PETRODORADO
Excellence with Agility

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

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 three independent directors, carries out its responsibility for the consolidated financial statements principally through its Audit Committee, consisting of two members. 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)

Chris Reid
Interim President, CEO & CFO

April 29, 2015
Calgary, Canada

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, 2014 and December 31, 2013, 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 Company'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 Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Petrodorado Energy Ltd. as at December 31, 2014 and December 31, 2013, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 2 in the consolidated financial statements which discloses that Petrodorado Energy Ltd. incurred a net loss and used cash flows in operating activities during the year ended December 31, 2014 and as of that date, Petrodorado Energy Ltd. has insufficient working capital available to meet its administrative budget and capital commitment requirements. These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty that may cast significant doubt about Petrodorado Energy Ltd.'s ability to continue as a going concern.

KPMG LLP

Chartered Accountants

April 29, 2015
Calgary, Canada

PETRODORADO ENERGY LTD.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Expressed in U.S. Dollars)		**December 31, 2014**		December 31, 2013
Assets				
Current Assets				
Cash and cash equivalents	**$**	**904,985**	$	3,102,848
Short-term investments		**15,347,440**		18,240,637
Accounts receivable (Note 7)		**106,237**		410,449
Restricted cash (Note 8)		**233,104**		259,513
		16,591,766		22,013,447
Non-current Assets				
Restricted cash (Note 8)		**2,575,610**		7,625,757
Exploration and evaluation assets (Note 10)		**10,700,000**		63,907,290
Property, plant and equipment (Note 11)		**33,946**		67,603
Property, plant and equipment - held for disposal (Note 12)		**3,578,113**		3,578,113
	$	**33,479,435**	$	97,192,210
Liabilities				
Current Liabilities				
Accounts payable and accrued liabilities (Note 7)	**$**	**4,200,790**	$	5,827,444
Equity tax payable (Note 14)		**-**		706,396
		4,200,790		6,533,840
Non-current Liabilities				
Decommissioning obligations (Note 13)		**884,380**		949,009
		5,085,170		7,482,849
Shareholders' Equity				
Share capital (Note 15)		**102,918,335**		102,918,335
Contributed surplus		**29,836,794**		29,223,332
Deficit		**(101,206,210)**		(40,789,752)
Accumulated other comprehensive loss		**(3,154,654)**		(1,642,554)
		28,394,265		89,709,361
	$	**33,479,435**	$	97,192,210

See accompanying notes to the consolidated financial statements.

Approved by the Board of Directors:

(signed)

Robert Cross
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, 2014**		For the year ended December 31, 2013
Revenue:				
Interest and other	**$**	**215,799**	$	500,483
Expenses:				
General and administrative		**3,395,756**		4,203,922
Impairment of exploration and evaluation assets (Note 10)		**57,537,748**		-
Foreign exchange gain		**(703,390)**		(3,047,380)
Stock-based compensation (Note 15)		**613,462**		487,356
Depletion and depreciation		**33,657**		92,357
Equity tax reduction (Note 14)		**(301,782)**		-
Finance costs (Note 16)		**56,806**		109,669
		60,632,257		1,845,924
Loss for the year	**$**	**(60,416,458)**	$	(1,345,441)
Other comprehensive income:				
Currency translation adjustment		**(1,512,100)**		(4,582,910)
Comprehensive loss for the year	**$**	**(61,928,558)**	$	(5,928,351)
Loss per share – basic and diluted (Note 15)	**$**	**(1.25)**	$	(0.03)
Weighted average number of common shares outstanding		**48,254,707**		48,254,707

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, 2014**	For the year ended December 31, 2013
Cash flows provided by (used in):		
Operating activities		
Loss for the year	**$ (60,416,458)**	$ (1,345,441)
Adjustments for:		
Impairment of exploration and evaluation assets	**57,537,748**	-
Unrealized foreign exchange gain	**(710,344)**	(2,973,101)
Stock-based compensation	**613,462**	487,356
Depletion and depreciation	**33,657**	92,357
Equity tax reduction	**(301,782)**	-
Finance costs	**56,806**	109,669
Equity taxes paid	**(431,948)**	(761,990)
Abandonment costs paid	**(93,384)**	(96,754)
Change in non-cash working capital (Note 22)	**(492,982)**	338,846
	(4,205,225)	(4,149,058)
Investing activities		
Acquisition of exploration and evaluation assets	**(4,327,074)**	(14,436,365)
Short-term investments	**2,123,819**	19,959,584
Change in restricted cash	**5,074,998**	7,848,238
Change in non-cash working capital (Note 22)	**(829,460)**	(8,755,373)
	2,042,283	4,616,084
Cash from operating and investing activities	**(2,162,942)**	467,026
Effect of exchange rate on cash	**(34,921)**	(64,707)
Change in cash	**(2,197,863)**	402,319
Cash, beginning of year	**3,102,848**	2,700,529
Cash, end of year	**$ 904,985**	$ 3,102,848

Cash is defined as cash and cash equivalents.

See accompanying notes to the consolidated financial statements.

PETRODORADO ENERGY LTD.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Expressed in U.S. Dollars)	Number of Common Shares	Share Capital	Contributed Surplus	Deficit	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2012	48,254,707	$ 102,918,335	$ 28,735,976	$ (39,444,311)	$ 2,940,356	$ 95,150,356
Loss				(1,345,441)		(1,345,441)
Currency translation adjustment					(4,582,910)	(4,582,910)
Stock-based compensation (Note 15)			487,356			487,356
Balance at December 31, 2013	48,254,707	$ 102,918,335	$ 29,223,332	$ (40,789,752)	$ (1,642,554)	$ 89,709,361

	Number of Common Shares	Share Capital	Contributed Surplus	Deficit	Accumulated Other Comprehensive Loss	Total
Balance at December 31, 2013	**48,254,707**	**$ 102,918,335**	**$ 29,223,332**	**$ (40,789,752)**	**$ (1,642,554)**	**$ 89,709,361**
Loss				**(60,416,458)**		**(60,416,458)**
Currency translation adjustment					**(1,512,100)**	**(1,512,100)**
Stock-based compensation (Note 15)			**613,462**			**613,462**
Balance at December 31, 2014	**48,254,707**	**$ 102,918,335**	**$ 29,836,794**	**$ (101,206,210)**	**$ (3,154,654)**	**$ 28,394,265**

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 3100, 250 - 6th Avenue SW, Calgary, Alberta, Canada, T2P 3H7, with an additional office located in Bogota, Colombia. The Company's shares are listed and publicly traded on the TSX Venture Exchange (the "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 which is held for disposal, 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.

On November 27, 2014, the Company received final approval from the TSX Venture Exchange, and obtained Articles of Amendment in the days that followed, to perform a consolidation of the issued and outstanding common shares of the Company (the "Consolidation") on a basis of ten pre-Consolidation common shares for one post-Consolidation common share. The completed Consolidation follows ratification and approval for the Board of Directors to perform such a Consolidation on a basis of up to twenty pre-Consolidation common shares for one post-Consolidation common share as given by the shareholders at the annual general and special meeting of shareholders held on July 25, 2014. Effective at the opening of trading on December 1, 2014, Petrodorado's shares commenced trading on the TSX Venture Exchange on a consolidated basis. As a result, all share and per share amounts including those related to stock options have been restated for all periods to reflect this ten for one consolidation.

2. GOING CONCERN

These consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to discharge its obligations and realize its assets in the normal course of operations for the foreseeable future. In December 2014, with the decline in global oil prices and the Company's unsuccessful efforts to address the short-term exploration activities of the operator of the CPO-5 Block, the Board of Directors commenced an evaluation of the short and long-term outlook of the Company. In January 2015, with existing market conditions prevalent, a new mandate was put forth by the Board of Directors to management to perform a cautious re-assessment of the Company's strategy going forward. This included the analysis of all opportunities available to the Company, including strategic dispositions, farm-outs or other monetizing transactions with third parties to eliminate and/or reduce the cash outflow budgeted and committed to occur on the Company's exploration blocks. While the Company may attempt to eliminate all budgeted exploration and development plans, there are still several committed exploration and development expenditures as further outlined in Note 19, that are well in excess of current capital available to the Company and that may require additional financial resources in order to fully finance all of these operational activities. During the year ended December 31, 2014, expenditures were financed principally from proceeds from past share issuances.

During the year ended December 31, 2014, the Company incurred a net loss of $60.4 million and used $4.2 million of cash flow in its operating activities. As at December 31, 2014 the Company only had working capital of $12.4 million which is not considered sufficient to fund administrative budget and capital commitment amounts that exist for the upcoming year and beyond. The Company anticipates that it will be released from its $3.0 million accounts payable related to the conditional sale of the Moriche Block, which would increase working capital; however, there is no certainty regarding this matter. As the Company will continue to exhaust its financial resources to fund existing administrative budgets and capital commitments for the foreseeable future, there is considerable uncertainty as to the future operating ability of the Company as it will be contingent upon the Company's ability to successfully identify and procure necessary capital, which may be by way of strategic dispositions, farm-outs or other monetizing transactions.

As mentioned above, the Company has contractually committed exploration and development amounts as outlined in Note 19, of which the most significant of these commitments relates to the Tacacho Block totaling $18.8 million. As the Company is not the operator of the Tacacho Block there can be no certainty of the timing of these capital commitments, which may commence sometime in 2015, leaving the Company potentially cash deficient, depending also on the outcome of the Company's ongoing strategic analysis to evaluate available opportunities . As a result, these conditions may raise significant doubt about the Company's ability to continue as a going concern.

Management believes that the going concern assumption is appropriate for these consolidated financial statements and that the Company will be able to meet its budgeted capital and administrative costs as well as its other potential capital commitments during the upcoming year and beyond when considering the Company's current mandate to evaluate all available opportunities. There is no guarantee that the Company will be successful in these endeavors and no certainty as to the timing of the Company's impending non-operated exploration commitments, in particular Tacacho. Should the going concern assumption not be appropriate and the Company is not able to realize its assets and settle its liabilities, these consolidated financial statements would require adjustments to the amounts and classifications of assets and liabilities, and these adjustments could be significant.

3. 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 4.

The consolidated financial statements were approved and authorized for issuance by the Company's Board of Directors on April 29, 2015.

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 6.

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.

4. 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**	
		2014	2013
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%
Petrodorado USA Ltd.	Canada	100%	100%
Petrodorado Energy USA Ltd.	United States	100%	100%

* On January 1, 2015, the subsidiary Petrodorado Ltd. was vertically amalgamated with Petrodorado Energy Ltd.

Jointly owned assets
Many of the Company's oil and natural gas activities involve jointly owned assets. The consolidated financial statements include the Company's share of these jointly owned 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

As previously stated, 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 prevailing at the dates of the initial transactions.

The Company's consolidated financial statements are presented in US dollars. Management selected the US dollar as the presentation currency as it best facilitated comparability with industry peers. Assets and liabilities of entities with functional currencies other than US dollars are translated at the period end exchange rates, results of their operations are translated at average exchange rates for the period, and shareholders' equity is translated at the rate effective at the time of the transaction. The resulting translation adjustments are included in accumulated other comprehensive income in shareholders' equity. Additionally, foreign exchange gains and losses related to certain intercompany loans that are permanent in nature are included in accumulated 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.

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's cash and cash equivalents, short-term investments, restricted cash, and accounts receivable are classified as loans and receivables.

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.

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 re-designates 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 Activities. 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 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 property, plant and equipment and exploration and evaluation 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 and resource assessment*
The assessment of reported recoverable quantities of proved and probable reserves and prospective resource estimates 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 and prospective resources may change from period to period. Changes in reported reserves and prospective resources can impact the carrying values of the Company's petroleum and natural gas properties and exploration and evaluation assets 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. Prospective resource are determined using an externally prepared valuation report which reflects estimated prospective resources and external pricing and costs assumptions reflective of the current market. The Company's petroleum and gas reserves and prospective resources 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.

p) Standards adopted

On January 1, 2014, the Company adopted new standards with respect to amendments to IAS 32 “Financial Instruments: Presentation” that clarify the requirements for offsetting financial instruments. The amendments introduce new disclosure requirements for financial assets and financial liabilities that are offset in the Consolidated Balance Sheets, or are subject to enforceable master netting arrangements or similar agreements. The adoption of these standards had no impact on the amounts recorded for the periods presented in the consolidated financial statements for the year ended December 31, 2014.

On January 1, 2014, the Company adopted IFRIC 21 “Levies”, which 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. The interpretation also clarifies that no liability should be recognized before the specified minimum threshold to trigger that levy is reached. The adoption of this standard had no impact on the amounts recorded for the periods presented in the consolidated financial statements for the year ended December 31, 2014.

5. 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.

Revenue Recognition
In May 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers," which replaces IAS 18 "Revenue," IAS 11 "Construction Contracts," and related interpretations. The standard establishes a comprehensive framework for determining whether, how much, and when revenue is recognized. The standard is required to be adopted either retrospectively or using a modified transition approach for fiscal years beginning on or after January 1, 2017, with earlier adoption permitted. The Company is currently evaluating the impact of the standard on its consolidated financial statements.

Financial Instruments
In July 2014, the IASB completed the final elements of IFRS 9 "Financial Instruments." The standard supersedes earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 "Financial Instruments: Recognition and Measurement." IFRS 9, as amended, includes a principle-based approach for classification and measurement of financial assets, a single 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. The standard will come into effect for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company is currently evaluating the impact of the standard on its consolidated financial statements.

6. 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 and in assessing the recoverable value for impairment testing, 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, if available, or discounted cash flows expected to be derived from oil and natural gas production based on available resource reports. The discount rate is specific to the exploration and evaluation asset with reference to general market conditions.

Financial assets and other liabilities
The fair value of financial assets and other liabilities (see Note 4) is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. At December 31, 2014 and 2013, the fair value of these balances approximated their carrying value.

Stock options
The fair value of employee stock options 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).

7. 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.

Amounts that constitute total accounts receivable and accounts payable and accrued liabilities for the years ended December 31, 2014 and 2013, are as follows:

	2014	2013
Trade accounts receivable	**$ 106,237**	$ 128,216
Cash calls receivable	**-**	282,233
Accounts receivable	**$ 106,237**	$ 410,449
Trade accounts payable	**$ 372,821**	$ 1,939,104
Cash calls payable	**44,188**	7,417
Joint venture payables	**781,765**	547,708
Capital accruals	**-**	1,131,737
Moriche payable (Note 12)	**3,002,016**	2,201,478
Accounts payable and accrued liabilities	**$ 4,200,790**	$ 5,827,444

8. 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. Draws were to be authorized by Petrodorado on this escrow account as certain development milestones were met. During Q3 2014, the remaining balance of $1,615,967 (December 31, 2013 - $1,615,697) was released back to the Company by the La Maye Operator.

As of December 31, 2014, funds totalling $533,104 (December 31, 2013 - $872,428) are also included in restricted cash, which relate to projected exploration activities in the Talora Block. Of this balance, $233,104 (December 31, 2013 - $259,513) constitutes assigned funds of the Company as the operator of the Talora Block as well as cash calls paid by a non-operator partner. Another $300,000 is held as term deposits which secure the letters of credit on committed exploration activities in the Talora Block as required by the Agencia Nacional de Hidrocarburos ("ANH") referred to in Note 9 of these statements.

Additionally, term deposits totalling $2,275,610 (December 31, 2013 - $5,397,145), which were established to secure the letters of credit referred to in Note 9 of these statements, are also included in the restricted cash balance.

Accordingly, amounts that constitute total current and non-current restricted cash balances for the periods ended December 31, 2014 and December 31, 2013, are as follows:

	2014	2013
Current restricted cash (Talora Block joint venture funds)	**$ 233,104**	$ 259,513

Term Deposit - Talora Block Phase I Guarantee	**$ -**	$ 312,915
Term Deposit - Talora Block Phase II Guarantee	**300,000**	300,000
Term Deposit - CPO-5 Block Phase I Guarantee	**-**	3,121,535
Term Deposit - CPO-5 Block Phase II Guarantee	**1,850,000**	1,850,000
Term Deposit - Tacacho Block Phase I Guarantee	**425,610**	425,610
La Maye escrow account	**-**	1,615,697
Non-current restricted cash	**$ 2,575,610**	$ 7,625,757

9. LETTERS OF CREDIT

Letters of credit are issued through Colombian banks to the ANH for contractual exploration obligations for each phase on the exploration blocks in which the Company has a participation interest. A $300,000 letter of credit for Phase II obligations was issued to the ANH on October 12, 2013, and is secured by a $300,000 term deposit made at the Colombian bank. The $300,000 guarantee, and the $312,915 underlying term deposit, previously issued to the ANH for Phase I exploration obligations were released by the ANH as obligations for Phase I were fulfilled by the Company.

On July 8, 2013, a $1,850,000 letter of credit was issued through a Colombian bank to the ANH with respect to Phase II drilling obligations on the CPO-5 Block. This letter of credit is secured by a $1,850,000 term deposit made at the Colombian bank. The $3,000,000 guarantee, and the underlying $3,121,535 term deposit, previously issued to the ANH for Phase I drilling obligations were released by the ANH as obligations for Phase I were fulfilled by the Company.

A further $403,920 letter of credit was issued through a Colombian bank on December 20, 2010 to the 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 $425,610 term deposit made at the Colombian bank.

In the event of non-compliance with contractual arrangements, the ANH has the right to draw down on those amounts constituted within the before-mentioned letters of credit.

10. EXPLORATION AND EVALUATION ASSETS

As at January 1, 2013	$ 49,227,831
Additions	14,679,459
As at December 31, 2013	63,907,290
Additions	4,330,458
Impairment loss	(57,537,748)
As at December 31, 2014	**$ 10,700,000**

The Corporation’s exploration and evaluation assets represent costs incurred in relation to four exploration blocks in Colombia and one Californian property in the United States. During the year ended December 31, 2014, the Company identified impairment triggers on each of these blocks as further outlined below.

During the third quarter of 2014, the Company, with its partners, decided to abandon the Noelia-1 well of the La Maye Block in conjunction with the decision to pursue a seismic program on the block. As such, previously incurred drilling costs for the well were no longer considered to be recoverable and an impairment for all historic costs incurred for the Noelia-1 well of $2.2 million has been recognized.

On account of the decline in the global oil price environment and the Company's unsuccessful efforts to address the short-term exploration activities planned by the operator of the CPO-5 Block resulting in a reduced probability of positive cash flows for the Company after capital expenditures by the operator, management determined that impairment triggers existed on this block as of December 31, 2014. These factors influenced the recent direction provided by the Board of Directors to perform a cautious re-assessment of the Company's strategy when considering the change of circumstances in the market oil prices. Management has determined the recoverable value of the block based on a fair value less costs to sell model determined using estimated prospective resources and cash flows and supported through other market indications of fair value to be $6.5 million with an impairment of $24.4 million recognized in the fourth quarter of 2014.

When taking into consideration the factors outlined above surrounding the CPO-5 Block and the adverse effects on projected operational cash flows necessary for the continued funding of the Company's exploration programs, and the resulting impact on the Company's ability and/or willingness to carry forward with exploration activities within non-core properties, it was determined by management that pervasive impairment triggers existed that affected the Company's other exploration assets, namely the Talora and Tacacho Block.

When evaluating the Talora Block, management estimated the recoverable value of the Talora Block based on a fair value less costs to sell methodology using an externally prepared valuation report which reflected estimated prospective resources and external pricing and costs assumptions reflective of the current market. Historical costs of the Talora Block beyond the assessed recoverable value of $4.2 million resulted in the recognition of a $25.1 million impairment in the fourth quarter of 2014.

Given that the Tacacho Block carries a significant commitment to perform a seismic program for which the Company does not have sufficient financial resources to carry out when considering the previously mentioned factors surrounding operations and cash flow concerns in the CPO-5 Block, management has determined that impairment triggers existed on this block as of December 31, 2014. While the Company continues to evaluate all available options regarding the future of this block, management has assessed that recovery of any previously incurred costs to be negligible and, as a result, a $3.5 million impairment was recognized in the fourth quarter of 2014 reflecting all previously incurred costs.

With the notable drop in global oil prices, the current situation of the operator entity of the exploration property in California and the decision by management to no longer pursue exploration activity on this property, management determined impairment triggers to exist as of December 31, 2014 for this exploration asset. When considering the corporate difficulties of the operator entity and management's decision regarding future involvement in the exploration block, management determined that the previously incurred drilling and test costs were no longer considered to be recoverable and a full impairment of exploration costs to date of $2.3 million was recognized in the fourth quarter of 2014.

Overall, the Company determined that the impairments of $57.5 million were to be recognized on its exploration and evaluation assets for the year ended December 31, 2014, based on the impairment triggers identified and the resulting valuations of recoverable costs for each exploration asset.

11. PROPERTY, PLANT AND EQUIPMENT

Cost	Oil and gas properties	Furniture and equipment	Total
As at January 1, 2013	$ 10,066,437	$ 514,573	$ 10,581,010
Reclassified to held for disposal (Note 12)	(10,066,437)	-	(10,066,437)
As at December 31, 2013 and 2014	**$ -**	**$ 514,573**	**$ 514,573**
Accumulated depletion and depreciation			
As at January 1, 2013	$ 6,488,324	$ 354,613	$ 6,842,937
Additions	-	92,357	92,357
Reclassified to held for disposal (Note 12)	(6,488,324)	-	(6,488,324)
As at December 31, 2013	-	446,970	446,970
Additions	-	33,657	33,657
As at December 31, 2014	**$ -**	**$ 480,627**	**$ 480,627**
Net book value			
As at December 31, 2013	$ -	$ 67,603	$ 67,603
As at December 31, 2014	**$ -**	**$ 33,946**	**$ 33,946**

During the year ended December 31, 2013, the carrying value of the Moriche CGU was reclassified under the classification as an asset held for disposal on account of the conditional sale agreement outlined in Note 12 of the financial statements. Remaining assets held as property, plant and equipment consist of fixed assets held by the Company as of December 31, 2014.

12. PROPERTY, PLANT AND EQUIPMENT – HELD FOR DISPOSAL

On March 20, 2013, Petrodorado executed a conditional sale agreement with the operating partner of the Moriche Block in which the Company will relinquish its 49.5% working interest held in the Mauritia Este Prospect within the Moriche Block for total consideration of $3.5 million. Under the agreement, the $3.5 million cash consideration 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 Moriche Block, under specific circumstances including government approval, 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 conditional sale agreement are fulfilled.

As unqualified ownership of the Moriche Block has not transferred due to the conditions in the sale agreement, it remains on the Company's statement of financial position as "Property, plant and equipment - held for disposal". Any installment payments received by the Company prior to final assignment of ownership will be reflected as accounts payable to the operating partner. As of December 31, 2014, Petrodorado had received $3.0 million in installment payments with regards to this agreement that are included in accounts payable and accrued liabilities.

Cost	**$ 10,066,437**
Accumulated depletion	**(6,488,324)**
Net balance	**$ 3,578,113**

13. DECOMMISSIONING OBLIGATIONS

The Company's decommissioning obligations result from ownership interests in oil and gas properties, which would include 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, 2014, to be $595,350 for well sites ($685,350 at December 31, 2013) and $198,000 for pipelines ($198,000 at December 31, 2013). These payments are expected to be made over the next 15 years with the majority of costs to be incurred between 2020 and 2023. The fair value of the decommissioning obligations at December 31, 2014 and December 31, 2013 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, 2014, no funds have been set aside to settle these obligations. Changes to decommissioning obligations were as follows:

	2014	2013
Balance, beginning of the year	**$ 949,009**	$ 778,256
Liabilities, incurred during the year	**-**	153,094
Liabilities settled during the year	**(93,384)**	(96,754)
Revision of estimates	**3,384**	90,000
Accretion expense for the year	**25,371**	24,413
Balance, end of the year	**$ 884,380**	$ 949,009

14. EQUITY TAX

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

Prior to the final instalment payment in September 2014, the Company was able to successfully reduce the overall equity tax levy imposed by the Colombian government on the Company's Colombian operations as a result of tax amendments filed by the Company. This reduction of $301,782 was offset against amounts owing with the net balance still outstanding being paid in the final instalment.

	2014	2013
Balance, beginning of the year	**$ 706,396**	$ 1,484,713
Unwinding of discount	**31,435**	85,256
Net foreign exchange gain	**(4,101)**	(101,583)
Payments made in this period	**(431,948)**	(761,990)
Equity tax reduction	**(301,782)**	-
Balance, end of the year	**$ -**	$ 706,396

15. SHARE CAPITAL

Common shares

At December 31, 2014, 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.

On December 1, 2014, the Company completed a share consolidation in which one post-consolidation common share replaced ten pre-consolidation common shares. All information relating to the weighted average number of common shares outstanding, issued and outstanding common shares, stock options and per share amounts have been adjusted retroactively to reflect the impact of the ten for one share consolidation in these consolidated financial statements. Outstanding common shares as of December 31, 2014, were 48,254,707 (December 31, 2013 - 48,254,707).

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.

Options issued typically vest one-third on the date of the grant, one-third after one year following the date of the grant, and one-third after two years following the grant date. Options issued expire five years following the date of the grant.

A summary of the changes in stock options is presented below:

	Stock options	Weighted average exercise price (CDN$)
Balance, January 1, 2013	4,166,500	$ 3.29
Options issued	400,000	1.00
Forfeitures	(600,000)	2.34
Balance, December 31, 2013	3,966,500	$ 3.20
Options issued	2,107,500	0.70
Options forfeited/cancelled	(1,857,833)	3.33
Expired options	(1,265,167)	4.11
Balance, December 31, 2014	**2,951,000**	**$ 0.95**
Exercisable, December 31, 2014	**1,286,997**	**$ 1.21**

On September 2, 2014, an aggregate of 1,846,500 options held by various officers, directors, and employees of the Company were voluntarily surrendered by the holders of these options. While all of the surrendered options were completely vested, no consideration was provided to the option holders for the surrender of the options.

The following summarizes information about stock options outstanding as at December 31, 2014:

Exercise prices (CDN$)	Number of options outstanding	Weighted average term to expiry (years)	Number of options exercisable
0.70	2,096,000	4.10	698,663
1.00	400,000	3.69	133,334
1.70	255,000	2.80	255,000
2.50	200,000	0.08	200,000
	2,951,000	3.66	1,286,997

All options were allocated an estimated fair value using the Black-Scholes option pricing model to estimate the fair value with the following weighted average assumptions.

	2014	2013
Expected forfeiture rate	10.00%	10.00%
Risk-free interest rate	1.51%	2.10%
Expected dividend yield	0%	0%
Expected stock price volatility	102%	96%
Expected option life	5 years	5 years
Fair value of options granted	CDN $0.357	CDN $0.316

During the year ended December 31, 2014, the Company recognized $613,462 (December 31, 2013 - $487,356) of stock-based compensation expense and capitalized nil (December 31, 2013 - nil) to property, plant and equipment and to exploration and evaluation assets, for a total of $613,462 (December 31, 2013 - $487,356) that was recorded as contributed surplus.

Income (loss) per share

For purposes of the loss per share calculations for the years ended December 31, 2013 and 2014, there is no difference between the basic loss per share and the diluted loss per share amounts. For the years ended December 31, 2014, 2,951,000 options (December 31, 2013 – 3,966,500) were excluded as their impact was anti-dilutive.

16. FINANCE COSTS

	2014	2013
Accretion of decommissioning obligations (Note 13)	**$ 25,371**	$ 24,413
Accretion of equity tax payable (Note 14)	**31,435**	85,256
Total finance costs	**$ 56,806**	$ 109,669

17. 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 for the years ended December 31, 2014 and 2013, of 25.00% to income before income taxes. A reconciliation of this difference is presented below.

	2014	2013
Loss before income taxes	**$ (60,416,458)**	$ (1,345,441)
Tax rate	**25.00%**	25.00%
Computed income tax recovery	**(15,104,115)**	(336,360)
Increase (decrease) in taxes:		
Effect of tax rates in foreign jurisdictions	**(135,483)**	702,368
Stock-based compensation	**153,272**	121,784
Permanent difference on foreign exchange	**1,258,644**	451,167
Equity tax	**(74,593)**	21,314
Change in unrecognized tax assets and other	**13,902,275**	(960,273)
Total tax expense	**$ -**	$ -

Unrecognized Deferred Tax Assets

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

	2014	2013
Non-capital loss carryforwards	**$ 81,327,554**	$ 52,239,295
Capital loss carryforwards	**367,043**	400,850
Difference between tax base and carrying value of exploration and evaluation assets	**(1,907,328)**	(6,373,510)
Deductible temporary differences net of taxable temporary differences	**(2,461,038)**	762,628
	$ 77,326,231	$ 47,029,263

The Canadian statutory combined income tax rate was 25% for the years 2014 and 2013.

The Colombian statutory tax rate for the year 2014 was 34%, which included the 25% general income tax rate and the fairness tax (“CREE”) at 9%. The Colombian Congress enacted new corporate tax rates increasing to 39% in 2015, 40% in 2016, 42% in 2017, and 43% in 2018. As at January 1, 2019, the corporate tax rate will reduce back to 34%. In addition, the Congress introduced a new wealth tax which accrues on net equity as at January 1, 2015, 2016, and 2017; with tax rates of 1.15%, 1.00% and 0.40%, respectively.

$66.6 million of the non-capital losses carry forwards as at December 31, 2014, are from Colombia ($39.5 million from 2013). These tax losses have no expiration period. $12 million of the non-capital loss carry forwards as at December 31, 2014, are from Canada ($11.6 million from 2013). These losses expire between 2025 and 2034. $2.7 million of the non-capital loss carry forwards as at December 31, 2014, are from USA ($1.1 million from 2013). These losses expire between 2033 and 2034. 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 Company can utilise the benefits therefrom.

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.

18. 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, accounts receivable and restricted cash represent the maximum credit exposure. As at December 31, 2014, the Company had $2,808,714 in restricted cash towards development activity joint venture operations in the CPO-5 Block, Talora Block, and Tacacho 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, 2014, the Company had nil recorded in cash calls receivable (December 31, 2013 - $282,233), nil in joint venture receivables (December 31, 2013 - nil) and $106,237 in trade accounts receivable (December 31, 2013 - $128,216). The Company does not consider any of its receivables past due. The Company held cash and cash equivalents of $904,985 and short-term investments of $15,347,440 as at December 31, 2014. 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 19. The Company's contractual obligations consist of accounts payable and accrued liabilities which are considered current in nature and due within one year.

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, 2014 or 2013.

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.

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, 2014 and December 31, 2013, the Company had not entered into any foreign currency derivatives to manage its exposure to currency fluctuations. At December 31, 2014, the Company had balances within its cash and short-term investments in denominations of CDN$2.5 million, COP$19.7 million and USD$14.1 million (CDN$20.2 million, COP$114.5 million and USD$2.3 million - December 31, 2013).

The impact to the accumulated other comprehensive loss for the period ended December 31, 2014, had the USD$ to CDN$ rate exchange changed by 1 cent, would amount to approximately $20,000 ($186,000 - December 31, 2013), and the impact to the net loss and comprehensive loss for the year had the US Dollars to COP$ rate exchange changed by 1 cent would amount to approximately $12,000 ($11,000 - December 31, 2013).

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, 2014 and 2013 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, 2014, include cash and cash equivalents, short-term investments, accounts receivable, restricted cash, and accounts payable and accrued liabilities.

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, 2014, 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.

	2014	2013
Shareholders' equity	**$ 28,394,265**	$ 89,709,361
Cash	**$ 904,985**	$ 3,102,848
Working capital, excluding cash	**$ 11,485,991**	$ 12,376,759

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.

19. COMMITMENTS

A summary of the Company's estimated capital commitments (in millions of dollars) as of December 31, 2014, are as follows:

Block/Country	Interest	2015	2016	Total
Talora, Colombia (1)	70.0%	2.1	-	2.1
Tacacho, Colombia (2)	49.5%	18.8	-	18.8
CPO-5, Colombia (3)	30.0%	6.8	1.2	8.0
La Maye, Colombia (4)	20.0%	0.8	-	0.8
Buganviles, Colombia (5)	59.5%	0.4	-	0.4
Total		**28.9**	**1.2**	**30.1**

1) Represents Petrodorado's 70% share of the commitment value stipulated in the ANH block contract to drill 1 exploration well by July 2015.
2) Petrodorado's commitment to acquire and process 512 km^2 of 2D seismic data (to pay 100% of costs up to a maximum of $8 million, 49.5% of costs thereafter). Currently, budgeted operations are delayed due to security concerns in the region with current ANH deadlines suspended until the security concerns are addressed. The commencement date for seismic acquisition is unknown at this time.
3) Includes Petrodorado's 30% share of the commitment value to drill 1 appraisal well and acquire 406 km^2 of 3D seismic (currently planned for 2015), and 1 exploration well for the second phase of the exploration program by April 2016 as stipulated in the ANH block contract.
4) Represents Petrodorado's 20% share of the Phase II ANH commitment for the acquisition and processing of 80 km of 2D seismic data or 50 km^2 of 3D seismic data in the northern area of the block in 2015, pending resolution of operator issues.
5) Petrodorado's net share of the commitment value for abandonment and reclamation obligations on existing wells as currently budgeted by the operator of the block.

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. The expenditures in the above table are based on the latest possible date required per contract and may be incurred at an earlier date which may be out of the control of the Company when they serve in a non-operator partner role. The Company is the non-operator partner on all blocks except Talora.

20. PERSONNEL EXPENSES

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

	2014	2013
Salary, wages and fees	**$ 1,481,195**	$ 2,539,709
Share based compensation*	**613,462**	487,356
	2,094,657	3,027,065
Capitalized portion of total remuneration	**(137,888)**	(438,108)
	$ 1,956,769	$ 2,588,957

* 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 $1.3 million (2013 - $1.9 million).

21. 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, 2014 and 2013.

For the year ended December 31, 2014

	Canada	Colombia	United States	Total
Revenue:				
Interest and other	$ 111,610	$ 104,189	$ -	$ 215,799
Expenses:				
General and administrative	2,013,290	1,375,259	7,207	3,395,756
Impairment of exploration and evaluation assets	-	55,219,913	2,317,835	57,537,748
Foreign exchange loss (gain)	(731,735)	28,345	-	(703,390)
Stock-based compensation	613,462	-	-	613,462
Depletion and depreciation	2,231	31,426	-	33,657
Equity tax reduction	-	(301,782)	-	(301,782)
Finance costs	-	56,357	449	56,806
	1,897,248	56,409,518	2,325,491	60,632,257
Loss for the year	$ (1,785,638)	$ (56,305,329)	$ (2,325,491)	$ (60,416,458)
Assets, December 31, 2014	$ 15,935,177	$ 17,544,258	$ -	$ 33,479,435
Additions to exploration and evaluation assets	$ -	$ 3,918,449	$ 412,009	$ 4,330,458

For the year ended December 31, 2013

	Canada	Colombia	United States	Total
Revenue:				
Interest and other	$ 404,681	$ 95,802	$ -	$ 500,483
Expenses:				
General and administrative	2,665,746	1,363,221	174,955	4,203,922
Foreign exchange gain	(2,963,532)	(83,848)	-	(3,047,380)
Stock-based compensation	487,356	-	-	487,356
Depletion and depreciation	6,083	86,274	-	92,357
Finance costs	-	109,669	-	109,669
	195,653	1,475,316	174,955	1,845,924
Income (loss) for the year	$ 209,028	$ (1,379,514)	$ (174,955)	$ (1,345,441)
Assets, December 31, 2013	$ 21,292,263	$ 73,987,370	$ 1,912,577	$ 97,192,210
Additions to exploration and evaluation assets	$ -	$ 12,773,633	$ 1,905,826	$ 14,679,459

22. SUPPLEMENTAL CASH FLOW INFORMATION

	2014	2013
Accounts receivable	**$ 304,212**	$ (281,008)
Accounts payable and accrued liabilities	**(1,626,654)**	(8,135,519)
Change in non-cash working capital	**(1,322,442)**	(8,416,527)
Relating to:		
Operating activities	**(492,982)**	338,846
Investing activities	**(829,460)**	(8,755,373)
Change in non-cash working capital	**$ (1,322,442)**	$ (8,416,527)

23. ARBITRATION SETTLEMENT

On October 4, 2013, a JV partner to the Company announced the commencement of an arbitration action through the International Chamber of Commerce against Petrodorado as the Operator of the Talora Block located in the Magdalena Basin of Colombia. The JV partner and Petrodorado entered into a Farm-out Agreement dated October 16, 2011, ("Agreement") to further the exploration and development of the Talora Block. The JV partner contended that Petrodorado committed multiple breaches of the Agreement and is entitled to the return of all amounts paid with regards to the Agreement and associated activity in the Talora Block, which was estimated at approximately $12.0 million. The Company had issued a counterclaim of $2.7 million for the JV partner's unpaid share of the costs related to the drilling of the Verdal-2X well.

On May 27, 2014, the Company reached terms of settlement on the arbitration action with its JV partner, under which both parties have withdrawn their claims against each other. Moreover, both parties have agreed that Petrodorado will not collect for the JV partner's agreed upon 30% working interest in the costs related to the Verdal-2X well that equate to $1.8 million, which have been previously included in exploration and evaluation assets. The Company also agreed to pay $300,000 towards technical work being performed by the JV partner, which reflects the only additional cost to the Company pursuant to the settlement. Going forward, the JV partner will pay their working interest percentage of all future expenditures. Further, both parties will use reasonable efforts to seek additional farm-out opportunities on the Talora Block, with Petrodorado to receive first rights on any bonus or past cost payments. At this time farm-out partners have not been identified, nor is there any certainty on the type of farm-out arrangement that might be negotiated.