PETRODORADO
Excellence with Agility

# CONSOLIDATED FINANCIAL STATEMENTS
# FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

# 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 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 two 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.

| | |
|---|---|
| *(signed)* | *(signed)* |
| Krishna Vathyam<br>President and CEO | Chris Reid<br>VP of Finance and CFO |

Calgary, Canada
April 25, 2013

# 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, 2012 and December 31, 2011, the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, 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 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, 2012 and December 31, 2011, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Accountants

Calgary, Canada
April 25, 2013

# PETRODORADO ENERGY LTD.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| *(Expressed in U.S. Dollars)* | **December 31, 2012** | December 31, 2011 |
|---|---|---|
| **Assets** | | |
| Current Assets | | |
| Cash and cash equivalents | **$ 2,700,529** | $ 9,207,878 |
| Short-term investments | **39,788,213** | 30,863,984 |
| Accounts receivable (Note 6) | **120,770** | 182,235 |
| Prepaid expenses and deposits | **8,671** | 12,837 |
| Restricted cash (Note 7) | **10,148,900** | - |
| | **52,767,083** | 40,266,934 |
| Non-current Assets | | |
| Restricted cash (Note 7) | **5,643,301** | 13,394,447 |
| Exploration and evaluation assets (Note 9) | **49,227,831** | 59,697,822 |
| Property, plant and equipment (Note 10) | **3,738,073** | 4,125,180 |
| | **$ 111,376,288** | $ 117,484,383 |
| **Liabilities and Shareholders' Equity** | | |
| Current Liabilities | | |
| Accounts payable and accrued liabilities (Note 6) | **$ 13,962,963** | $ 3,727,943 |
| Equity tax payable (Note 12) | **770,909** | 703,540 |
| | **14,733,872** | 4,431,483 |
| Non-current Liabilities | | |
| Decommissioning obligations (Note 11) | **778,256** | 615,916 |
| Equity tax payable (Note 12) | **713,804** | 1,254,599 |
| | **16,225,932** | 6,301,998 |
| **Shareholders' Equity** | | |
| Share capital (Note 13) | **102,918,335** | 102,918,335 |
| Warrants (Note 13) | **-** | 19,412,050 |
| Contributed surplus | **28,735,976** | 7,698,893 |
| Deficit | **(39,444,311)** | (19,262,918) |
| Accumulated other comprehensive income | **2,940,356** | 416,025 |
| | **95,150,356** | 111,182,385 |
| | **$ 111,376,288** | $ 117,484,383 |

*See accompanying notes to the consolidated financial statements.*

**Approved by the Board of Directors:**

*(signed)*

Krishna Vathyam
Chairman of the Board of Directors

*(signed)*

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, 2012** | | For the year ended December 31, 2011 |
|---|---|---|---|---|
| **Revenue:** | | | | |
| Oil and gas revenue, net of royalties | **$** | **111,429** | $ | 3,740,806 |
| Interest and other | | **596,795** | | 423,735 |
| | | **708,224** | | 4,164,541 |
| | | | | |
| **Expenses:** | | | | |
| Operating expenses | | **424,643** | | 1,330,679 |
| General and administrative | | **2,821,617** | | 3,698,816 |
| Gain on divestiture (Note 9) | | **(4,752,650)** | | - |
| Impairment of exploration and evaluation assets (Note 9) | | **18,735,892** | | - |
| Impairment of property, plant and equipment (Note 10) | | **284,000** | | 4,400,000 |
| Foreign exchange loss (gain) | | **1,712,837** | | (2,488,377) |
| Stock-based compensation | | **1,327,401** | | 2,053,022 |
| Equity tax expense (Note 12) | | **-** | | 2,580,852 |
| Depletion and depreciation | | **174,337** | | 1,130,824 |
| Finance costs (Note 14) | | **161,540** | | 205,233 |
| | | **20,889,617** | | 12,911,049 |
| Loss for the year | **$** | **(20,181,393)** | $ | (8,746,508) |
| | | | | |
| **Other comprehensive income:** | | | | |
| Currency translation adjustment | | **2,524,331** | | (3,235,742) |
| | | | | |
| Comprehensive loss for the year | **$** | **(17,657,062)** | $ | (11,982,250) |
| | | | | |
| Loss per share – basic and diluted (Note 13) | **$** | **(0.04)** | $ | (0.02) |
| | | | | |
| Weighted average number of common shares outstanding | | **482,547,066** | | 472,068,975 |

*See accompanying notes to the consolidated financial statements.*

## PETRODORADO ENERGY LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

| *(Expressed in U.S. Dollars)* | **For the year ended December 31, 2012** | For the year ended December 31, 2011 |
|---|---|---|
| **Cash flows provided by (used in):** | | |
| **Operating activities** | | |
| Income (loss) | **$ (20,181,393)** | $ (8,746,508) |
| Adjustments for: | | |
| Gain on divestiture | **(4,752,650)** | - |
| Impairment of exploration and evaluation assets | **18,735,892** | |
| Impairment of property, plant and equipment | **284,000** | 4,400,000 |
| Unrealized foreign exchange loss (gain) | **1,824,267** | (2,430,423) |
| Stock-based compensation | **1,327,401** | 2,053,022 |
| Depletion and depreciation | **174,337** | 1,130,824 |
| Finance costs | **161,540** | 205,233 |
| Equity tax expense | **-** | 2,580,852 |
| Equity taxes paid | **(788,079)** | (777,921) |
| Abandonment costs paid | **-** | (147,861) |
| Change in non-cash working capital (Note 20) | **143,901** | 430,239 |
| | **(3,070,784)** | (1,302,543) |
| **Investing activities** | | |
| Acquisition of exploration and evaluation assets | **(18,918,613)** | (21,691,456) |
| Acquisition of property, plant and equipment | **(71,230)** | (564,158) |
| Short-term investments | **(8,268,036)** | (23,210,915) |
| Disposal of exploration and evaluation assets | **15,253,288** | 5,200,000 |
| Change in restricted cash | **(2,225,912)** | (3,189,050) |
| Change in non-cash working capital (Note 20) | **10,748,956** | 3,367,358 |
| | **(3,481,547)** | (40,088,221) |
| **Financing activities** | | |
| Shares issued, net of costs | **-** | 33,929,240 |
| Options and warrants exercised, net of costs | **-** | 4,611,901 |
| | **-** | 38,541,141 |
| **Cash from operating, investing and financing activities** | **(6,552,331)** | (2,849,623) |
| Effect of exchange rate on cash | **44,982** | (4,373) |
| **Change in cash** | **(6,507,349)** | (2,853,996) |
| Cash, beginning of year | **9,207,878** | 12,061,874 |
| **Cash, end of year** | **$ 2,700,529** | $ 9,207,878 |

*See accompanying notes to the consolidated financial statements.*

## PETRODORADO ENERGY LTD.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

| *(Expressed in U.S. Dollars)* | Number of Common Shares | Share capital | Warrants | Contributed Surplus | Deficit | Accumulated Other Comprehensive Income | Total |
|---|---|---|---|---|---|---|---|
| Balance at January 1, 2011 | 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 excercised for cash (Note 13) | 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 13) | | | | 2,520,162 | | | 2,520,162 |
| Shares issued, net of costs | 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 |

| | Number of Common Shares | Share capital | Warrants | Contributed Surplus | Deficit | Accumulated Other Comprehensive Income | Total |
|---|---|---|---|---|---|---|---|
| **Balance at January 1, 2012** | **482,547,066** | **$ 102,918,335** | **$ 19,412,050** | **$ 7,698,893** | **$ (19,262,918)** | **$ 416,025** | **$ 111,182,385** |
| **Loss** | | | | | **(20,181,393)** | | **(20,181,393)** |
| **Currency translation adjustment** | | | | | | **2,524,331** | **2,524,331** |
| **Expiration of warrants (Note 13)** | | | **(19,412,050)** | **19,412,050** | | | **-** |
| **Stock-based compensation (Note 13)** | | | | **1,625,033** | | | **1,625,033** |
| **Balance at December 31, 2012** | **482,547,066** | **$ 102,918,335** | **$ -** | **$ 28,735,976** | **$ (39,444,311)** | **$ 2,940,356** | **$ 95,150,356** |

*See accompanying notes to the consolidated financial statements.*

## 1. REPORTING ENTITY

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. The Company's head office is located at Suite 1000, 205 – 5th Avenue SW, Calgary, Alberta, Canada, T2P 2V7, 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 one block 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, and the ability of the Company to secure adequate sources of financing to fund the development of its assets and put them into production consequently achieving future profitable operations. The outcome of these matters cannot be predicted with certainty at this time.

## 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"). A summary of significant accounting policies are presented in Note 3.

The consolidated financial statements were approved and authorized for issuance by the Company's Board of Directors on April 25, 2013.

### 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements.

### a) Basis of consolidation

***Subsidiaries***

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.

The following table summarizes the Company's subsidiaries, their country of incorporation, and the Company's ownership interest.

| **Subsidiaries** | **Country of Incorporation** | **Ownership Interest** | |
|---|---|---|---|
| | | 2012 | 2011 |
| Petrodorado Ltd. | Canada | 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% |

***Jointly controlled operations and jointly controlled assets***

Many of the Company's oil and natural gas activities involve jointly controlled assets. The consolidated financial statements include the Company's share of these jointly controlled assets and a proportionate share of the relevant revenue and related costs.

***Transactions eliminated on consolidation***

All intercompany balances and transactions are eliminated upon consolidation in preparing the financial statements.

**b) Foreign currency**

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.

**c) Financial instruments**

***Non-derivative 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***

A financial asset is classified as at fair value through profit or loss if is it classified as held for trading or is designated as such on initial recognition.

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.

***Non-derivative 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, 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.

**d) 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 allocated to related cash-generating units ("CGUs") and are tested for impairment when indicators of impairment are present, and when exploration and evaluation assets are transferred to oil and gas properties.

***Pre-licence 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 within 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.

**e) 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 by reference to the ratio of production in the year, before royalties, to the related proven and probable reserves as determined by independent petroleum engineers, taking into account estimated future development costs necessary to bring those reserves into production. 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. Future development costs are estimated taking into account the level of development required to produce the 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.  The Company recognizes a gain or loss on the transaction for the difference between the net disposal proceeds, being the consideration received, and the carrying amount of the asset disposed of.

***Assets held for sale***

Non-current assets, or disposal groups consisting of assets and liabilities, are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is met when the sale is highly probable and the asset is available for immediate sale in its present condition.

Non-current assets classified as held for sale are measured at the lower of the carrying amount and fair value less costs to sell, with impairments recognized in net earnings in the period measured. Non-current assets and disposal groups held for sale are presented in current assets and liabilities on the statement of financial position.

**f) Impairment**

***Financial assets***

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. 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.

***Non-financial assets***

The Company assesses at each reporting date whether there is any 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. 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. 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.

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, adjusted for incremental costs that would be directly attributable to the disposal of the asset. In assessing value-in-use, 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, 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.

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.

**g) Provisions**

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses.

***Decommissioning obligations***

The Company's activities give rise to dismantling, decommissioning and site disturbance remediation activities. Provision is made for the estimated cost of site restoration and capitalized in the relevant asset category. Decommissioning obligations are measured at the present value of management's best estimate of expenditure required to settle the present obligation at the statement of financial position date. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation.

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 increase in the provision due to the passage of time is recognized as a finance cost. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established.

### h) 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.

### i) Share based payments

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.

### 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 taxes are recognized for all taxable temporary differences, except:

- Where deferred income tax 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) Earnings per share**

Basic earnings 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) 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.

**m) 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.

**n) Finance costs and interest income**

Finance costs comprise of interest expense on borrowings, 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.

**o) Use of estimates and judgements**

The timely preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities and income and expenses. Accordingly, actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Significant estimates and judgments made by management in the preparation of these financial statements are outlined below.

***Critical judgments in applying accounting policies***

The following are the critical judgments that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in these consolidated financial statements:

*i) Identification of cash-generating units*

The Company's assets are aggregated into cash-generating units, for the purpose of calculating impairment, based on their ability to generate largely independent cash flows. By their nature, these estimates and assumptions are subject to measurement uncertainty and may impact the carrying value of the Company's assets in future periods.

*ii) Impairment of petroleum and natural gas assets*

Judgments are required to assess when impairment indicators, or reversal indicators, exist and impairment testing is required. In determining the recoverable amount of assets, in the absence of quoted market prices, impairment tests are based on estimates of reserves, production rates, future oil and natural gas prices, future costs, discount rates, market value of land and other relevant assumptions.

*iii) Exploration and evaluation assets*

The application of the Company's accounting policy for exploration and evaluation assets requires management to make certain judgments as to future events and circumstances as to whether economic quantities of reserves have been found in assessing economic and technical feasibility.

*iv) Income taxes*

Judgments are made by management to determine the likelihood of whether deferred income tax assets at the end of the reporting period will be realized from future taxable earnings. To the extent that assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized in respect of deferred tax assets as well as the amounts recognized in profit or loss in the period in which the change occurs.

***Key sources of estimation uncertainty***

The following are the key assumptions concerning the sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing adjustments to the carrying amounts of assets and liabilities.

*i) Reserves*

The assessment of reported recoverable quantities of proved and probable reserves include estimates regarding production profile, commodity prices, exchange rates, remediation costs, timing and amount of future development costs, and production, transportation and marketing costs for future cash flows. It also requires interpretation of geological and geophysical models in anticipated recoveries. The economical, geological and technical factors used to estimate reserves may change from period to period. Changes in reported reserves can impact the carrying values of the Company's petroleum and natural gas properties and equipment, the calculation of depletion and depreciation, the provision for decommissioning obligations, and the recognition of deferred tax assets due to changes in expected future cash flows.

The Company’s petroleum and natural gas reserves represent the estimated quantities of petroleum, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be economically recoverable in future years from known reservoirs and which are considered commercially producible. Such reserves may be considered commercially producible if management has the intention of developing and producing them and such intention is based upon (i) a reasonable assessment of the future economics of such production; (ii) a reasonable expectation that there is a market for all or substantially all the expected petroleum and natural gas production; and (iii) evidence that the necessary production, transmission and transportation facilities are available or can be made available. Reserves may only be considered proven and probable if the ability to produce is supported by either actual production or conclusive formation tests. The Company’s petroleum and gas reserves are determined pursuant to National Instrument 51-101, Standard of Disclosures for Oil and Gas Activities.

ii) *Decommissioning obligations*
The Company estimates future remediation costs of production facilities, wells and pipelines at different stages of development and construction of assets or facilities. In most instances, removal of assets occurs many years into the future. This requires assumptions regarding abandonment date, future environmental and regulatory legislation, the extent of reclamation activities, the engineering methodology for estimating cost, future removal technologies in determining the removal cost and liability-specific discount rates to determine the present value of these cash flows.

iii) *Business combinations*
In a business combination, management makes estimates of the fair value of assets acquired and liabilities assumed which includes assessing the value of oil and gas properties based upon the estimation of recoverable quantities of proven and probable reserves being acquired.

iv) *Share-based payments*
All equity-settled, share-based awards issued by the Company are recorded at fair value using the Black-Scholes option-pricing model. In assessing the fair value of equity-based compensation, estimates have to be made regarding the expected volatility in share price, option life, dividend yield, risk-free rate and estimated forfeitures at the initial grant date.

v) *Tax provisions*
Tax provisions are based on enacted or substantively enacted laws. Changes in those laws could affect amounts recognized in profit or loss both in the period of change, which would include any impact on cumulative provisions, and in future periods. Deferred tax assets (if any) are recognized only to the extent it is considered probable that those assets will be recoverable. This involves an assessment of when those deferred tax assets are likely to reverse.

## 4. FUTURE ACCOUNTING POLICIES

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.

***Financial Instruments***
IFRS 9 Financial instruments (“IFRS 9”) 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 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. 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 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 requires joint operations to be accounted for recognizing and measuring the assets and liabilities (and recognizing the related revenues and expenses) on a proportionate basis in relation to its interest in the arrangement, whereas the standard requires joint ventures to be accounted 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 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 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.

## 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 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. The market value for exploration and evaluation assets is determined based on quoted market prices for similar assets.

***Financial assets and other liabilities***

The fair value of financial assets and other liabilities (see Note 3) is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. At December 31, 2012 and 2011, the fair value of these balances approximated their carrying value.

***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), 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).

## 6. CASH CALLS AND JOINT VENTURE RECEIVABLES AND PAYABLES

Cash calls receivable 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 exploration and evaluation assets. Cash calls payable are comprised of funds received from non-operating partners with respect to the same activities in blocks in which the Company is the operating partner. As these funds are expended by the Company, the payable is drawn down. Joint venture receivables and payables are amounts due from or to partners on account of capital and operating activities in blocks. At December 31, 2012, the outstanding accounts receivable balance of $120,770 (December 31, 2011 - $182,235) is composed of cash calls receivable of nil (December 31, 2011 – nil), joint venture receivables of $68,331 (December 31, 2011 - nil) and trade accounts receivable of $52,439 (December 31, 2011 - $182,235). At December 31, 2012, the outstanding accounts payable and accrued liabilities balance of $13,962,963 (December 31, 2011 - $3,727,943) is composed of cash calls payable of nil (December 31, 2011 - $1,834,666), joint venture payables of $4,207,876 (December 31, 2011 - $1,205,206), trade accounts payable of $7,891,481 (December 31, 2011 - $688,071), and capital accruals of $1,863,606 (December 31, 2011 - nil).

## 7. RESTRICTED CASH

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, 2012, $1,699,642 (December 31, 2011 - $1,699,582) had been drawn from this account, leaving $1,800,358 (December 31, 2011 - $1,800,418) in the escrow account.

As of December 31, 2012, funds totalling $5,438,254 (December 31, 2011 - $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, $5,138,254 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 $8,553,589 (December 31, 2011 - $8,411,315), which were established to secure the Credit Facility and the Letters of Credit referred to in Note 8 of these statements, are also included in the restricted cash balance.

## 8. CREDIT FACILITY

During the 2012 year, the Company had a $5 million revolving demand loan facility (the "Credit Facility") with a Canadian chartered bank (the "Lender"). The Credit Facility was available by way of account overdraft in US dollars or by letters of credit up to $4.8 million and was secured by security agreement over a deposit instrument in the amount of $5,010,646. In conjunction with this Credit Facility, 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. On September 25, 2012, this letter of credit expired and the associated Credit Facility was terminated with the Lender. However, the Company maintained the deposit instrument until such time that it was utilized for the funding of drilling obligations on the CPO-5 Block which were realized subsequent to year end.

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 $3,121,536 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 $421,407 term deposit made at the Colombian bank.

## 9. EXPLORATION AND EVALUATION ASSETS

| | | |
|---|---|---|
| **As at January 1, 2011** | $ | 42,739,226 |
| Additions | | 22,158,596 |
| Disposals | | (5,200,000) |
| **As at December 31, 2011** | | 59,697,822 |
| Additions | | 19,358,745 |
| Disposals | | (11,092,844) |
| Impairment loss | | (18,735,892) |
| **As at December 31, 2012** | **$** | **49,227,831** |

On July 12, 2012, the Company executed an agreement with the operator of Peru Blocks 135 and 138 to divest its 45% beneficial interest for cash proceeds of $15,253,288. Associated carrying values included exploration and evaluation assets of $11,092,844 and cash call liabilities of $592,206, resulting in a gain of $4,752,650.

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, 2012, the Company capitalized $409,862 of general and administrative expenses (December 31, 2011 - $552,128) and $297,632 of stock-based compensation (December 31, 2011 - $467,140) to exploration and evaluation assets. The Company does not hold any tangible exploration assets.

During the year ended December 31, 2012, the Company recognized impairments of $18,735,892 in relation to exploration and evaluation costs incurred within an exploration area for which the exploration license has expired as of June 30, 2012. The Company has applied and is awaiting approval from the Colombian government on an extension to the exploration license, but an official response from the Colombian government regarding the requested license extension has yet to be received. If the license extension is eventually received from the Colombia government, recovery of previously recorded impairments of these exploration and evaluation costs will be analyzed by management.

## 10. PROPERTY, PLANT AND EQUIPMENT

| Cost | Oil and gas properties | Furniture and equipment | Total |
|---|---|---|---|
| As at January 1, 2011 | $ 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 |
| Additions | - | 71,230 | 71,230 |
| **As at December 31, 2012** | **$ 10,066,437** | **$ 514,573** | **$ 10,581,010** |
| **Accumulated depletion and depreciation** | | | |
| As at January 1, 2011 | $ 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 |
| Additions | 17,035 | 157,302 | 174,337 |
| Impairment loss | 284,000 | - | 284,000 |
| **As at December 31, 2012** | **$ 6,488,324** | **$ 354,613** | **$ 6,842,937** |
| **Net book value** | | | |
| As at December 31, 2011 | $ 3,879,148 | $ 246,032 | $ 4,125,180 |
| **As at December 31, 2012** | **$ 3,578,113** | **$ 159,960** | **$ 3,738,073** |

During the years ended December 31, 2011 and 2012, the Company recognized impairments relating to the Moriche CGU of $4.4 million and $284,000, respectively. These impairments were the result of the difference between the period-end net book value of the Moriche CGU and the assessed recoverable amount at each respective year end. The recoverable amount was determined based on fair value less costs to sell. Fair value measurements were derived based on market information for the Moriche CGU. Following completion of the write-down, the CGU had a carrying value of approximately $3.6 million.

## 11. 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, 2012 to be $535,500 for well sites ($393,000 at December 31, 2011), which will be incurred in approximately 10 years, and $198,000 for pipelines ($198,000 at December 31, 2011) which will be incurred in approximately 20 years. The fair value of the decommissioning obligations at December 31, 2012 and December 31, 2011 was calculated using a risk free rate of 3% and an average inflation factor of 3%. Settlement of the obligations is anticipated to be incurred in US dollars and will be funded from general corporate funds at the time of retirement or removal. As at December 31, 2012, no funds have been set aside to settle these obligations. Changes to decommissioning obligations were as follows:

| | **2012** | 2011 |
|---|---|---|
| Balance, beginning of the year | **$ 615,916** | $ 742,605 |
| Liabilities, incurred during the year | **142,500** | - |
| Liabilities settled during the year | **-** | (147,861) |
| Accretion expense for the year | **19,840** | 21,172 |
| Balance, end of the year | **$ 778,256** | $ 615,916 |

**12. EQUITY TAX**

The Colombian Congress passed a law, effective January 1, 2011, which imposed a one-time 6% equity tax levied on Colombian operations. In 2011, the Company recognized an equity tax expense of $2,580,852 which was 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%.

| | **2012** | 2011 |
|---|---|---|
| Balance, beginning of the year | **$ 1,958,139** | $ - |
| Amount expensed during the year | **-** | 2,580,852 |
| Unwinding of discount (Note 14) | **141,700** | 184,061 |
| Net foreign exchange loss (gain) | **172,953** | (28,853) |
| Payments made in this year | **(788,079)** | (777,921) |
| Balance, end of the year | **$ 1,484,713** | $ 1,958,139 |
| Current portion | **(770,909)** | (703,540) |
| Non-current portion | **$ 713,804** | $ 1,254,599 |

**13. SHARE CAPITAL**

**Common shares**

At December 31, 2012, the Company was authorized to issue an unlimited number of common shares, with no par value, with holders of common shares entitled to one vote per share and to dividends, if declared.

| | **Common shares** | **Amount** |
|---|---|---|
| **Balance, January 1, 2011** | 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 | 53,900,000 | 35,935,400 |
| Share issue costs | - | (2,006,160) |
| **Balance, December 31, 2011 and 2012** | 482,547,066 | $ 102,918,335 |

**Warrants**

As of December 3, 2012, the remaining warrants, exercisable at a price of CDN $0.35 per share, expired. The book value of these warrants was $19,412,050 at expiration, which was reclassified into contributed surplus.

| | Warrants | Amount |
|---|---|---|
| **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 |
| Expiration of warrants | (180,766,245) | (19,412,050) |
| **Balance, December 31, 2012** | - | $ - |

**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:

| | Stock options | Weighted average exercise price (CDN$) |
|---|---|---|
| **Balance, January 1, 2011** | 28,666,667 | $ 0.49 |
| Options issued | 10,980,000 | 0.36 |
| Expired options | (1,000,001) | 0.49 |
| Forfeitures | (666,666) | 0.49 |
| **Balance, December 31, 2011** | 37,980,000 | $ 0.45 |
| Options issued | 5,685,000 | 0.20 |
| Expired options | (666,667) | 0.73 |
| Forfeitures | (1,333,333) | 0.55 |
| Stock options amended (old price) | (13,980,000) | 0.49 |
| Stock options amended (new price) | 13,980,000 | 0.25 |
| **Balance, December 31, 2012** | 41,665,000 | $ 0.33 |
| **Exercisable, December 31, 2012** | **34,548,327** | **$ 0.35** |

On February 1, 2012, the Company granted 750,000 options to acquire common shares to a new officer, at a price of CDN $0.25 per common share. The options are for a five year term, expiring on February 1, 2017, and vest one-third on February 1, 2012, one-third on the first anniversary date and one-third on the second anniversary date from the date of grant. On March 30, 2012, the Company granted 435,000 options to acquire common shares to two employees, at a price of CDN $0.25 per common share. The options are for a five year term, expiring on March 30, 2017 and vest one-third on March 30, 2012, one-third on the first anniversary date and one-third on the second anniversary date from the date of grant. On August 29, 2012, the Company granted 750,000 options to acquire common shares to six employees, at a price of CDN $0.25 per common share. The options are for a five year term, expiring on August 29, 2017 and vest one-third on August 29, 2012, one-third on the first anniversary date and one-third on the second anniversary date from the date of grant. On October 17, 2012, the Company granted 3,750,000 options to acquire common shares to certain directors, officers, employees and consultants, at a price of CDN $0.17 per common share. The options are for a five year term, expiring on October 17, 2017 and vest one-third on October 17, 2012, one-third on the first anniversary date and one-third on the second anniversary date from the date of grant. Of the options previously granted to exiting officers and consultants, 333,333 were forfeited and another 666,667 expired on January 12, 2012 as well as another 1,000,000 were forfeited on August 12, 2012.

On August 28, 2012, at the Company's annual general meeting, the resolution to re-price 13,980,000 outstanding options to acquire common shares with a price exceeding CDN $0.25 per common share currently held by employees, non-director officers, and consultants, to a price of CDN $0.25 per common share was approved. All other terms for these options (vesting periods, expiry, etc.) were not modified as part of this re-pricing. As such, the amended options had a weighted average expiry term of 2.75 years as of the date of the re-pricing.

The overall weighted average incremental fair value granted on account of this re-pricing was measured using the Black-Scholes option pricing model to estimate the incremental increase in fair value of these options due to the modification of exercise price. Overall, the weighted average fair value calculated for these re-priced options as of the measurement date of August 28, 2012, was CDN $0.089. This fair value was calculated based on the weighted average assumptions of a share price of CDN $0.19, an exercise price of CDN $0.25, expected stock price volatility of 87% (based on volatility of the historical share price to date), risk-free interest rate of 1.18%, expected dividend yield of 0%, and an expected option life of 2.75 years. The incremental fair value granted was computed based on the difference in the modified exercise price (from a weighted average of $0.49 per option to $0.25 per option) while using the same weighted average assumptions that existed as previously mentioned. The resulting weighted average incremental fair value granted on account of this re-pricing was $0.0275 per option, which computed to $385,972 of additional stock-based compensation, $232,982 being expensed and $152,990 being capitalized.

The following summarizes information about stock options outstanding as at December 31, 2012:

| Exercise prices (CDN$) | Number of options outstanding | Weighted average term to expiry (years) | Number of options exercisable |
|---|---|---|---|
| 0.17 | 3,750,000 | 4.80 | 1,250,000 |
| 0.25 | 22,915,000 | 3.03 | 18,298,327 |
| 0.49 | 15,000,000 | 2.08 | 15,000,000 |
| | 41,665,000 | 2.85 | 34,548,327 |

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

| | 2012 | 2011 |
|---|---|---|
| Expected forfeiture rate | 10.00% | 10.00% |
| Risk-free interest rate | 1.25% to 1.34% | 1.46% to 2.34% |
| Expected dividend yield | 0% | 0% |
| Expected stock price volatility | 85% to 88% | 79% to 85% |
| Expected option life | 5 years | 5 years |
| Fair value of options granted | CDN $0.106 to $0.162 | CDN $0.099 to $0.476 |

During the year ended December 31, 2012, the Company recognized $1,327,401 (December 31, 2011 - $2,053,022) of stock-based compensation expense and capitalized $297,632 (December 31, 2011 – $467,140) to property, plant and equipment and to exploration and evaluation assets, for a total of $1,625,033 (December 31, 2011 - $2,520,162) that was recorded as contributed surplus.

**Income (loss) per share**

For purposes of the loss per share calculations for the years ended December 31, 2011 and 2012, 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.

## 14. FINANCE COSTS

| | 2012 | 2011 |
|---|---|---|
| Accretion of decommissioning obligations (Note 11) | **$ 19,840** | $ 21,172 |
| Accretion of equity tax payable (Note 12) | **141,700** | 184,061 |
| Total finance costs | **$ 161,540** | $ 205,233 |

## 15. 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, 2012 of 25.00% to income before income taxes. A reconciliation of this difference is presented below. This statutory rate differs from the statutory rate in 2011 of 26.50%, based on a previous enacted legislation to reduce the federal tax rate by 1.5% on January 1, 2012.

| | 2012 | 2011 |
|---|---|---|
| Loss before income taxes | **$ (20,181,393)** | $ (8,746,508) |
| Tax rate | **25.00%** | 26.50% |
| Computed income tax recovery | **(5,045,348)** | (2,317,825) |
| | | |
| Increase (decrease) in taxes: | | |
| Effect of tax rates in foreign jurisdictions | **(1,192,286)** | (407,604) |
| Stock-based compensation | **331,850** | 543,844 |
| Permanent difference on foreign exchange | **747,721** | (806,849) |
| Equity tax | **35,425** | 732,702 |
| Non-taxable gain | **(1,188,123)** | - |
| Change in unrecognized tax assets and other | **6,310,761** | 2,255,732 |
| Total tax expense | **$ -** | $ - |

**Unrecognized Deferred Tax Assets**

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

| | 2012 | 2011 |
|---|---|---|
| Non-capital loss carryforwards | **$ 39,142,106** | $ 17,666,222 |
| Capital loss carryforwards | **686,040** | 141,810 |
| Deductible temporary differences net of taxable temporary differences | **11,451,118** | 12,607,864 |
| | **$ 51,279,264** | $ 30,415,896 |

$29.4 million of the non-capital losses carry forwards as at December 31, 2012 are from Columbia ($11.1 million from 2011). These tax losses have no expiration period. $9.6 million of the non-capital loss carry forwards as at December 31, 2011 are from Canada ($6.6 million from 2011). These losses expire between 2025 and 2032. 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 recognised 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.

The Company operates in multiple jurisdictions with complex tax laws and regulations, which are evolving over time. The Company has taken certain tax positions in its tax filings and these filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax impact may differ significantly from that estimated and recorded by management.

## 16. FINANCIAL RISK MANAGEMENT

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

- Credit risk
- Liquidity risk
- 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, and the Company’s management of capital. 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.

The carrying amount of cash and cash equivalents, short-term investments, cash calls receivable, joint venture receivables, trade accounts receivable and restricted cash represent the maximum credit exposure. As at December 31, 2012, the Company had $15,792,201 in restricted cash towards development activity joint venture operations in the CPO-5 Block, Talora Block, Tacacho Block, and La Maye Block. The Company mitigates credit risk exposure related to restricted cash by being the only authority that can authorize draw-downs on these accounts by third parties. At December 31, 2012, the Company had nil (December 31, 2011 - nil) recorded in cash calls receivable, $68,331 in joint venture receivables (December 31, 2011 - nil) and $52,439 in trade accounts receivable (December 31, 2011 - $182,235). To date, the Company has experienced credit loss of $87,124 in the collection of receivables, for which the Company does have an allowance for doubtful accounts for this amount. Beyond this amount, the Company does not consider any of its other receivables past due. The Company held cash and cash equivalents of $2,700,529 and short-term investments of $39,788,213 as at December 31, 2012. The Company manages the credit exposure related to cash and cash equivalents, restricted cash and short-term investments by selecting counter parties based on credit ratings and monitors all investments to ensure a stable return, avoiding complex investment vehicles with higher 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 17. The Company anticipates no restrictions with regards to 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 12.

**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 derivative 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, 2012 or 2011.

***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. To date, 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, 2012 and December 31, 2011, the Company had not entered into any foreign currency derivatives to manage its exposure to currency fluctuations. At December 31, 2012, the Company had balances within its cash and short-term investments in denominations of CDN$30.2 million, COP$106.0 million and USD$12.1 million (CDN$31.1 million, COP$832.2 million, and USD$9.1 million - December 31, 2011).

The impact to the accumulated other comprehensive income for the period ended December 31, 2012, had the USD$ to CDN$ rate exchange changed by 1 cent, would amount to approximately $292,000 ($309,000 – December 31, 2011), and the impact to the net loss and comprehensive loss for the year had the US Dollars to COP$ rate exchange changed by 1 cent would amount to approximately $27,000 ($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, 2012 and 2011 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, 2012, include cash and cash equivalents, short-term investments, cash calls receivable, joint venture receivables, trade accounts receivable, restricted cash, 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, 2012, 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.

***Capital management***

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, 2012** | December 31, 2011 |
|---|---|---|
| Shareholders' equity | **$ 95,150,356** | $ 111,182,385 |
| Cash | **$ 2,700,529** | $ 9,207,878 |
| Working capital, excluding cash | **$ 35,332,682** | $ 26,627,573 |

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.

## 17. COMMITMENTS

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

| Block/Country | Interest | 2013 | 2014 | 2015 | 2016 | Total |
|---|---|---|---|---|---|---|
| Talora, Colombia (1) | 65% | 5.5 | - | - | - | 5.5 |
| Tacacho, Colombia (2) | 49.5% | 9.3 | 9.0 | - | - | 18.3 |
| CPO-5, Colombia (3) | 30.0% | 2.4 | - | 3.6 | - | 6.0 |
| La Maye, Colombia (4) | 20.0% | 0.3 | 1.5 | - | - | 1.8 |
| **Total** | | **17.5** | **10.5** | **3.6** | **-** | **31.6** |

1) Net commitment represents 1 well required by September 2013.
2) Petrodorado commitment to acquire and process 480 $km^2$ of 2D seismic data (to pay 100% of costs up to a maximum of $8 million, 49.5% of costs thereafter).
3) Includes Petrodorado's 30% share of the ANH commitment of 1 exploration well in 2013 and 3 exploration wells for the second phase of the exploration program by 2015.
4) Net commitment represents completion of Phase 1 (testing of Noelia-1 well) and execution of Phase 2 (drilling & testing of additional well). These expenditures are funded through the designated escrow account in restricted cash.

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.

## 18. PERSONNEL EXPENSES

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

| | **2012** | 2011 |
|---|---|---|
| Salary, wages and fees | **$ 1,873,311** | $ 1,851,463 |
| Share based compensation* | **1,625,033** | 2,520,162 |
| | **3,498,344** | 4,371,625 |
| Capitalized portion of total remuneration | **(707,494)** | (1,019,268) |
| | **$ 2,790,850** | $ 3,352,357 |

* Represents the amortized portion recognized in the consolidated financial statements.

The Company has determined that key management personnel consist of its managers, 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 $1.9 million (2011 - $2.8 million).

## 19. 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, 2012 and 2011.

**For the year ended December 31, 2012**

| | Canada | Colombia | Peru | Total |
|---|---|---|---|---|
| **Revenue:** | | | | |
| Oil and gas revenue, net of royalties | $ - | $ 111,429 | $ - | $ 111,429 |
| Interest and other | 431,647 | 165,148 | - | 596,795 |
| | 431,647 | 276,577 | - | 708,224 |
| **Expenses:** | | | | |
| Operating expenses | - | 424,643 | - | 424,643 |
| General and administrative | 1,655,726 | 1,165,891 | - | 2,821,617 |
| Gain on divestiture | - | - | (4,752,650) | (4,752,650) |
| Impairment of exploration and evaluation assets | - | 18,735,892 | - | 18,735,892 |
| Impairment of property, plant and equipment | - | 284,000 | - | 284,000 |
| Foreign exchange loss (gain) | 1,809,229 | (96,392) | - | 1,712,837 |
| Stock-based compensation | 1,327,401 | - | - | 1,327,401 |
| Depletion and depreciation | 9,472 | 164,865 | - | 174,337 |
| Finance costs | - | 161,540 | - | 161,540 |
| | 4,801,828 | 20,840,439 | (4,752,650) | 20,889,617 |
| Income (loss) for the year | $ (4,370,181) | $ (20,563,862) | $ 4,752,650 | $ (20,181,393) |
| Assets, December 31, 2012 | $ 47,457,465 | $ 63,918,823 | $ - | $ 111,376,288 |
| Additions to exploration and evaluation assets | $ - | $ 18,576,700 | $ 782,045 | $ 19,358,745 |
| Disposals to exploration and evaluation assets (book value reduction) | $ - | $ - | $ (11,092,844) | $ (11,092,844) |
| Additions to property, plant and equipment | $ - | $ 71,230 | $ - | $ 71,230 |

**For the year ended December 31, 2011**

| | Canada | Colombia | 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 | 2,056,036 | 1,642,780 | - | 3,698,816 |
| Impairment of property, plant and equipment | - | 4,400,000 | - | 4,400,000 |
| Foreign exchange gain | (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 |
| Finance costs | - | 205,233 | - | 205,233 |
| | 1,837,567 | 11,073,482 | - | 12,911,049 |
| Loss for the year | $ (1,497,164) | $ (7,249,344) | $ - | $ (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 |
| Disposals to exploration and evaluation assets (book value) | $ - | $ (5,200,000) | $ - | $ (5,200,000) |
| Additions to property, plant and equipment | $ 8,955 | $ 555,203 | $ - | $ 564,158 |

## 20. SUPPLEMENTAL CASH FLOW INFORMATION

| | | December 31, 2012 | | December 31, 2011 |
|---|---|---|---|---|
| Accounts receivable | **$** | **61,465** | $ | 2,370,878 |
| Prepaid expenses and deposits | | **4,166** | | 22,018 |
| Inventory | | **-** | | 468,421 |
| Accounts payable and accrued liabilities | | **10,235,020** | | 936,280 |
| Accounts payable removed with disposition (Note 9) | | **592,206** | | - |
| **Change in non-cash working capital** | | **10,892,857** | | 3,797,597 |
| | | | | |
| Relating to: | | | | |
| Operating activities | | **143,901** | | 430,239 |
| Investing activities | | **10,748,956** | | 3,367,358 |
| **Change in non-cash working capital** | **$** | **10,892,857** | $ | 3,797,597 |

## 21. SUBSEQUENT EVENT

On March 20, 2013, Petrodorado executed a sale agreement with the operating partner of the Moriche Block in which the Company relinquishes the 49.5% working interest held in the Mauritia Este Prospect within the Moriche Block for total cash considerations of $3.5 million. The structure of this agreement constitutes that these cash considerations will be paid to the Company by way of pre-determined quarterly installment payments over the 2013 and 2014 calendar years, during which the purchaser of the block has the option to return the rights of the operation contract, under specific circumstances, to the operating partner (and to the Company) for a 90% return of considerations paid to date. Final assignment of ownership to the rights to the Moriche Block will not be completed until all conditions of the sale agreement are fulfilled and all installment payments are paid. Subsequent to year end, Petrodorado has received $1.0 million in installment payments with regards to this sale.

## 22. COMPARATIVE FIGURES

Certain categories of expenses have been reclassified in the comparative period in order to conform to current period presentation. General and administrative expenses of $188,864 previously classified as business development expenses have been reclassified to conform to current period presentation.