate	**26.50%**	28.00%
Computed income tax recovery	**(2,317,825)**	(3,138,831)
Increase (decrease) in taxes:		
Effect of tax rates in foreign jurisdictions	**(407,604)**	(248,111)
Stock-based compensation	**543,844**	1,220,612
Foreign exchange	**(806,849)**	799,374
Equity Tax	**732,702**	-
Change in Unrecognized Tax Assets and other	**2,255,732**	1,366,956
Total tax expense	**$ -**	$ -

Unrecognized Deferred Tax Assets

Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

	2011	2010
Non-capital loss carryforwards	**$ 17,666,222**	$ 15,332,238
Capital loss carryforwards	**141,810**	145,004
Deductible temporary differences net of taxable temporary differences	**12,607,864**	503,524
	$ 30,415,896	$ 15,980,766

$11.1 million of the non-capital losses carry forwards as at December 31, 2011 are from Columbia ($11.3 million as at December 31, 2010). These tax losses have no expiration period. $6.6 million of the non-capital loss carry forwards as at December 31, 2011 are from Canada ($4.0 million as at December 31, 2010). These losses expire between 2025 and 2031. All the capital loss carry forwards presented above are from Canada and have no expiration period. The deductible temporary differences presented above do not expire under current tax legislation. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the group can utilize the benefits.

Note 19 Risk Management

Overview

The Company has exposure to the following risks from its use of financial instruments:

a) Credit risk
b) Liquidity risk
c) Market risk

This note presents information about the Company's exposure to each of the above risks and the Company's objectives, policies and processes for measuring and managing these risks. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities.

Credit risk

Credit risk reflects the risk of loss if counterparties do not fulfill their contractual obligations. A substantial portion of the Company's revenues will be derived from customers and joint venture partners in the oil and gas industry and will be subject to normal industry credit risks in the countries in which the Company will operate. For oil and natural gas sales, the Company follows a risk procedure whereby counterparties are reviewed on a regular basis and the Company attempts to transact only with counterparties that management deems to be suitable. As at December 31, 2011, the Company had $8,006,315 and $1,800,418 in restricted cash towards development activity in the CPO-5 Block and La Maye Block in Colombia, respectively and an additional $405,000 in respect of development activity in the Tacacho Block. The Company has mitigated this risk by being the only authority that can authorize draw-downs on these accounts by third parties. At December 31, 2011, the Company had $0 (December 31, 2010 - $2,249,657) recorded in cash calls receivable and $ 182,235 (December 31, 2010 - $303,456) in accounts receivable. To date, the Company has not experienced any credit loss in the collection of accounts receivable. The Company does not have an allowance for doubtful accounts and does not consider any of its receivables past due.

Cash and cash equivalents consist of cash bank balances ($9,207,878 – December 31, 2011) and short-term deposits maturing in less than 90 days ($0 – December 31, 2011). The carrying amount of cash and cash equivalents, short-term investments, cash calls receivable, accounts receivable, restricted cash and other receivables represent the maximum credit exposure. The Company manages the credit risk exposure related to cash and cash equivalents and short-term investments by selecting counterparties based on credit ratings and by avoiding complex investment vehicles with high risk such as asset-backed commercial paper.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due and describes the Company's ability to access cash. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient cash resources in order to finance operations, fund capital expenditures, and to repay debt and other liabilities of the Company as they come due, without incurring unacceptable losses or risking harm to the Company's reputation. The Company's processes for managing liquidity risk include preparing and monitoring capital and operating budgets, coordinating and authorizing project expenditures, and authorization of contractual agreements. The Company seeks additional financing based on the results of these processes. The budgets are updated when required as conditions change.

The Company has exploration commitments in Latin America as described in Note 21. The Company anticipates no restrictions in respect of funding these contracted and/or anticipated exploration programs. The Company's contractual obligations consist of accounts payable and accrued liabilities which are considered current in nature and due within one year. Further financial obligations consist of equity tax levied and payable in installments over the next three years as explained in Note 14.

Market risk

Market risk is the risk or uncertainty that changes in price, such as commodity prices, foreign exchange rates, and interest rates will affect the Company's net earnings and the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns. From time to time, the Company may utilize financial derivate contracts to manage market risks in accordance with the risk management policy that has been approved by the Board of Directors. There were no financial contracts or embedded derivatives outstanding at December 31, 2011 or December 31, 2010.

Commodity price risk

Commodity price risk is the risk that the fair value of the future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted by not only the United States dollar, but also by world economic events that dictate the levels of supply and demand. The Company's revenue from oil and natural gas is all received from one independent international oil and gas company.

Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign currency exchange rates. Some of the Company's business transactions and commitments occur in currencies other than US dollars. A portion of the Company's oil and natural gas activities in Colombia transact in Colombian Peso (COP$). In addition, the majority of the Company's financing and a portion of the administrative costs will be based in Canadian dollars, or COP$ and paid in Canadian dollars or COP$. Therefore, the Company is exposed to the risk of fluctuations in foreign exchange rates between US dollars, COP$ and Canadian dollars. As at December 31, 2011 and December 31, 2010, the Company had not entered into any foreign currency derivatives to manage its exposure to currency fluctuations. At December 31, 2011, the Company had balances within its cash and short-term investments in denominations of CDN$31.1 million, COP$832.2 million and USD$9.1 million (CDN$8.6 million, COP$2.4 billion, and USD$10.5 million – December 31, 2010).

The impact to the accumulated other comprehensive income for the period ended December 31, 2011, had the USD$ to CDN$ rate exchange changed by 1 cent, would amount to approximately $309,000

($45,000 – December 31, 2010), and the impact to the net loss and comprehensive loss for the year had the US Dollars to COP$ rate exchange changed by 1 cent would amount to approximately $23,000 ($12,000 – December 31, 2010).

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in prevailing market interest rates. The Company is exposed to interest rate risk on its cash and cash equivalents and short-term investments that have a floating interest rate. Fluctuations of interest rates for the period ending December 31, 2011 and 2010 would not have had a significant impact on the annual consolidated financial statements.

Fair value of financial instruments

The Company's financial instruments as at December 31, 2011, include cash and cash equivalents, short-term investments, cash calls receivable, accounts receivable, restricted cash, other receivables, accounts payable and accrued liabilities and equity tax payable.

The Company's financial instruments recorded at fair value require disclosure about how the fair value was determined based on significant levels of inputs described in accordance with the following hierarchy.

Level 1 inputs are based on quoted market prices in active markets that the Company has the ability to access at the measurement date. Level 2 inputs are based on quoted prices in the markets that are not active or based on prices that are observable for the asset of liability. Level 3 inputs are based on unobservable inputs for the asset of liability. As at December 31, 2011, the only financial instruments recorded at fair value according to the three-level hierarchy were cash and cash equivalents, short-term investments and restricted cash all of which were considered level 1. The equity tax payable balance was recorded at discounted value, due to its long term maturity, which represents its fair value at such date. The fair value of the remaining financial instruments approximates their carrying values due to their short terms to maturity.

Note 20 Capital Disclosures

The Company's objectives when managing capital are to ensure the Company will have sufficient financial capacity, liquidity, and flexibility to fund the Company's operations, growth, and ongoing exploration and development commitment activities of its oil and gas assets. The Company is dependent upon funding these activities through a combination of available cash, debt and equity, which it considers to be the components of its capital structure as outlined below.

	December 31, 2011		December 31, 2010	
Shareholders' equity	**$**	**111,182,385**	$	82,103,332
Cash	**$**	**9,207,878**	$	12,061,874
Working capital, excluding cash	**$**	**26,627,573**	$	8,747,594

The Company regularly monitors its capital structure and as necessary adjusts to changing economic circumstances and the underlying risk characteristics of its assets in order to meet current and upcoming obligations and investments by the Company. The Company frequently reviews alternate financing options and arrangements to meet its current and upcoming commitments and obligations.

The Company's objectives when managing capital are: (i) to maintain a flexible capital structure, which optimizes the cost of capital at acceptable risk; and (ii) to maintain investor, creditor and market confidence in order to sustain the future development of the business. The Company's share capital is not subject to external restrictions.

Note 21 Commitments

A summary of the Company's estimated capital commitments (in millions of dollars) are as follows:

Block/Country	Interest	2012	2013	2014	2015	Total
Talora, Colombia (1)	65%	-	3.9	-	-	3.9
Tacacho, Colombia (2)	49.5%	7.4	-	-	-	7.4
CPO-5, Colombia (3)	30.0%	4.8	-	-	3.6	8.4
Block 135, Peru (4)	45%	10	-	-	-	10
Buganviles (5)	55%	-	-	3.0	-	3.0
Total		**22.2**	**3.9**	**3.0**	**3.6**	**32.7**

1) Net commitment represents 2 wells required by 2013.
2) Petrodorado to pay 100% of costs to acquire and process 480 km^2 of 2D seismic data (up to a maximum of USD$8 million).
3) Includes Petrodorado's 30% share of 2 exploration wells by June 2012 and 30% share of the second phase of the exploration program by 2015.
4) Petrodorado to pay 45% of the second exploration phase of the block. The Commitment amount represents currently budgeted cost to gather and process 400 km of seismic data.
5) The operator has submitted a license extension of 2 years to Ecopetrol S.A. with a corresponding work commitment. The present license expires in June 2012 and once the extension is approved there will be a corresponding work commitment for 35 km^2 of 3D seismic data (up to a maximum of USD$3 million).

The expenditures provided in the above table represent the Company's estimated cost to satisfy contract requirements. Actual expenditures to satisfy these commitments, initiate production or create reserves may differ from these estimates.

Note 22 Personnel Expenses

The aggregate personnel expense of employees and executive management was as follows:

	2011	2010
Salary, wages and consulting fees	**$ 1,851,463**	$ 1,489,660
Stock- based compensation (i)	**2,520,162**	5,178,731
	4,371,625	6,668,391
Capitalized portion of total remuneration	**(1,019,268)**	(1,374,014)
	$ 3,352,357	$ 5,294,377

(i) Represent the amortized portion recognized in the consolidated financial statements.

The Company has determined that key management personnel consists of its officers and directors. In addition to the salaries paid to company officers, both groups participate in the stock option plan. The total compensation expense, including salaries, wages, fees and share-based compensation, relating to key management personnel for the year was $2.8 million (2010 - $4.5 million).

Note 23 Segmented Information

The Company defines its reportable segments based on geographical locations and the information for this is reported in the following tables for the years ended December 31, 2011 and 2010.

For the year ended December 31, 2011

	Canada	Colombia	Paraguay	Peru	Total
Revenue:					
Oil and gas revenue, net of royalties	$ -	$ 3,740,806	$ -	$ -	$ 3,740,806
Interest and other	340,403	83,332	-	-	423,735
	340,403	3,824,138	-	-	4,164,541
Expenses:					
Operating expenses	-	1,330,679	-	-	1,330,679
General and administrative	1,867,172	1,642,780	-	-	3,509,952
Business development expenses	188,864	-	-	-	188,864
Foreign exchange (gain) loss	(2,280,453)	(207,924)	-	-	(2,488,377)
Stock-based compensation	2,053,022	-	-	-	2,053,022
Equity tax expense	-	2,580,852			2,580,852
Depletion and depreciation	8,962	1,121,862	-	-	1,130,824
Impairment of property, plant and equipment	-	4,400,000	-	-	4,400,000
Finance costs	42,325	162,908	-	-	205,233
	1,879,892	11,031,157	-	-	12,911,049
Loss for the year	$ (1,539,489)	$ (7,207,019)	$ -	$ -	$ (8,746,508)
Assets, December 31, 2011	$ 44,722,447	$ 62,451,137	$ -	$ 10,310,799	$ 117,484,383
Additions to exploration and evaluation assets	$ -	$ 11,988,823	$ -	$ 10,169,773	$ 22,158,596
Additions to property, plant and equipment	$ 8,955	$ 555,203	$ -	$ -	$ 564,158

For the year ended December 31, 2010

	Canada	Colombia	Paraguay	Peru	Total
Revenue:					
Oil and gas revenue, net of royalties	$ -	$ 1,216,499	$ -	$ -	$ 1,216,499
Interest and other	176,960	3,620	-	-	180,580
	176,960	1,220,119	-	-	1,397,079
Expenses:					
Operating expenses	-	1,611,703	-	-	1,611,703
General and administrative	1,495,160	1,009,432	-	-	2,504,592
Business development expenses	505,397	210,044	-	-	715,441
Pre-licensing costs	-	-	120,295	-	120,295
Foreign exchange (gain) loss	1,589,137	833,221	-	-	2,422,358
Stock-based compensation	4,359,330	-	-	-	4,359,330
Depletion and depreciation	8,483	843,500	-	-	851,983
Finance costs	-	21,489	-	-	21,489
	7,957,507	4,529,389	120,295	-	12,607,191
Loss for the year	$ (7,780,547)	$ (3,309,270)	$ (120,295)	$ -	$ (11,210,112)
Assets, December 31, 2010	$ 20,735,217	$ 64,761,357	$ -	$ 141,026	$ 85,637,600
Additions to exploration and evaluation assets	$ -	$ 38,836,634	$ -	$ 141,026	$ 38,977,660
Additions to property, plant and equipment	$ 35,134	$ 7,510	$ -	$ -	$ 42,644

Note 24 Supplemental Cash Flow Information

Changes in non-cash working capital

	December 31, 2011	December 31, 2010
Accounts receivable	**$ 2,370,878**	$ (2,474,714)
Prepaid expenses and deposits	**22,018**	4,797
Inventory	**468,421**	(468,421)
Accounts payable and accrued liabilities	**936,280**	1,854,415
Working capital acquired on acquisitions (Note 7)	**-**	(371,586)
Change in non-cash working capital	**3,797,597**	(1,455,509)
Relating to:		
Operating activities	**430,239**	(578,343)
Investing activities	**3,367,358**	(877,166)
Change in non-cash working capital	**$ 3,797,597**	$ (1,455,509)

Note 25 Reconciliation from Canadian GAAP to IFRS

The Company's accounting policies under IFRS differ from those followed under Canadian GAAP as described in note 3. These accounting policies have been applied for the opening statement of financial position on the transition date, January 1, 2010, and the comparative information as at and for the year ended December 31, 2010.

The adjustments arising from the application of IFRS to amounts on the statement of financial position on the transition date and on transactions prior to that date were recognized as an adjustment to the Company's opening deficit on the statement of financial position.

On transition to IFRS on January 1, 2010, the Company used certain exemptions allowed under IFRS 1 "First Time Adoption of IFRS". The Company elected the exemption in IFRS 1 that allows an exemption on IAS 21"The Effects of Change in Foreign Exchange Rates". The cumulative translation differences for all foreign operations are deemed to be zero at the date of transition to IFRS. Any retrospective translation differences are recognized in opening retained earnings.

In addition, the Company has elected the IFRS 1 optional exemption that allows an entity to use the IFRS rules for business combinations on a prospective basis rather than re-stating all prior business combinations.

Note 25 Reconciliation from Canadian GAAP to IFRS (cont'd)

Reconciliation of the statement of financial position from Canadian GAAP to IFRS as at the date of IFRS transition – January 1, 2010

As at	Ref	December 31, 2009	IFRS Adjustments	January 1, 2010
ASSETS				
Current Assets				
Cash and cash equivalents		$ 913,642	$ -	$ 913,642
Short-term investments		68,109,697	-	68,109,697
Accounts receivable		78,399	-	78,399
Share subscriptions receivable		124,936	-	124,936
Prepaid expenses and deposits		39,652	-	39,652
		69,266,326	-	69,266,326
Non-current Assets				
Restricted cash and other receivables		1,800,397	-	1,800,397
Deposits on acquisition		1,882,000	-	1,882,000
Exploration and evaluation assets	**a**	-	5,640,442	5,640,442
Property, plant and equipment	**a**	5,699,419	(5,680,304)	19,115
		$ 78,648,142	**$ (39,862)**	**$ 78,608,280**
LIABILITIES AND SHAREHOLDERS` EQUITY				
Current Liabilities				
Accounts payable and accrued liabilities		$ 937,248	$ -	$ 937,248
Due to shareholders		395,220	-	395,220
		1,332,468	-	1,332,468
SHAREHOLDERS`EQUITY				
Share capital		53,571,334	-	53,571,334
Warrants		23,010,776	-	23,010,776
Retained earnings (deficit)	**a,b**	(214,818)	908,520	693,702
Accumulated other comprehensive income	**b**	948,382	(948,382)	-
		77,315,674	(39,862)	77,275,812
		$ 78,648,142	**$ (39,862)**	**$ 78,608,280**

Note 25 Reconciliation from Canadian GAAP to IFRS (cont`d)

Reconciliation of the statement of financial position from Canadian GAAP to IFRS as at the end of the last reporting year under Canadian GAAP – December 31, 2010

As at	Ref	December 31, 2010	IFRS Adjustments	December 31, 2010
ASSETS				
Current Assets				
Cash and cash equivalents		$ 12,061,874	$ -	$ 12,061,874
Short-term investments		8,482,868	-	8,482,868
Cash calls receivable		2,249,657	-	2,249,657
Accounts receivable		303,456	-	303,456
Inventory		468,421	-	468,421
Prepaid expenses and deposits		34,855	-	34,855
		23,601,131	-	23,601,131
Non-current Assets				
Restricted cash and other receivables		10,205,397	-	10,205,397
Exploration and evaluation assets	**a,e**	-	42,739,226	42,739,226
Property, plant and equipment	**a,d,e**	51,944,008	(42,852,162)	9,091,846
		$ 85,750,536	**$ (112,936)**	**$ 85,637,600**
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current Liabilities				
Accounts payable and accrued liabilities		$ 2,791,663	$ -	$ 2,791,663
		2,791,663	-	2,791,663
Non-current Liabilities				
Decommissioning obligations	**e**	506,391	236,214	742,605
		3,298,054	236,214	3,534,268
SHAREHOLDERS' EQUITY				
Share capital		62,975,253	-	62,975,253
Warrants		20,813,991	-	20,813,991
Contributed surplus	**c**	5,639,895	(461,164)	5,178,731
Deficit	**a,b,c,d**	(7,925,039)	(2,591,371)	(10,516,410)
Accumulated other comprehensive income	**b**	948,382	2,703,385	3,651,767
		82,452,482	(349,150)	82,103,332
		$ 85,750,536	**$ 112,936**	**$ 85,637,600**

Note 25 Reconciliation from Canadian GAAP to IFRS (cont`d)

Reconciliation of the statement of comprehensive income for the year ended December 31, 2010

	Ref	Year ended 31/12/2010	IFRS Adjustments	Year ended 31/12/2010
Revenue:				
Oil and gas revenue, net of royalties		$ 1,216,499	$ -	$ 1,216,499
Interest and other		180,580	-	180,580
		1,397,079	-	1,397,079
Expenses				
Operating expenses		1,611,703	-	1,611,703
General and administrative		2,504,592	-	2,504,592
Business development expenses		715,441	-	715,441
Pre-licencing costs	a	-	120,295	120,295
Foreign exchange (gain) loss	b	(1,229,409)	3,651,767	2,422,358
Stock-based compensation	c	4,766,985	(407,655)	4,359,330
Depletion and depreciation	d	737,988	113,995	851,983
Finance costs	e	-	21,489	21,489
		9,107,300	3,499,891	12,607,191
Loss for the year		(7,710,221)	(3,499,891)	(11,210,112)
Other comprehensive income:				
Currency translation adjustment	b	-	3,651,767	3,651,767
Comprehensive loss for the year		$ (7,710,221)	$ 151,876	$ (7,558,345)
Loss per share - basic and diluted		$ (0.02)		$ (0.03)
Weighted average shares outstanding basic and diluted		396,700,204		396,700,204

The reconciling items between Canadian GAAP and IFRS presentation have no significant effect on the cash flows generated. Therefore, a reconciliation of cash flows has not been presented.

(a) Exploration and evaluation assets

IFRS requires exploration and evaluation assets (E&E assets) to be presented separately in the statement of financial position until the technical feasibility and commercial viability of the asset is demonstrable. The balances related to exploration and evaluation assets were reclassified from property, plant and equipment (PP&E). The amounts reclassified at January 1, 2010 and December 31, 2010 were $5,640,442 and $42,739,226, respectively.

In addition, IFRS establishes that costs incurred before the entity has obtained the rights to perform exploration and evaluation activities are expensed. The Company has written off pre-licensing costs of $39,862, with a corresponding change to deficit at January 1, 2010, and $120,295 was charged to pre-licensing costs for the year ended December 31, 2010.

(b) Foreign currency translation

IFRS requires that the functional currency of each entity in a consolidated group be determined separately based on the currency of the primary economic environment in which the entity operates. A list of primary and secondary indicators is used under IFRS in this determination and these differ in content and emphasis to a certain degree from those factors under Canadian GAAP. The parent company operated with the US dollar as its functional currency under Canadian GAAP. The Company re-assessed the determination of the functional currency for the parent company and determined the Canadian dollar as the functional currency for this entity under IFRS. The impact of the change in functional currency, combined with the IFRS 1 exemption previously mentioned, was an adjustment to retained earnings at the date of transition of $948,382. For the year ended December 31, 2010, the currency translation adjustment was $3,651,767.

(c) Stock-based compensation

Under Canadian GAAP, the Company recognized an expense related to their stock-based compensation on a graded method of expense and fair valued options granted to consultants at each reporting period. Under IFRS, the Company is required to recognize the expense over the individual vesting periods for the graded vesting of awards and fair valued options granted to consultants at the grant date. The Company also capitalized stock-based compensation directly attributable to exploration and evaluation assets. The net impact was a decrease to the stock-based compensation expense for the year ended December 31, 2010 of $407,655.

(d) Depletion

Upon transition to IFRS, the Company adopted a policy of depleting its oil properties on a unit of production basis over proved plus probable reserves of producing assets at a component or field level. The depletion policy under Canadian GAAP was based on units of production over proved reserves of producing and non-producing properties. The impact was an increase to depletion and depreciation of $137,144 for the year ended December 31, 2010 with a corresponding change to property, plant and equipment.

(e) Decommissioning Obligation

Under Canadian GAAP, decommissioning liabilities were discounted at a credit adjusted risk-fee rate of 8%. Under IFRS, the estimated cash flow to abandon and remediate the wells and facilities has been risk-adjusted; therefore, the entire decommissioning liability is discounted at a risk-free rate of 3% percent for all periods presented. The impact was an increase to decommissioning obligation of $236,214, with a corresponding increase in recognized costs related to related exploration and evaluation assets and oil and gas properties. The corresponding change in the unwinding of the discount under IFRS, or accretion, was included in finance expense.