Global Energy Development PLC is a petroleum production and development company focused primarily in Colombia, South America, an area in which the management team has decades of operating experience and in which they have pursued a long-term strategy of finding and developing reserves.

Contracts
The Company's balanced portfolio of contracts covers the countries of Colombia and Peru and comprises a base of production, developmental drilling and workover opportunities. The Company held as at 20 March 2012 six contracts: five operated in Colombia and one non-operated in Peru.

Reserves
The independent petroleum engineers Ralph E. Davis Associates, Inc ("RED") reported that as at 31 December 2011 proved plus probable ("2P") reserves net to the Company totalled 118.3 million barrels of oil equivalent ("BOE"); and proved plus probable plus possible ("3P") reserves net to the Company totalled 213.9 million BOE.

AIM
The Company's shares have been traded on AIM, a market operated by the London Stock Exchange, since March 2002 (LSE-AIM: "GED").

2011 Highlights

+81%
Revenue

> Revenue increased 81% to $43.1 million due primarily to increased production volumes and oil price recovery (2010: $23.8 million).

+38%
Oil prices increased

> Oil prices increased 38% averaging $95 per barrel ("bbl") (2010: $69 per bbl).

+29%
Annual gross production

> Oil production increased 29% to 519,000 gross bbls (2010: 401,000 gross bbls).

$8.3m
Operating profit

> Operating profit increased to $8.3 million (2010: operating loss of $1.4 million).

$2.0m
Net profit

> Net profit of $2.0 million (2010: net loss of $2.1 million).

–41%
Outstanding debt

> Reduced outstanding debt by 41% through cash redemptions from increased cash flow from operations.

Regional Asset Summary

The Company has been active in producing oil and developing assets in South America for many years by identifying acreage previously held by international oil companies and then evaluating its potential using the extensive historical data available, in-house expertise, specialised South American technical consultants and new technologies ranging from 3D seismic to horizontal drilling.

	Llanos Basin, Colombia			Peru
	Contract 1	Contract 2	Contract 3	Contract 4
	Rio Verde Colombia	Alcaravan Colombia	Los Hatos Colombia	Block 95 Peru
Basin	Llanos	Llanos	Llanos	Marañon
Held with	Agencia Nacional de Hidrocarburos ("ANH")	Ecopetrol	ANH	Perupetro
Year signed	2004	1993	2004	2005
Expiry date	2034	2021	2034	2035
Acreage	7,073	24,000	295	1,275,000
Initial royalty (%)	10.5	20	8	5
Status	Production & Development	Production & Development	Production & Development	Development & Exploration
Proved reserves (bbls)*	1.4m	1.5m	0.1m	4.7m
2P reserves (bbls)*	1.4m	4.0m	0.1m	8.4m
3P reserves (bbls)*	1.4m	7.2m	0.1m	25.2m
2012 objective:	Complete workover at Tilodirán 1 to increase field production. Convert the shut-in Rio Verde #2 well into an injector well to reduce water disposal costs. Construct produced water transmission pipeline from Tilodirán field to Rio Verde #2 to eliminate water trucking costs.	Complete low-cost production enhancement and operating expense reduction projects.	Contract area is fully developed.	The Company holds a 40% non-operated interest in this block with Gran Tierra Energy Inc. ("GTE"). The drilling of the first obligation well will be undertaken as soon as the force majeure caused by environmental licensing requirements is lifted.

Magdalena Valley, Colombia

Contract 5

Bolivar
Colombia

Basin
Middle Magdalena

Held with
Empresa Colombiana de Petróleos ("Ecopetrol")

Year signed
1996

Expiry date
2024

Acreage
21,000

Initial royalty (%)
20

Status
Production & Development

Proved reserves (bbls)*
24.2m

2P reserves (bbls)*
37.1m

3P reserves (bbls)*
55.2m

2012 objective:
Successfully re-enter the Catalina #1 wellbore and complete hydraulic fracturing pilot programme testing in the Simiti Shale seeking high gravity oil and natural gas liquids.

Contract 6

Bocachico
Colombia

Basin
Middle Magdalena

Held with
Ecopetrol

Year signed
1994

Expiry date
2022

Acreage
54,700

Initial royalty (%)
20

Status
Production & Development

Proved reserves (bbls)*
12.2m

2P reserves (bbls)*
67.3m

3P reserves (bbls)*
124.8m

2012 objective:
Successfully implement Cold Heavy Oil Production with Sand technology ("CHOPS") pilot programme testing to advance production from the Torcaz field and complete well designs and the permitting process for field development drilling.

2P = Proved plus probable.
3P = Proved plus probable plus possible.
bbls = barrels of oil.
* At 31 December 2011.

Chairman's Statement


Downtown Bogotá

$2.0m
Net profit

$8.3m
Operating profit

While much of the world is unfamiliar with the country of Colombia, South America, Global has operated through its subsidiaries in the country for over 20 years. The Company has seen Colombia grow from a net oil importer to a country in the midst of an energy boom with national production projected to surpass one million barrels of oil per day during 2012. Over the years, Colombia's tightening security regime and improved credit ratings have led to higher foreign investment overwhelmingly directed to oil and mining sectors. These positive improvements in the country of Colombia have also led to renewed interest from international oil companies. Recent industry research estimates that South America, as an emerging market, will average growth in 2012 second only to emerging markets in Asia. Currently, the United States is the largest destination for Colombia's oil exports followed by China and Japan. During the Company's tenure in Colombia, we have been proud to operate in a country progressing in such a strong and dynamic manner.

During 2011, the Company was able to increase annual oil production to 519,000 gross barrels; an increase of 29 per cent over the prior year through our workover efforts on our oil assets in the Llanos basin in Colombia. Our contract areas within the competitive Llanos basin continue to provide a strong and increasing level of cash flow from operations to the Company. Even with higher transportation costs from pipeline capacity restrictions in the country and increased trucking efforts, the Company was able to significantly increase its profit from operations to $8.3 million compared to a loss from operations of $1.4 million in 2010. The Company also made efforts to reduce and simplify its debt structure during 2011 by renegotiating a new facility and redeeming approximately $9.2 million of short-term debt and convertible notes with cash flow from operations.

With the Company's strong 2P reserve base of over 118 million barrels of oil, we have a large upside for increased production levels and added value to the Company, primarily from our contract areas located in the Middle Magdalena Valley in Colombia. These contract areas, Bocachico and Bolivar, contain the majority of our undeveloped 2P reserves. We are moving in the right direction and believe our efforts in 2012, alongside our third-party experts and service providers, will lay the groundwork for a successful year for the Company and its shareholders.

Mikel Faulkner
Chairman
20 March 2011

Managing Director's
Review of Operations


Tilodirán operations

+29%
Annual gross production

The Company's workover programme of the Tilodirán #2 and Tilodirán #3 wells within the Llanos basin Rio Verde contract area was successful in raising overall production levels by 29 per cent compared to the prior year. Subsequent to the workover programme, annual gross oil production for 2011 totalled 519,000 barrels. Following the workover programme and increased oil volumes, the Company experienced increasing water levels of approximately five barrels of water for every one barrel of oil. Production levels were voluntarily reduced from the Tilodirán wells in order to address the excessive water disposal costs. The Company has now completed a design and progressed the necessary permitting process to convert the shut-in Rio Verde #2 into a water disposal well. This project, scheduled for April 2012, will provide for low cost water disposal for the Tilodirán field with savings of an estimated $200,000 per month as well as facilitating increased oil production levels.

During 2011, revenues from our oil assets increased 81 per cent to $43 million (2010: $24 million) from higher production volumes and favourable oil pricing. Realised oil prices for our production volumes averaged $95.49 per barrel in 2011 as compared to $68.97 per barrel in 2010. The Company currently trucks the majority of its oil production due to the limited available capacity within Colombia's Llanos basin pipeline infrastructure which has resulted in higher transportation costs. Cost of sales increased 51 per cent in 2011 to $28.1 million (2010: $18.6 million). Despite the increase, the Company earned a gross profit of $15.0 million during 2011 against gross profit of $5.2 million in 2010. The Company ended 2011 with net profit after taxation of $2.0 million compared to a net loss of $2.1 million in 2010.

The Company generated net cash flows from operating activities of $14.2 million (2010: $7.0 million) and expended $6.0 million on capital projects primarily related to the Tilodirán workover programme, improved surface facilities, wellbore revisions at Torcaz #5 as well as environmental and social programmes in Colombia and Peru. Approximately $9.1 million of cash was utilised to reduce short-term debt obligations and convertible notes during the year leaving the Company with cash at bank of $4.3 million at 31 December 2011.

In previous years, the Company has accelerated the development of its oil reserves in the Llanos basin of Colombia which has been the primary focus for the Company and its contractual obligatory capital investment. The Company will continue to maximise oil production and cash flow in our Llanos basin producing assets while optimising margins through various low-cost production enhancement and development projects in 2012. However, the Company's growth potential lies in our Middle Magdalena Valley assets, the Bolivar and Bocachico contract areas, which will be the focus of future discretionary capital investment funded from our producing assets. In light of technology advances in heavy oil production (Cold Heavy Oil Production with Sand, "CHOPS") and unconventional reservoir hydraulic fracturing, the Company is re-directing its capital to advance production from our 2P oil reserves within these contract areas in 2012.

With our strategy for development in the Middle Magdalena Valley, increased cash flow from our Llanos production base, a streamlined organisation, and a portfolio of development opportunities within our 118.3 million barrels of 2P oil reserves, the Company is well positioned to enhance value for its shareholders in 2012.

Stephen Voss
Managing Director
20 March 2011

Corporate Strategy

The Company's principal goal is to maximise value for its shareholders through increased oil production and continued development of its reserve base. In 2012, the Company is striving to narrow the difference between its market value compared to the value of its producing oil assets and 2P reserves.

To accomplish this goal, the Company will focus on the following framework of objectives and activities to support its strategy:

– Increase annual oil production

– Enhance cash flow and profitability from the Llanos production base

– Accelerate development and production of Bocachico and Bolivar reserves in the Magdalena Valley

– Maintain and enhance communications with shareholders

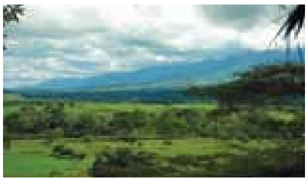
01
Increase annual oil production

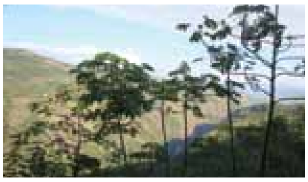
Activity

Complete additional low-cost production enhancement projects in Llanos Basin contract areas (Rio Verde and Alcaravan).

Complete workovers of existing wells with minimal or no production (Tilodirán #1) to increase rates and reverse production declines.

Target the Company's two most reserve-rich contract areas, Bolivar and Bocachico, for further analysis and development drilling.





02
Enhance cash flow and profitability from Llanos production base

Activity

Reduce water disposal costs by converting the abandoned Rio Verde #2 into a water disposal well.

Construct produced water transmission pipeline from Tilodirán field to Rio Verde #2 to eliminate water trucking costs.

Decrease administrative costs by synergising responsibilities and streamlining functions.

03
Accelerate development and production of Bocachico and Bolivar Reserves from the Magdalena Valley

Activity

Implement Cold Heavy Oil Production with Sand technology ("CHOPS") pilot programme testing to advance production from our reserve-rich Bocachico contract area (Torcaz field) and accelerate the field development drilling permitting process.

Re-enter the Catalina #1 wellbore and complete hydraulic fracturing pilot programme testing in the Simiti Shale seeking high gravity oil and natural gas liquids.

Based on pilot programme testing results, complete the acquisition of new 3D seismic programmes in the Bocachico areas to ensure proper placement of development drilling wellbores.

04
Enhance communication with shareholders

Activity

Reset market perceptions of Global by active investor communications.

Increase market awareness of Global through updated analyst coverage.

Oil and Gas Reserves Information (unaudited)
As at 31 December 2011

The reserve estimates shown in this report were developed and have been reviewed by Ralph E. Davis Associates, Inc., an independent petroleum engineering firm, and are based on the joint reserve and resource definitions of the Society of Petroleum Engineers, the World Petroleum Council, the American Association of Petroleum Geologists and the Society of Petroleum Evaluation Engineers consistent with UK reporting purposes. In 2011, the Company also completed an additional reserve report reflecting the requirements of Canadian Form 51-101. Proved and probable reserve estimates are based on a number of underlying assumptions including oil prices, future costs, oil in place and reservoir performance, which are inherently uncertain. Management uses established industry techniques to generate its estimates and regularly references its estimates against those of joint venture partners or external consultants. However, the amount of reserves that will ultimately be recovered from any field cannot be known with certainty until the end of the field's life.

All reserves are in the South America production and development area.

Estimated net proved and probable reserves of crude oil

	Proved South America Barrels ('000s)	Probable South America Barrels ('000s)	Total All Barrels ('000s)
At 1 January 2011			
Developed	1,911	–	1,911
Undeveloped	45,112	77,560	122,672
	47,023	**77,560**	**124,583**
Changes in year attributable to:			
Revision of previous estimates[1]	(2,437)	(3,381)	(5,818)
Production	(458)	–	(458)
Developed	**2,209**	**–**	**2,209**
Undeveloped	**41,919**	**74,179**	**116,098**
At 31 December 2011	**44,128**	**74,179**	**118,307**

1 The overall decrease in reserve volumes is due primarily to accelerated reversionary interests, end of contract life effects and minor field revisions.

Directors' Biographies

Mikel Faulkner Chairman (62)
Mikel Faulkner holds a Bachelors degree in Mathematics and Physics and a Masters degree in Business Administration. His employment experience includes service as an officer in the United States Naval Nuclear Power Program, a member of the audit staff at Arthur Andersen & Co., a financial officer for American Quasar Petroleum, and at HKN, Inc., where he served as chairman from 1991 to 2003 and has been the chief executive officer since 1982.

Stephen Voss Managing Director (63)
Stephen Voss received a Masters degree in Business Administration from Harvard University in June 1976 and a Bachelor of Science degree in Petroleum Engineering from Texas A&M in May 1971. From 1972 to 1974, he was employed by Chevron Oil Company and Burmah Oil and Gas Company in Lafayette, Louisiana as a drilling engineer. From 1976 to 1981, he worked for Goldrus Drilling Company as executive vice president and chief operating officer and from 1981 to 1990 was chief executive officer of Reliant Drilling Company. Stephen has held various positions with Global Energy Development PLC and/or its predecessor companies since 1990, and currently serves as Managing Director. Stephen is a Member of SPE (Society of Petroleum Engineers) and is a Registered Professional Engineer in Texas.

Alan Henderson Non-executive Director (78)
Alan Henderson is chairman of Aberdeen New Dawn Investment Trust PLC and non-executive director of Public Service Properties Investments Limited. He is director of North One Garden Centre Limited and West Six Garden Centre Limited. He was previously chairman of Forum Energy PLC, Aberdeen New Thai Investment Trust PLC and Ranger Oil (UK) Ltd, and a director of ADT Ltd. and Ranger Oil Ltd.

David Quint Non-executive Director (61)
David Quint is a graduate of the University of Notre Dame from which he received a Bachelors degree in Modern Languages in 1972 and a Juris Doctorate in 1975. From 1975 until 1982, he was an attorney with Arter & Hadden in Cleveland, Ohio and Washington D.C. From 1983 until 1992, he served as the managing director of the London-based international financing arm of a US oil and gas company. In 1992, David founded RP&C International, Inc., an investment-banking firm with offices in London and New York. He currently serves as the chief executive officer of RP&C International, Inc. and of RP&C International Limited. He also serves as an executive director of USI Group Holdings AG, a property company listed on the SIX Swiss Stock Exchange in Zurich.

Corporate Governance Statement

Statement by the Directors on compliance with the UK Corporate Governance Code

The Board of Directors of the Company ("Board") acknowledges that adhering to rules of good corporate governance is in the best interests of the Company and its shareholders. Although the Company is not required to comply with the UK Corporate Governance Code (formerly the Combined Code) published by the Financial Reporting Council in June 2010, all the Directors remain committed to high standards of corporate governance and consider that the Board has consistently complied with the relevant provisions of the Combined Code. The following sections describe how the Board has applied the principles of the Combined Code. The Combined Code is publicly available on the website of the Financial Reporting Council at www.frc.org.uk.

The workings of the Board and its Committees

The Board

The Board comprises two Non-executive Directors and two Executive Directors. The Executive Directors are Mikel Faulkner, who serves as the Chairman of the Company, and Stephen Voss, who serves as the Company's Managing Director. There is a clear division of responsibility between the Chairman and Managing Director, with the Chairman being charged with the running of the Board, and the Managing Director with the running of the Company's operations, thus ensuring a balance of power and authority. The two Non-executive Directors are Alan Henderson and David Quint. The Company considers that each of the Non-executive Directors is an independent Director in that: i) none are executive officers or employees of the Company; and ii) none have a relationship with the Company that will interfere with the exercise of independent judgement in carrying out the responsibilities of such Directors. Although share option awards and long-term incentive grants have been made to the Non-executive Directors these are not considered to impact their independence. Details of the Directors' skills and experience are continued in the Directors' Biographies on page 9. The combined Board provides the Company with a wide range of expertise on issues relating to the Company's mission, operations, strategies and, most importantly, its standards or conduct.

The Board is responsible to the shareholders for the leadership and control of the Company. The Board meets formally four times a year and on an ad hoc basis as required. In compliance with the Combined Code, the Board considers and monitors all such matters as are specifically reserved to it under the Company's articles of association (the "Articles"). The Company's management provides appropriate and timely information to the Board to enable the Board to carry out its duties. The Company's Articles provide for formal and transparent procedures to appoint new Board members.

The Articles further provide for re-election of all Directors annually. The Board has considered the formation of a Nomination Committee but does not consider it to be appropriate for the current nature and size of the Board and Company. The Board will continue to monitor this issue.

The following committees deal with specific aspects of the Group's affairs:

Audit Committee

The Audit Committee, which is chaired by David Quint, comprises only the Non-executive Directors and meets as required and at least twice a year. The Audit Committee provides a forum for reporting by the Group's external auditors.

The responsibilities of the Audit Committee comprise recommending to the Board the appointment and remuneration of the auditors, coordinating with the auditors on any problems or reservations they may have and reviewing with them the management reports prepared as a result of audits carried out, review of the Company's policy on internal controls and review of interim and annual financial statements before submission to the Board.

Remuneration Committee

The Remuneration Committee is responsible for recommending to the Board the remuneration of the Executive Directors and the ongoing review of the remuneration and other benefits of the Executive Directors and senior executives, recommending from time to time the introduction, variation or discontinuance of any benefits, including bonuses and share options. The Remuneration Committee comprises only Non-executive Directors and is chaired by Alan Henderson.

Relations with shareholders
Communication with shareholders is conducted through correspondence, meetings, London Stock Exchange releases and the Company's website, www.globalenergyplc.com.

Internal controls
The Board acknowledges that it is responsible for establishing and maintaining the Group's system of internal controls, including financial, operational and risk management systems, the effectiveness of which is reviewed on a regular basis. The internal control system is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company and is designed to meet particular needs of the Group and the risks to which it is exposed, and by its nature can provide reasonable but not absolute assurance against material misstatement or loss. In 2011, the Company conducted a review of the effectiveness of its risk management and internal control systems and completed an update of the internal policies and procedures. In view of the size of the Company, the Board does not consider that an internal audit function is required at present; however, the Board intends to keep this under review. The key procedures, which the Directors have established with a view to providing effective internal control, are as follows:

Management structure
The Board has overall responsibility for the Group and there is a formal schedule of matters specifically reserved for decision by the Board. Each executive has been given responsibility for specific aspects of the Group's affairs.

Corporate accounting and procedures manual
Responsibility levels are communicated throughout the Group as part of the corporate accounting and procedures manual which sets out, inter-alia, the general ethos of the Group, delegation of authority and authorisation levels, segregation of duties and control procedures together with accounting policies and procedures.

Quality and integrity of personnel
The integrity of personnel is ensured through supervision and training. High-quality personnel are seen as an essential part of the control environment and the ethical standards expected are communicated through the corporate accounting and procedures manual.

Identification of business risks
The Board is responsible for identifying the major business risks faced by the Group and for determining the appropriate course of action to manage those risks.

Budgetary process
Each year the Board approves the annual budget. Key risk areas are identified. Performance is monitored and relevant actions taken throughout the year through the periodic reporting to the Board of variances from the budget, updated forecasts for the year together with information on the key risk areas.

Investment appraisal
The budgetary process and authorisation levels regulate capital expenditures. For expenditures beyond specified levels, detailed written proposals have to be submitted to the Management. Reviews are carried out after the investment is complete and, for some projects, during the investment period, to monitor expenditure. Major overruns are investigated.

Directors' Report

The Directors present their Annual Report and the audited financial statements for the year ended 31 December 2011.

Principal activities and future developments

The principal activities of the Group are oil production and development in Colombia and Peru. Plans for future development are included in the Company's Corporate Strategy on pages 6 and 7.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review section. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Managing Director's Review of Operations on page 5. In addition, note 28 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and its exposures to credit risk and liquidity risk.

As highlighted in note 20 to the financial statements, the Group meets its day-to-day working capital requirements through internal cash flows and as may be required from time to time through external financing.

In January 2012 the Group closed a Fixed Rate Note Payable with HKN, Inc. ("HKN") for the principal amount of $12 million (the "Note Payable"). The Note Payable is not convertible into shares and is subject to an interest charge of 10.5 per cent per annum, payable quarterly in arrears, with the principal amount being repayable in full on 30 September 2013. The proceeds from the Note Payable were used to redeem and extinguish the remaining $9.5 million principal amount (and accrued interest) of the Variable Coupon Convertible Notes which were due in December 2012 and to utilise remaining funds to accelerate development activities of existing properties, primarily the Bocachico and Bolivar Areas within Colombia. The Group's forecast and projections, taking account of reasonably possible changes in trading performance, indicate the Group should be able to repay its remaining $5 million of debt obligations due in 2012 and operate within the level of its internally generated cash flows. The Group's capital expenditures within Colombia are entirely discretionary in 2012 and can be modified at any time, if the need arises.

After making inquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Business review

A full review of the Group's activities during the year, recent events, principle risks and uncertainties and expected future developments is contained within the Chairman's Statement on page 4, within the Managing Director's Review of Operations on page 5, the Corporate Governance Statement on page 10, and the Statement on Corporate Social Responsibility on page 15 which form part of this report. The Group's primary key performance indicators for 2011 are:

- Revenue increased to $43.1 million mainly as a result of increased production volumes and oil prices recovery (2010: $23.8 million).
- Annual gross production of 519,000 bbls (2010: 401,000 bbls).
- Gross profit of $15.0 million (2010: $5.2 million).
- Crude oil truck transportation costs increased due to the limited available capacity of Colombia's pipeline infrastructure.
- Water disposal costs increased due to higher water volumes from the Tilodirán field and competitive vendor pricing.
- Administrative expenses increased slightly to support workover programme.

Business risk factors

There are risks and uncertainties that could affect our business. Oil price fluctuations in the market may adversely affect the results of our operations. Our profitability, cash flows and the carrying value of our oil properties are highly dependent upon the market prices of crude oil. Our future success depends on our ability to produce and develop oil reserves. To maintain the Group's current production levels, we must develop our oil reserves to replace those depleted by production. Without successful development activities, our reserves, production and revenues could decline. In addition, substantial capital is required to replace and grow reserves. If lower oil prices or operating constraints or production difficulties result in our cash flow from operations being less than expected, we may be unable to expend the capital necessary to develop our oil reserves. The oil production and development business is highly competitive. Many of our competitors in Colombia, including numerous major oil and gas exploration and production companies, have substantially larger financial resources, staffs and facilities. The Group's business risks and uncertainties include, but are not limited to, the items previously described.

Results and dividends

The Group's profit on ordinary activities after taxation for the year amounted to $2.0 million (net loss in 2010: $2.1 million). The Directors do not propose to recommend any distribution by way of a dividend for the year ended 31 December 2011 (2010: nil).

Subsequent events

See note 33.

Financial instruments

Note 27 on pages 42 to 44 details the risk factors affecting the Group and summarises the Group's policies for mitigating such risks through holding and issuing financial instruments. These policies have been followed during the year 2011.

Directors

The Directors of the Company who served during the year up to and including the year end were as follows:

Mikel Faulkner	–	Chairman
Stephen Voss	–	Managing Director
Alan Henderson	–	Non-executive Director
David Quint	–	Non-executive Director

No Director had any interest in the shares of the subsidiary undertakings or any other Group undertakings. There are no warrants in the Company outstanding.

There were no contracts existing during, or at the end of the year, in which a Director was or is materially interested.

A summary of the number of meetings called and attended by the Directors of the Company during 2011 is provided below.

	Board Meetings	Special Committee[1]	Audit Committee[2]	Remuneration Committee[2]	Total
Mikel Faulkner	6	–	–	–	6
Stephen Voss	6	2	–	–	8
Alan Henderson	6	2	2	3	13
David Quint	6	2	2	3	13

1 The Special Committee meetings held in 2011 were related to the mandatory Rule 9 offering. Mr Faulkner was excused from both meetings due to a conflict of interest in the subject matter.

2 Only Non-executive Directors are entitled to attend the meetings of the Audit Committee and Remuneration Committee.

All Directors attended the meetings called in 2011.

Directors' Report continued

Directors' indemnity
A qualifying third-party indemnity provision as defined in Section 234 of the Companies Act 2006 is in force for the benefit of each of the Directors in respect of liabilities incurred as a result of their office to the extent permitted by law.

Corporate social responsibility
The Group is fully committed to high standards of environmental, health and safety management (see page 15).

Charitable and political contributions
In 2011 donations were made to non-profit organisations in Colombia: Children's Vision International, of $25,000; and Peru: Pronaturaleza of $8,000; and to a non-profit entity in the United Kingdom, of $12,835. The Group made charitable donations in the prior year of $29,359. No political donations were made by the Group and no political expenditures were incurred by the Group during the year (2010: $nil).

Supplier payment policy
It is Company and Group policy to settle all debts with suppliers on a timely basis and in accordance with the terms of credit agreed with each supplier.

Trade payables of the Group as at 31 December 2011 were equivalent to 63 days' purchases (2010: 60), based on the average daily amount invoiced by suppliers to the Group during the year.

Auditors
In accordance with the Companies Act 2006, a resolution for the reappointment of BDO LLP as auditors of the Group is to be proposed at the forthcoming Annual General Meeting. All of the Directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the Group's auditors for the purpose of their audit and to establish that the auditors are aware of that information. The Directors are not aware of any relevant audit information of which the auditors are not aware.

This report was approved by the Board of Directors and signed on its behalf by:

Mikel Faulkner
Chairman

Stephen Voss
Managing Director
20 March 2011

Global Energy Development PLC
3 More London Riverside
London SE1 2AQ
UK

Corporate Social Responsibility

The Company is a petroleum production and development company with a long time principal focus in, and commitment to, Colombia.

The Group has been active in Colombia for approximately 21 years, and has strived throughout this time to be recognised not only as a leading and growing company in the hydrocarbon industries of this country but also one that maintains the highest standards in all areas of its operations.

For purposes of its operations in Colombia, the Company regularly reviews its internal policies and procedures in all areas paying special attention to community relations, integrity and business conduct, health and safety, environmental issues, and performance and operational excellence.

All of the contracts that the Company owns are covered by strict environmental permits and the Company's adherence to these should continue to reduce any adverse impact on the areas or communities surrounding the contracts held. For the past years, the Company has taken a commitment to comprehensively and proactively review its compliance with all environmental requirements and has instituted an aggressive compliance framework to remain in full compliance with the commitments recorded in the environmental licences, environmental management plans and in the environmental regulations and norms applicable to our operations in Colombia.

The Company acknowledges its responsibility as a participant of the communities in which it operates. To that end, the Company's social policies include a framework that addresses local community needs and expectations within the context of the contractual commitments of the Company and prudent business operations. The Company's commitments to the local communities are manifested, by way of example, in the following activities:

- Employment of local personnel at market that provides for sustainable living standards.
- Active participation in the construction and maintenance of access roads that provide multiple beneficial uses.
- Periodic seminars that provide training and education on various topics including technical labour, environmental and social issues.
- Support for local schools and medical clinics through the furnishing of supplies.
- Participation and sponsoring of reforestation programmes in areas affected by our operations.

In addition, the Company makes donations to, among others, The Children's Vision International, a non-profit, non-government foundation in Bogotá, Colombia helping needy and homeless children.

The Company carefully evaluates all future projects and contract areas, assessing their economic viability, future value for the Company and also the effect on the local communities and surrounding areas.

The Company intends to continue its commitments to be a responsible corporate citizen and, through continual review of its policies and procedures and education of employees, is confident of maintaining and growing profitable and responsible operations in the region.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and the profit or loss of the Group for that period. The Directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on AIM.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Website publication

The Directors are responsible for ensuring that the annual report and the financial statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Financial Statements

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Independent Auditors' Report to the Members of Global Energy Development PLC

We have audited the financial statements of Global Energy Development PLC for the year ended 31 December 2011 which comprise the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of financial position, the consolidated statement of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

As explained more fully in the statement of Directors' responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's ("APB's") Ethical Standards for Auditors.

Scope of the Audit of the Financial Statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on Financial Statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2011 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on Other Matters Prescribed by the Companies Act 2006

In our opinion the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the Group financial statements.

Matters on Which We Are Required to Report by Exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the parent company financial statements of Global Energy Development Plc for the year ended 31 December 2011 and on the information in the directors' remuneration report that is described as having been audited.

BDO Stoy Hayward LLP

Anne Sayers (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London
United Kingdom
20 March 2012

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Consolidated Statement of Comprehensive Income
For the year ended 31 December 2011

	Note	2011 $'000	2010 $'000
Revenue	2	**43,070**	23,763
Impairment of oil assets		**–**	(1,185)
Other cost of sales including DD&A		**(28,075)**	(17,419)
Cost of sales		**(28,075)**	(18,604)
Gross profit		**14,995**	5,159
Other income	4	**12**	26
Administrative expenses		**(6,669)**	(6,558)
Operating profit/(loss)		**8,338**	(1,373)
Finance income	7	**34**	28
Finance expense	8	**(2,438)**	(1,840)
Profit/(loss) before tax		**5,934**	(3,185)
Tax (expense)/credit	9	**(3,938)**	1,125
Profit/(loss) for the year		**1,996**	(2,060)
Total comprehensive income/(loss) for the year attributable to the equity owners of the parent		**1,996**	(2,060)
Earnings/(loss) per share attributable to the equity owners of the parent			
Basic	3	**$0.06**	$(0.06)
Diluted	3	**$0.05**	$(0.06)

The notes on pages 23 to 49 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

	Share capital $'000	Share premium $'000	Capital reserve $'000	Other reserve $'000	Retained losses $'000	Total equity $'000
At 1 January 2010	540	26,544	210,844	1,826	(158,120)	81,634
Total comprehensive loss for the year	–	–	–	–	(2,060)	(2,060)
Share-based payment – options equity settled	–	–	–	–	252	252
At 1 January 2011	**540**	**26,544**	**210,844**	**1,826**	**(159,928)**	**79,826**
Total comprehensive income for the year	–	–	–	–	1,996	1,996
Share-based payment – options equity settled	–	–	–	–	107	107
Redemption of convertible notes	6	595	–	(899)	874	576
At 31 December 2011	**546**	**27,139**	**210,844**	**927**	**(156,951)**	**82,505**

The notes on pages 23 to 49 form an integral part of these financial statements.

Consolidated Statement of Financial Position
As at 31 December 2011

	Note	2011 $'000	2010 $'000
Assets			
Non-current assets			
Intangible assets	11	**3,427**	5,034
Property, plant and equipment	12	**99,845**	102,896
		103,272	107,930
Current assets			
Inventories	14	**1,939**	1,550
Trade and other receivables	15	**5,452**	4,522
Prepaids and other assets	16	**1,299**	359
Term deposits	17	**1,718**	1,466
Cash and cash equivalents	18	**4,331**	7,344
Total current assets		**14,739**	15,241
Total assets		**118,011**	123,171
Liabilities			
Non-current liabilities			
Convertible loan notes	20	**–**	(16,967)
Deferred tax liabilities	10	**(10,116)**	(8,034)
Equity tax liability	26	**(968)**	–
Long-term provisions	23	**(280)**	(91)
Financing leases	19	**(227)**	–
Decommissioning liability	24	**(2,499)**	(2,891)
Total non-current liabilities		**(14,090)**	(27,983)
Current liabilities			
Convertible loan notes	20	**(9,372)**	–
Trade and other payables	25	**(5,556)**	(7,274)
Corporate and equity tax liability	26	**(1,184)**	(700)
Provision	23	**(82)**	(96)
Short-term loans payable and financing leases	19	**(5,222)**	(7,292)
Total current liabilities		**(21,416)**	(15,362)
Total liabilities		**(35,506)**	(43,345)
Total net assets		**82,505**	79,826
Capital and reserves attributable to equity holders of the Company			
Share capital	29	**546**	540
Share premium	29	**27,139**	26,544
Other reserve	29	**927**	1,826
Capital reserve	29	**210,844**	210,844
Retained losses	29	**(156,951)**	(159,928)
Total equity		**82,505**	79,826

These financial statements were approved by the Board of Directors and authorised for issue on 20 March 2012 and were signed on its behalf by:

Mikel Faulkner
Chairman
20 March 2012

Stephen Voss
Managing Director
20 March 2012

Global Energy Development PLC
3 More London Riverside
London SE1 2AQ
UK

The notes on pages 23 to 49 form an integral part of these financial statements.

Consolidated Statement of Cash Flows
For the year ended 31 December 2011

	Note	2011 $'000	2010 $'000
Cash flows from operating activities			
Operating profit/(loss) before interest and taxation		**8,338**	(1,373)
Depreciation, depletion and amortisation	12	**8,424**	6,031
Decrease in trade and other receivables		**(930)**	(26)
Increase in inventories	14	**(389)**	(402)
Increase in trade and other payables		**437**	1,670
(Decrease)/increase in long-term provisions	23	**(482)**	1,959
Loss on disposal of assets		**5**	692
Other non-cash items		**–**	(11)
Shared-based payments	29	**107**	252
Cash generated from operations		**15,510**	8,792
Taxes paid		**(1,344)**	(1,766)
Net cash flows from operating activities		**14,166**	7,026
Investing activities			
– Expenditure on property, plant and equipment	12	**(5,596)**	(10,354)
– Expenditure on intangible assets	11	**(393)**	(462)
Disposal of office equipment and other		**65**	687
Interest received	7	**34**	28
Increase in short-term deposits	17	**(252)**	(61)
Net cash flows from investing activities		**(6,142)**	(10,162)
Financing activities			
Loans (paid)/subscribed for during the period	20	**(9,124)**	8,768
Finance lease payments		**(95)**	
Interest paid		**(1,818)**	(1,356)
Net cash flows from financing activities		**(11,037)**	7,412
(Decrease)/increase in cash and cash equivalents		**(3,013)**	4,276
Cash and cash equivalents at the beginning of year		**7,344**	3,068
Cash and cash equivalents at the end of year	18	**4,331**	7,344

The notes on pages 23 to 49 form an integral part of these financial statements.

Notes to the Primary Financial Statements
For the 12 months ended 31 December 2011

1. Accounting policies
Basis of preparation
The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated.

In forming its opinion as to going concern, the Board prepares a working capital forecast based upon its assumptions as to trading as well as taking into account the available borrowing facilities in line with the capital management policies. The Board also prepares a number of alternative scenarios modelling the business variables and key risks and uncertainties. Based upon these, the Board remains confident that the Group's current cash on hand, current production and future anticipated revenues from the wells to be drilled under the Company's development drilling programme will enable the Group to fully finance its future working capital discretionary expenditures beyond the period of 12 months of the date of this report. However whilst the Board take the necessary steps to reduce the key risks associated with oil development activity, there can be no guarantee of the success of future wells, consequently further capital may be required in the event that the Group's expectations are not achieved.

The financial statements of the Group for the 12 months ended 31 December 2011 have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively "IFRS") issued by the International Accounting Standards Board ("IASB") as adopted by the European Union.

New standards and interpretations
(a) New standards, amendments to published standards and interpretations to existing standards effective in 2011 and adopted by the Group:

Standard description	Date of adoption	Impact on initial application
Improvements to IFRSs (2010)	Generally 1 January 2011	The improvements in this amendment clarify the requirements of IFRSs and eliminate inconsistencies within and between Standards. The improvements did not have any impact on the current or prior years' financial statements.
IAS 24 (Revised)	1 January 2011	The revised standard responds to concerns that the previous disclosure requirements and the definition of a related party were too complex and difficult to apply in practice, especially in environments where government control is pervasive. The Group applied the revised standard from 1 January 2011.

No other IFRSs issued and adopted but not yet effective are expected to have an impact on the Group's financial statements.

Notes to the Primary Financial Statements continued
For the 12 months ended 31 December 2011

1. Accounting policies continued

(b) Standards, amendments and interpretations, which are effective for reporting periods beginning after the date of these financial statements which have not been adopted early:

Standard description	Date of adoption	Impact on initial application
IFRIC 20 – Stripping costs in the production phase of a surface mine	1 January 2013*	This interpretation applies to waste removal (stripping) costs that are incurred in surface mining activity, during the production phase of the mine. Effect not relevant.
IFRS 7 (Amendment 2011) Disclosures – offsetting financial assets and financial liabilities	1 January 2013*	The amendment introduces disclosures to enable users of financial statements to evaluate the effect or potential effect of netting arrangements on an entity's financial position. The Group will apply the amendment from 1 January 2013, subject to endorsement by the EU.
IAS 32 (Amendment 2011) Offsetting financial assets and financial liabilities	1 January 2014*	The amendment seeks to clarify rather than change the off-setting requirements previously set out in IAS 32. The Group will apply the amendment from 1 January 2014, subject to endorsement by the EU.
IFRS 9 Financial instruments	1 January 2015*	The standard will eventually replace IAS 39 in its entirety. However, the process has been divided into three main components: classification and measurement, impairment and hedge accounting. The Group will apply the standard from 1 January 2013 subject to endorsement by the EU.

The Group has not yet assessed the impact of IFRS 9. However, the above standards, amendments and interpretations are not expected to materially affect the Group's reporting or reported numbers.

* Not yet endorsed by the European Union.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of Global Energy Development PLC and entities controlled by the Company up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised. Any excess of the cost of acquisition over the fair values of identifiable net assets is recognised as goodwill. The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by other members of the Group. All significant inter-Company transactions and balances between Group entities are eliminated on consolidation.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision maker has been identified as the management team including the Chairman, Managing Director, Director of Operations, the Director of Business Development and the Finance Director.

The Group's single operating segment is development production, and sale of hydrocarbons and related activities. The Group operates in one geographic area, South America.

Within this geographic area the Group has operations in Colombia and a non-operated interest in Peru. The quantitative thresholds of IFRS 8 are only met for Colombia, which is therefore the Group's one reportable segment.

1. Accounting policies continued

Revenue and other income

Revenue reflects actual volumes delivered to customers only when the risk is transferred, valued at invoiced prices, as well as accruals for volumes delivered to the sales point but not yet invoiced pending finalisation of pricing negotiations. Those volumes are accrued as sales and valued at the weighted average sales price for the month.

Revenues relating to the sale of oil are recognised when the oil is received by the customer and the risk is transferred, and are net of taxes and royalty interests.

Other income relates to crude transportation fees and gains on settlement of royalties. Other income is recognised as earned.

Oil assets

The following policy definitions provide the guidelines for accounting treatment of oil assets including properties, wells, facilities, pipelines and the other related oil producing assets during all stages of development and production activities:

Intangible assets – evaluation and exploration assets

The Company accounts for Evaluation and Exploration ("E&E") activity in accordance with the provisions of IFRS 6. The Company will continue to monitor the application of its policy with respect to any future guidance on accounting for oil activities which may be issued.

Capitalisation of E&E Assets

All costs (other than payments to acquire the legal right to explore, evaluate or appraise an area) incurred during the Pre-licensing Phase are charged directly to the statement of comprehensive income. All costs incurred during the Evaluation and Exploration Phases, such as Geological & Geophysical ("G&G") costs, other direct costs of exploration (drilling, trenching, sampling and technical feasibility and commercial viability analyses) and appraisal are accumulated and capitalised as intangible E&E assets in accordance with the principles of full cost accounting.

At the completion of the Exploration Phase, if technical feasibility is demonstrated and commercial reserves are discovered, then, following the decision to continue into the development phase, the carrying value of the relevant E&E asset will be reclassified as a Development and Production ("D&P") asset, but only after the carrying value of the asset has been assessed for impairment in accordance with the Impairment of E&E Assets policy. E&E costs are not amortised prior to reclassification to the D&P Phase.

Impairment of E&E Assets

Upon reclassification of a project from the E&E phase to D&P phase, an impairment review of the affected E&E assets is performed. The E&E impairment test is performed by comparing the carrying value of the costs against the estimated recoverable value of the reserves (proved plus probable) related to these assets. Any resulting impairment loss is charged to the statement of comprehensive income. The recoverable value is determined as a) the higher of its fair market value less costs of disposal or b) the sum of related cash flows, on a net present value basis.

1. Accounting policies continued

Further, if at any time when indicators or circumstances exist which suggest the E&E assets may be impaired such as:

- the licence to explore a particular area has expired or will expire soon and will not be renewed; or
- further Exploration or Evaluation work in a particular area is not budgeted or planned; or
- Evaluation and Exploration work has concluded that commercially viable amounts of oil are not available in a particular area and the Company has decided to discontinue Evaluation and Exploration in that area; or
- data shows that, although development of an area will continue, the carrying amount of the E&E asset is unlikely to be recovered in full from successful development, indicating the possibility that the carrying value of an E&E asset may exceed its recoverable amount;

an impairment review of the affected E&E assets is performed. The E&E impairment test is carried out by adding the value of the E&E assets being evaluated to the D&P assets at a country level to determine the relevant Cash Generating Unit ("CGU").

The combined carrying value of the E&E and D&P assets in the CGU is compared against the estimated recoverable value, and any resulting impairment loss is charged to the statement of comprehensive income. The recoverable value is determined as a) the higher of its fair market value less costs of disposal or b) the sum of related cash flows, on a net present value basis, from continued operations.

Property, plant and equipment – Development and Production (D&P) assets

The Company accounts for D&P assets in accordance with the provisions of IAS 16 following the full cost accounting principles. The Company will continue to monitor the application of its policy with respect to any future guidance on accounting for oil and gas activities which may be issued.

Notes to the Primary Financial Statements continued
For the 12 months ended 31 December 2011

1. Accounting policies continued

Capitalisation

Development and production assets are accumulated into single field cost centres and represent the cost of developing the commercial reserves and bringing them into production together with the E&E expenditures incurred in finding commercial reserves previously transferred from E&E assets as outlined in the policy above. From time to time different scenarios occur that call for specific policy guidance. The following specific policies are applied by the Company:

- Cash Generating Unit (CGU) – The Company has defined its CGUs as assets or groups of assets representing the smallest identifiable segments generating cash flows that are largely independent of cash flows from other assets or groups of assets. As defined, each CGU includes the relevant properties, wells, facilities, pipelines, and other key components of the included operations.
- Dry Hole Costs – Dry hole costs are included in the capitalised costs of the field and would therefore be included in any impairment tests conducted, as described below.
- Water Injection/Disposal Wells – The Company may convert an existing well into a water injection or disposal well. At the time of conversion, all costs associated with the asset are transferred to facility costs. Any capitalisable costs incurred thereafter will be included as facility costs.
- Allocated Costs – Costs such as G&G, Seismic, Capitalised G&A costs, Financing costs, etc. which may cover multiple countries, business segments, CGUs or other assets will be allocated to the appropriate CGUs during the period in which the costs were incurred.

Depreciation, Depletion and Amortisation (DDA)

Asset costs relating to each CGU as defined above, which include the components of properties, wells, facilities, pipelines and other, are depreciated, depleted or amortised ("DDA") on a unit of production method based on the commercial proven and probable reserves for that CGU. Development and Production assets are depreciated over the relevant net production within the corresponding CGU. As noted above, asset costs associated with E&E projects, even though those assets may or may not have reserves associated with them and are within a CGU with active producing operations, are not depreciated until such costs are analysed for impairment and then transferred to D&P phase. The DDA calculation takes into account the estimated future costs of development for recognised proven and probable reserves for each field based on current price levels and escalated annually based on projected cost inflation rates. Changes in reserve quantities and cost estimates are recognised prospectively from the last reporting date.

Impairment of D&P assets

A review is performed for any indication that the value of the Company's D&P assets may be impaired such as:

- significant changes with an adverse effect in the market or economic conditions which will impact the assets; or
- obsolescence or physical damage of an asset; an asset becoming idle or plans to dispose of the asset before the previously expected date; or
- evidence is available from internal reporting that indicates that the economic performance of an asset is or will be worse than expected.

For D&P assets when there are such indications, an impairment test is carried out on the cash generating unit. Cash generating units are identified in accordance with IAS 36 'Impairment of Assets', where cash flows are largely independent of other significant assets groups and are normally, but not always, single development or production areas. When an impairment is identified, the depletion is charged through the statement of comprehensive income if the net book value of capitalised costs relating to the cash generating unit exceeds the associated estimated future discounted cash flows of the related commercial oil reserves.

Workovers/overhauls and maintenance

From time to time a workover or overhaul or maintenance of existing D&P assets is required, which normally fall into one of two distinct categories. The type of workover dictates the accounting treatment and recognition of the related costs:

Capitalisable costs

Costs will be capitalised where the performance of an asset is improved, where an asset being overhauled is being changed from its initial use, the asset's useful life is being extended, or the asset is being modified to assist the production of new reserves. The asset will then be subject to depreciation.

- If the workover is being performed on an asset which has been the subject of a previous workover, the net book value of costs previously capitalised will be derecognised and charged to cost of sales at the same time as the subsequent capitalisable workover expenditures are being recognised as part of the asset's revised carrying value.
- If the workover replaces parts, equipment or components of an asset or group of assets, and these replacement items qualify for capitalisation, then the original cost of those parts or equipment, including related installation and set up costs that were capitalised as part of the original asset, will be derecognised and charged to cost of sale in the statement of comprehensive income. In the event that the original cost of parts, equipment or components being replaced are not reasonably identifiable, the cost of the new items, adjusted for inflation, may be deemed adequate for consideration as the original cost.

1. Accounting policies continued

Non-capitalisable costs

Expense type workover costs are costs incurred such as maintenance type expenditures, which would be considered day-to-day servicing of the asset. These types of expenditures are recognised within cost of sales in the statement of comprehensive income as incurred. Expense workovers generally include work that is maintenance in nature and generally will not increase production capability through accessing new reserves, producing from a new zone or significantly extend the life or change the nature of the well from its original production profile.

Decommissioning

Where a material liability for the removal of production facilities and site restoration at the end of the productive life of a field exists, a provision for decommissioning is recognised. The amount recognised is the present value of estimated future expenditure determined in accordance with local conditions and requirements. The unwinding discount arising on the recognition of the provision is released to the statement of comprehensive income and included within finance expense.

An amount equivalent to the provision is also recognised with the cost of the respective tangible asset and depreciated on a unit of production basis. Changes in estimates are recognised prospectively, with corresponding adjustments to the provision and the associated fixed asset.

Joint ventures

Joint ventures are those ventures in which the Group holds an interest on a long-term basis which are jointly controlled by the Group and one or more ventures under a contractual agreement. When these arrangements do not constitute entities in their own right, the consolidated financial statements reflect the relevant proportion of costs, revenues, assets and liabilities applicable to the Group's interests in accordance with IAS 31.

Property, plant and equipment other than oil assets

Property, plant and equipment other than oil assets are stated at cost less accumulated depreciation and any provision for impairment. Depreciation is charged on such assets, with the exception of freehold land, so as to write off the cost, less estimated residual value, on a straight-line basis over their useful lives of between three and five years.

Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value of crude oil is based on the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Inventory amounts include all costs incurred in the normal course of business in bringing product to its present location and condition. The cost of crude oil inventory includes the appropriate proportion of depreciation, depletion and amortisation and administrative costs.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax, including UK corporation and any overseas tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the reporting date.

Equity tax

On 29 December 2010 the Colombian Congress passed a law which imposes a 6 per cent equity tax on the equity of the Colombian operations, to be paid in eight equal instalments over four years. The equity tax is payable even in the event that the Company ceases to have taxable equity in subsequent years, and according with IAS 37 an entity must recognise a provision in the income statement during the first year that it recognises the liability. The Group recorded equity tax calculated using a taxable base of the net equity as at 1 January 2011 at a rate of 6 per cent and recognised the full expenditure within 2011.

Deferred taxes

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the primary financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax assets and liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Notes to the Primary Financial Statements continued
For the 12 months ended 31 December 2011

1. Accounting policies continued
Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the statement of comprehensive income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Financial instruments
Financial assets
The Group classifies its financial assets into receivables and cash and cash equivalents, which comprise the categories discussed below, depending on the purpose for which the asset was required. The Group has not classified any of its financial assets as held to maturity or available for sale. The Group has not classified any of its assets at fair value through profit and loss.

Receivables
These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (i.e. trade receivables) but also incorporate other types of contractual monetary assets including term deposits, which relate to US Dollar denominated Certificates of Deposit with restricted access and varying maturity dates which act as guarantees for Letters of Credits required for performance assurance on oil fields. The receivables are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost (which is considered to approximate to carrying cost) less provision for impairment.

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Group will be unable to collect all of the amounts due under the terms of the receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, which are reported net, such provisions are recorded in a separate allowance account with the expense being recognised within cost of sales in the statement of comprehensive income. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

From time to time the Group may elect to renegotiate the terms of trade receivables due from customers with which it has previously had a good trading history. Such renegotiations may lead to changes in the timing of payments rather than changes to the amounts owed and, in consequence, the new expected cash flows would be discounted at the original effective interest rate.

Cash and cash equivalents
Cash and cash equivalents comprise cash on hand, deposits with a maturity of three months or less and other short-term highly liquid investments that are readily convertible into known amounts of cash and overdrafts repayable on demand. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

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

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

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

Compound financial instruments: The Group's convertible loan notes are classified as compound financial instruments and a separate accounting policy for convertible debt has been included below.

Convertible debt
In accordance with IAS 32 and IAS 39, the Company has classified the convertible debt in issue as a compound financial instrument. Accordingly, the Company presents the liability and equity components separately on the statement of financial position. The classification of the liability and equity components is not reversed as a result of a change in the likelihood that the conversion option will be exercised. No gain or loss arises from initially recognising the components of the instrument separately. Interest on the debt element of the loan is accreted over the term of the loan. Costs associated with the raising of debt are set off against the gross value of monies received (see note 20). If convertible debt is settled by cash payments, the equity component is transferred to retained losses through the statement of changes in equity.

Capitalisation of interest
Interest on borrowings is capitalised where the related proceeds are clearly allocated to the development of a qualifying asset. Capitalisation of interest is suspended once the qualifying asset is bought into production.

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

1. Accounting policies continued

Provisions

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

Under Colombian law relating to certain exploration and producing contracts, the Group is required to perform additional reinvestment in the amount of 1 per cent of specific investment activity to provide for the recovery, conservation, preservation, and monitoring of the hydrographic basin of the exploration areas. In such cases, a provision is provided and an amount equal to the provision is recognised within the cost of the respective asset and amortised on a unit of production basis. Changes in estimates are recognised prospectively, with corresponding adjustments to the provisions and the associated fixed asset.

Share-based payments

In accordance with IFRS 2 'Share-based payments', the Group reflects the economic cost of awarding shares and share options to employees and Directors by recording an expense in the statement of comprehensive income equal to the fair value of the benefit awarded. The expense is recognised in the statement of comprehensive income over the vesting period of the award. Fair value is measured by use of a binomial model which takes into account conditions attached to the vesting and exercise of the equity instruments. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

Where share-based payments are awarded in lieu of services, the fair value of the share-based payment is considered to be the value of services.

Long-term service benefits

The Group also operates a cash settled share-based payment scheme ("the long-term incentive bonus award"). An option pricing model is used to measure the Group's liability at each reporting date, taking into account the terms and conditions on which the bonus is awarded and the extent to which employees have rendered service. Movements in the liability (other than cash payments) are recognised in the consolidated statement of comprehensive income.

Post retirement benefits

The Group contributes to a defined contribution scheme at the discretion of the Board of Directors. Contributions are charged to the statement of comprehensive income as they become payable.

Foreign currencies

Transactions entered into by Group entities in a currency other than the currency of the primary economic environment in which they operate (their "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the reporting date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised immediately in the consolidated statement of comprehensive income.

On consolidation, the results of overseas operations are translated into US Dollars at rates approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations, including goodwill arising on the acquisition of those operations, are translated at the rate ruling at the reporting date.

Exchange differences recognised in the statement of comprehensive income of Group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the overseas operation concerned are recognised in the foreign exchange reserve on consolidation.

At the date of transition to IFRS 1 January 2006, the Group used an exemption available under IFRS 1, 'First time adoption of International Financial Reporting Standards', which resulted in the cumulative translation differences for all foreign operations being deemed to be zero at the date on transition to IFRS. Any gain or loss on the subsequent disposal of those foreign operations would exclude translation differences that arose before the date of transition to IFRS and include only subsequent translation differences.

Functional and presentational currency

The functional currency of the Company and its subsidiaries has been determined to be the US Dollar and accordingly the financial statements have been presented in US Dollars.

Borrowings

Borrowings are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the consolidated statement of financial position. Interest expense in this context includes initial transaction costs and premium payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

Notes to the Primary Financial Statements continued
For the 12 months ended 31 December 2011

1. Accounting policies continued

Leased assets

Where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to the Group (a "finance lease"), the asset is treated as if it had been purchased outright. The amount initially recognised as an asset is the lower of the fair value of the leased property and the present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest.

The interest element is charged to the consolidated statement of comprehensive income over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

Where substantially all of the risks and rewards incidental to ownership are not transferred to the Group (an "operating lease"), the total rentals payable under the lease are charged to the consolidated statement of comprehensive income on a straight-line basis over the lease term. The aggregate benefit of lease incentives is recognised as a reduction of the rental expense over the lease term on a straight-line basis.

The land and buildings elements of property leases are considered separately for the purposes of lease classification.

Critical accounting judgements and key sources of estimation uncertainty

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

- (CGU) Cash-generating unit (note 11);
- Carrying value of intangible exploration and evaluation assets (note 11);
- Carrying value of property, plant and equipment (note 12);
- Trade and other receivables/Cajaro (note 15);
- Provisions against receivables (note 15);
- Commercial reserves estimates (on page 8);
- Convertible loans (note 20);
- Decommissioning provision (note 24); and
- Share-based payments (note 29).

2. Segmental analysis

In the opinion of the Directors, the operations of the Group comprise one single operating segment conducting production, development and sale of hydrocarbons and related activities. The Group operates in one geographic area, South America. Within this geographic area the Group has operations in Colombia and a non-operated interest in Peru (2010: Colombia and Peru). The quantitative thresholds of IFRS 8 are only met for Colombia, which is therefore the Group's one reportable segment and the Directors consider that the primary financial statements presented substantially reflect all the activities of this single operating segment.

The Group's single operating segment:

	Development and production of oil	
	2011 $'000	2010 $'000
Total revenues	**43,070**	23,763
Profit/(loss) before tax	**10,947**	(3,185)
Total non-current assets	**99,829**	107,930
Total non-current liabilities	**12,925**	27,983

2. Segmental analysis continued

The Group's oil revenues are generated entirely in Colombia and result from sales to Colombia based customers. Revenue from two major customers exceeded 10 per cent, and amounted to $13.0 million respectively, arising from sales of crude. In 2010, revenue from two major customers exceeded 10 per cent, and amounted to $20.3 million respectively. Certain entity wide disclosures are required under IFRS 8, which include revenue and total assets.

	Development and production of oil	
	2011 $'000	2010 $'000
Revenues		
Colombia	**43,070**	23,763
Peru	**–**	–
Total revenues	**43,070**	23,763
Assets		
Colombia	**110,017**	110,680
Other	**7,994**	12,491
Total assets	**118,011**	123,171

Non-current assets comprises investment in oil assets (see notes 11 and 12) and deferred tax assets (see note 10).

The Group's other segment being exploration in Peru did not meet the quantitative threshold required by IFRS 8. Management has therefore concluded that no separate segment reporting is required. In the future as the segment meets the quantitative threshold, relevant disclosures will be provided.

3. Earnings per share (EPS)

Basic earnings per share amounts are calculated by dividing the profit/(loss) for the period attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share are calculated by dividing the profit/(loss) for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding at the end of the year, plus the weighted average number of shares that would be issued on the conversion of dilutive potential ordinary shares into ordinary shares. The calculation of the dilutive potential ordinary shares related to employee and Director share option plans includes only those options with exercise prices below the average share trading price for each period.

	2011 $'000	2010 $'000
Net profit/(loss) attributable to equity holders used in basic calculation	**1,996**	(2,060)
Add back interest and accretion charge in respect of convertible loan notes[1]	**–**	–
Net profit/(loss) attributable to equity holders used in dilutive calculation	**1,996**	(2,060)
Basic weighted average number of shares	**35,752,049**	35,439,009
Earnings/(loss) per share		
Basic	**$0.06**	$(0.06)
Diluted	**$0.05**	$(0.06)
Dilutive potential ordinary shares		
Shares related to convertible notes[2]	**–**	–
Employee and Director share option plans	**3,993,529**	3,651,862
Diluted weighted average number of shares	**39,745,578**	39,090,871

The calculation of the diluted EPS assumes all criteria giving rise to the dilution of the EPS are achieved and all outstanding share options are exercised. During the period ended 31 December 2010 the Group reported a loss. Therefore, because the effect of the potentially dilutive shares related to convertible loan notes and outstanding share options would be anti-dilutive, a separate diluted loss per share has not been reported because it is deemed to equal the basic loss per share.

1 Interest and accretion charges of $1,534,000 (2010: $1,457,000) in respect of convertible loan notes are not included in the calculation of diluted earnings per share as the effect would be anti-dilutive.

2 Shares numbering 2,811,232 (2010: 4,565,027) in respect of outstanding convertible loan notes are not included in the calculation of diluted earnings per share as the effect would be anti-dilutive.

Notes to the Primary Financial Statements continued
For the 12 months ended 31 December 2011

4. Other income

	2011 $'000	2010 $'000
Financial loss on settlement of royalties	–	(15)
Crude transport fees	12	25
Miscellaneous income	–	16
Total other income	12	26

5. Operating profit/(loss)

Profit/(loss) from operations is stated after charging/(crediting):

	2011 $'000	2010 $'000
Depletion, depreciation and amortisation:		
Oil assets	8,269	5,949
Other property plant and equipment	155	82
Operating lease charges – land and buildings	426	486
Employee costs	5,036	4,761
Share-based payment – options – equity-settled (note 29)	107	252
Share-based payment – cash-settled (note 29)	190	91
Net foreign currency losses/(gains)	(213)	262
Impairment of exploration costs	–	(1,185)
Auditors' remuneration	250	177

During the year, the Group obtained the following services from the Group's auditors at costs as detailed below:

Analysis of auditors' remuneration

	2011 $'000	2010 $'000
Principal auditors		
Audit services		
Statutory audit	164	74
Audit related regulatory reporting	19	19
Other services (tax)	18	22
Other auditors		
Audit of subsidiaries pursuant to legislation (not BDO)	46	62
Other services (tax)	3	–
Total auditors' remuneration	250	177

6. Employee costs

Group employee costs (including Executive Directors) during the year amounted to:

	2011 $'000	2010 $'000
Wages and salaries	3,900	3,606
Social security costs and other payroll taxes	583	538
Insurances and other benefits	431	428
Post retirement plan contributions	–	61
Share-based payments – options (note 29)	297	343
Termination benefits	122	128
Total employee costs	5,333	5,104

6. Employee costs continued

In accordance with IAS 24, at 31 December 2011 there were no amounts due to or from key management personnel (2010: nil).

The average number of Group employees (including Executive Directors) was:

	2011	2010
Technical and operations	31	10
Management and administrative	43	33
Total Group employees	**74**	**43**

During 2011, the Group hired certain operational field workers previously contracted from a third party. The employee costs and number of employees above do not include contract and casual labour in field operations which are charged directly to operating expense as incurred. These employees are not on the Group's payroll and are contracted through third parties.

Directors' remuneration

	Salary $'000	Benefits $'000	Bonus $'000	Fees $'000	Total 2011 $'000	Total 2010 $'000
Executives						
Mikel Faulkner	250	–	25	–	275	250
Stephen Voss	298	–	60	–	358	246
Non-executives[1]						
Alan Henderson	–	–	–	47	47	49
David Quint	–	–	–	49	49	49
Lord Freeman[2]	–	–	–	–	–	49
Total	548	–	85	96	729	643

1 The non-executive fees were paid in Pounds Sterling of the amount £30,000 each (2010: £30,000).
2 Lord Freeman resigned on 14 May 2010.

Compensation paid to key management personnel including Directors and Executive Directors:

	2011 $'000	2010 $'000
Non-executive Director fees	96	147
Compensation and benefits paid to key management personnel:		
Compensation paid	1,102	734
Performance bonuses	120	3
Health and life insurances	69	33
Company contributions to payroll taxation	37	35
Share-based payment (note 29)	297	343
Termination benefits	122	128
Post retirement plan contributions	–	61
Total	**1,843**	**1,484**

7. Finance income

	2011 $'000	2010 $'000
Income on cash and cash equivalents	34	28

8. Finance expense

	2011 $'000	2010 $'000
Loans and overdrafts	640	295
Coupon interest on convertible debt	1,179	1,072
Accretion of convertible debt expense	354	385
Unwinding of discount on decommissioning provision	265	88
Total finance expenses	**2,438**	**1,840**

Notes to the Primary Financial Statements continued
For the 12 months ended 31 December 2011

9. Income tax
The Group is subject to UK and Colombian taxation.

UK taxation
The Company does not expect to be liable for UK corporation tax in the foreseeable future because, as of the date of the last UK tax return, the Group had trading losses carried forward of $28.5 million as at 31 December 2011 and $25.6 million as at 31 December 2010 and these are expected to increase in the future.

Colombian taxation
The Group pays taxes in Colombia through the branch office of its wholly-owned subsidiary CEDCo. The Colombian corporation tax is calculated as the higher of net income tax or presumptive income tax which are determined as follows:

- Presumptive income tax: An alternative minimum tax calculated on the prior year gross equity less liabilities at a rate of 3 per cent to determine the presumptive income. A rate of 33 per cent is applied to the presumptive income to arrive at the tax obligation; or
- Net income tax: Calculated at a rate of 33 per cent taking into account revenues minus costs, and standard deductions.

Currently, CEDCo pays its income tax based on Presumptive Income Tax.

Additionally, the Group pays an Equity Tax calculated using a taxable base of the Net Equity as at 1 January 2011 at a rate of 6 per cent. The payment of the tax is over four years with payments made twice per year.

The major components of income tax expense for the periods ended 31 December 2011 and 2010 are:

Consolidated statement of comprehensive income

	2011 $'000	2010 $'000
Current taxes:		
Current income tax charge	**256**	789
Current equity tax charge	**1,549**	820
Other withholding tax	**51**	107
Deferred tax:		
Relating to origination and reversal of temporary differences (See note 10)	**2,082**	(2,841)
Total income tax expense reported in the income statement	**3,938**	(1,125)
Accounting (loss)/profit before income tax	**5,934**	(3,185)
Tax on Group (loss)/profit at UK corporation tax rate of 26.5% (2010 28%)	**1,572**	(892)
Effects of:		
Permanent differences	**(511)**	–
UK tax on losses carried forward	**798**	577
Non-taxable income/Non-deductible expenses for tax purposes	**709**	2,176
Temporary differences (see note 10)	**2,082**	(2,841)
Effect of higher tax rates in the UK	**(712)**	(145)
Total corporation tax expense reported in the income statement	**3,938**	(1,125)

10. Deferred tax
The gross movement in net deferred tax liabilities are reported as follows:

	2011 $'000	2010 $'000
Opening balance as of 1 January	**(8,034)**	(10,875)
Tax (expense)/income in the period recognised in income statement	**(2,082)**	2,841
Closing balance as at 31 December	**(10,116)**	(8,034)

The Group offsets deferred tax assets and liabilities if, and only if, it has a legally enforceable right to offset current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities related to corporation taxes levied by the same tax authority. Deferred tax assets and liabilities listed are related to corporation taxes levied by the Colombian tax authority with jurisdiction over CEDCo.

Temporary differences between the tax base and carrying values arise in relation to the effect of inflation adjustments, differences in exchange rate of non-monetary assets, differences between tax and accounting depreciation and the adjustment and use of tax losses generated in 2008 and tax losses generated in 2010 that could be compensated with future profits with no due date.

10. Deferred tax continued

The movement in deferred income tax assets and liabilities during the year is as follows:

Deferred tax assets	Tax losses $'000	Provisions $'000	Total $'000
As at 1 January 2010	–	1,358	1,358
Credited to income statement	14,979	40	15,019
As at 1 January 2011	14,979	1,398	16,377
Credited to income statement	(1,721)	(382)	(2,103)
As at 31 December 2011	**13,258**	**1,016**	**14,274**

The reduction in deferred tax assets during the year is primarily due to the use of tax loss carry forwards to offset 2011 taxable net profit in Colombia. There are certain expenses which are incurred by the Group outside of Colombia which are not deductible for Colombian income tax purposes. Therefore, taxable net profit in Colombia was higher than net profit recorded by the Group in its consolidated financial statements.

Deferred tax liabilities	Fixed assets value $'000	Inventory $'000	Total $'000
As at 1 January 2010	(12,233)	–	(12,233)
Charged to income statement	(12,138)	(40)	(12,178)
As at 1 January 2011	(24,371)	(40)	(24,411)
Charged to income statement	(41)	62	21
As at 31 December 2011	**(24,412)**	**22**	**(24,390)**

11. Intangible exploration and evaluation (E&E) assets

	2011 $'000	2010 $'000
Costs		
Peru		
At 1 January	**5,034**	4,572
Additions	**393**	462
Reduction of costs incurred[1]	**(2,000)**	–
Total intangible costs at 31 December	**3,427**	5,034

1 During 2010, the Group entered into a farm-out agreement between its wholly owned subsidiary Harken de Perú Limitada and GTE. As part of this agreement an advance of $2 million was received to cover the cost of previously incurred works carried out by Harken del Perú Limitada on the area. The assignment of 60 per cent of the Peruvian Block 95 Licence Contract to GTE has been approved by the Peruvian authorities in December 2011, through the Supreme Decree No. 050-2011-EM. Accordingly, Harken del Perú Limitada offset the $2 million against previous costs incurred following the contractual terms.

Currently the Peruvian Block 95 Licence Contract is in the third exploration phase although it is under force majeure since July 2009 caused by delays in environmental licensing requirements.

The amounts for intangible E&E assets represent costs incurred on active oil exploration projects. In accordance with the Group's accounting policies described in note 1, E&E assets are evaluated when circumstances exist that suggest the possibility of impairment, as well as when E&E assets are transferred to the Development and Producing phase. The outcome of ongoing exploration, and therefore whether the carrying value of assets will ultimately be recovered, is inherently uncertain.

Notes to the Primary Financial Statements continued
For the 12 months ended 31 December 2011

11. Intangible exploration and evaluation (E&E) assets continued

In accordance with the provisions of IFRS 6 the Group has considered, in detail, the identification of CGUs in the Group for the purposes of assessing the accounting treatment of the E&E assets referred to above. The considerations have taken into account the operating structure of the Group, the extent to which individual assets in each CGU generate cash flows which are largely independent of those from other assets, the operating segment to which the assets belong under IFRS 8 and an assessment of the recoverable amount of each CGU. Additionally the way in which management monitors the entity's operations or how management makes decisions about continuing or disposing of the entity's assets and operations was taken into consideration for the purposes of determining independent inflows.

12. Property, plant and equipment

	Oil properties $'000	Facilities and pipelines $'000	Office Equipment & other $'000	Total $'000
Cost				
At 1 January 2010	113,255	27,606	1,614	142,475
Additions	9,872	673	163	10,708
Disposals	–	(1,519)	(104)	(1,623)
At 31 December 2010	123,127	26,760	1,673	151,560
Additions	2,522	2,757	164	5,443
Disposals	–	(388)	(6)	(394)
At 31 December 2011	**125,649**	**29,129**	**1,831**	**156,609**
Depreciation				
At 1 January 2010	(35,091)	(7,511)	(1,460)	(44,062)
Disposals	–	1,331	98	1,429
Provided during the year	(4,870)	(1,079)	(82)	(6,031)
At 31 December 2010	(39,961)	(7,259)	(1,444)	(48,664)
Disposals	–	319	5	324
Transfer	11,063	(11,063)	–	–
Provided during the year	(6,532)	(1,737)	(155)	(8,424)
At 31 December 2011	**(35,430)**	**(19,740)**	**(1,594)**	**(56,764)**
Net book value at 31 December 2011	**90,219**	**9,389**	**237**	**99,845**
Net book value at 31 December 2010	83,166	19,501	229	102,896
Net book value at 1 January 2010	78,164	20,095	154	98,413

As at 31 December 2011 included in the cost of property, plant and equipment is $788,000 (2010: $788,000) in respect of capitalised financing costs. There were no financing costs capitalised during the year (2010: $nil). Also included in PP&E is an amount of $346,300 relating to capitalised finance leases (2010: $354,000).

Expenditures in 2011 on oil assets were primarily related to workovers of the Tilodirán 2 and Tilodirán 3 wells and improved surface handling facilities. Most of these costs remained capitalised in accordance with the Group's accounting policies related to oil assets.

Depletion and depreciation for oil assets is calculated on a unit-of-production basis, using the ratio of oil production in the period to the estimated quantities of proved and probable reserves at the end of the period plus production in the period. Oil assets are tested periodically for impairment to determine whether the net book value of capitalised costs relating to the cash generating unit, as defined in note 11, exceed the associated estimated future discounted cash flows of the related commercial oil reserves. If an impairment is identified, the depletion is charged through the statement of comprehensive income in the period incurred. The Group has performed an impairment test at 31 December 2011 and no impairment requirement was identified.

The Directors consider that the carrying value of the property, plant and equipment is not impaired based on an assessment of the recoverable amount of each of the Group's CGUs.

13. Investments in subsidiaries

The principal subsidiary undertakings in which the Group's interest at the year end is equal to or more than 50 per cent are as follows (these undertakings are included in consolidation):

Held directly	Country of incorporation	Class of share capital held	Proportion held by the Company
Colombia Energy Development Co. (f/k/a Harken de Colombia Ltd.)	Cayman Islands	Ordinary	100%
Harken de Peru Holdings, Ltd.	Cayman Islands	Ordinary	100%
Harken del Perú Limitada	Cayman Islands	Ordinary	100%
Global Energy Management Resources Inc.	United States	Ordinary	100%

The following branches are included in the subsidiaries listed above:

Colombia Energy Development Co. (f/k/a Harken de Colombia Ltd.)	Colombian Branch	Indirect holding	100%
Harken del Perú Limitada	Peruvian Branch	Indirect holding	100%

All of the above companies and branches are engaged in oil development and production. During 2011, Harken South America Ltd. and the Panamanian subsidiaries were dissolved as a result of no activity. During 2010 Harken de Colombia II (subsidiary and Colombian branch) was dissolved as a result of no activity.

14. Inventories

	2011 $'000	2010 $'000
Oil stocks	**1,156**	579
Yard stock	**783**	971
Total inventories	**1,939**	1,550

The amount of inventory which has been recognised as an expense during the year is $2.3 million (2010: $1.9 million). The inventories are carried at cost.

15. Trade and other receivables

	2011 $'000	2010 $'000
Trade receivables	**8,000**	7,101
Less provision for impairment of trade receivables	**(2,963)**	(3,015)
Net trade receivables	**5,037**	4,086
Other receivables	**415**	436
Total trade and other receivables – current	**5,452**	4,522

Included in the above are trade receivables from customers totalling $2.5 million (2010: $1.6 million) in crude sales receivables which are not considered at risk due to the short-term nature of the receivables, the positive credit rating of the customers and the historical trading relationship with the customers. All customer balances as at 31 December 2011 were due within 30 days (2010: 30 days), with the exception of Odin Petroil S.A. $0.1 million (120 days past due).

As at 31 December 2011, the unitisation issue discussed below and the receivable to Odin Petroil S.A., were considered past due (2010: $nil). The Board of Directors considers that there is no significant difference between the carrying values and the fair values of all receivables. The maximum exposure of the gross carrying amount net of provisions for impairment to credit risk at the reporting date is the fair value of each class of receivable set out above.

As at 31 December 2011, trade receivables of $5.5 million (2010: $5.5 million) relate to one partner of an association contract in Colombia whose legal entitlement under a unitisation issue is subject to ongoing negotiation and arbitration. In light of the probability of delays anticipated in the resolution of the unitisation issue, the Board of Directors elected to impair the receivable. The amount of the provision as at 31 December 2011 was $3 million (2010: $3 million).

During 2011 several meetings were held with the partner aforementioned for the purpose of negotiating settlement of the receivable. In those discussions the partner expressed an interest in reaching an agreement whereby the Company would obtain a 100 per cent interest in the existing Cajaro 1 producing zones subject to certain conditions. Based on these general parameters, the Company anticipates being able to recover the net receivable of $2.5 million through future production. The Company is continuing to advance the discussions with the intent of reaching a formal agreement to settle this matter.

Notes to the Primary Financial Statements continued
For the 12 months ended 31 December 2011

15. Trade and other receivables continued

The ageing of this Cajaro receivable is as follows:

	2011 $'000	2010 $'000
Up to 3 months	–	388
4 to 6 months	–	404
6 to 12 months	–	455
1 to 2 years	1,235	490
Over 2 years	4,228	3,778
Total	**5,463**	5,515

Other classes of financial assets included within trade and other receivables do not contain impaired assets.

The carrying values of the Group's trade and other receivables are denominated in the following currencies:

	2011 $'000	2010 $'000
US Dollar	2,537	1,585
Colombian Peso	2,589	2,825
Peruvian Nuevo Sol	326	112
Total	**5,452**	4,522

16. Prepaids and other assets

	2011 $'000	2010 $'000
Prepayments	45	220
Withholding taxes receivable[1]	1,254	139
Total trade and other receivables – current	**1,299**	359

1 Withholding taxes represent an account receivable from Tax Authorities that could be offset against Income Tax Payable in 2012. Increase in 2011 is due to increase in sales because those withholdings come from 3.5 of revenues.

17. Term deposits

	2011 $'000	2010 $'000
Dollar denominated investments	1,718	1,466

The Group has established US Dollar denominated Certificates of Deposit with restricted access and varying maturity dates as guarantees for Letters of Credit required in the contract with Perupetro for performance assurance on oil fields. At 31 December 2011, the Group maintained six Certificates of Deposit totalling $1.3 million (2010: $1.4 million). Additionally, according to the requirements in the association and concession contracts, the Group maintained three trust funds totalling $393,000 (2010: $157,000) to fund the cost for the future plugging and abandonment of certain fields in Colombia.

The maturity of the Group's term deposits is as follows:

	2011 $'000	2010 $'000
Over 6 months[1]	1,718	1,466
Total	**1,718**	1,466

1 This guarantee deposit can be released by July 2012 since this is the due date of the Letter of Credit issued by Banco de Bogotá to guarantee the compliance of Block 95.

18. Cash and cash equivalents

	2011 $'000	2010 $'000
Cash in bank and on hand	4,331	7,344

All cash balances constitute demand deposits or short-term investments available at call and held in US Dollars, Colombian Pesos, Peruvian Nuevo Soles and Pounds Sterling. Details of balances, interest rates on deposits and currency exposures are summarised in note 27.

19. Borrowings

	2011 $'000	2010 $'000
Non-current		
Convertible loan notes (see note 20)	–	16,967
Finance leases	227	–
Total non-current borrowings	227	16,967
Current		
Convertible loan notes (see note 20)	9,372	–
Short-term loans	5,000	6,938
Finance leases	222	354
Total current borrowings	14,594	7,292
Total borrowings	14,821	24,259

As at 31 December 2011, the short-term loan payable is represented by one United States Dollar denominated loan from HKN, Inc. for $5.0 million. The loan payable incurs an interest rate of 10.5 per cent per annum and is due and payable in September 2012.

	2011 $'000	2010 $'000
Analysis of borrowings		
Debt can be analysed as falling due:		
Within one year or on demand[1]	14,594	7,292
Between one and two years	227	16,967
Between two and five years	–	–
	14,821	24,259

1 In March 2012, the Group redeemed the outstanding principal amount ($9.6 million) of its remaining convertible notes. See note 33 for additional information.

20. Convertible loan notes

	2011 $'000	2010 $'000
Balance bought forward	16,967	16,582
Purchase and cancelled convertible notes	(7,950)	–
Cash paid interest	(1,179)	(1,072)
Coupon interest	1,179	1,072
Accreted interest	355	385
Balance carried forward	9,372	16,967

At 1 January 2011, the Group had two convertible loan note agreements outstanding as follows:

- Variable Coupon Convertible Notes due October 2012 (the "2005 Notes") with an outstanding principal balance of $5.8 million, and a conversion price of 179p; and
- Variable Coupon Convertible Notes due December 2012 (the "2006 Notes") with an outstanding principal balance of $11.9 million, and a conversion price of 305.8p.

All convertible notes incurred an interest charge of 5 per cent per annum for the first three years, 6 per cent per annum for the next two years and thereafter an interest rate of 7 per cent. Interest was payable quarterly. The effective interest rate was therefore 5.96 per cent. The convertible notes were not secured against any assets of any Group company. In accordance with the provisions of IAS 32, the Group had determined the convertible loan notes to be a compound financial instrument requiring a proportion of the loan to be classified as equity. The reclassified element represents the difference between the fair value of a similar liability with no equity conversion option and the fair value of the existing convertible notes in current terms. Accordingly, an amount of $512,000 was reclassified to equity in 2006. Accreted interest was charged to the statement of comprehensive income over the life of the notes.

2005 Notes: In November 2011, the Group redeemed the outstanding principal amount ($5.8 million) of its 2005 Notes, along with accrued and unpaid interest, with existing cash resources. As at 31 December 2011, the 2005 Notes are no longer outstanding.

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20. Convertible loan notes continued

2006 Notes: In January 2011, in a privately negotiated transaction, the Group purchased and cancelled $600,000 of the 2006 Notes in consideration for the issuance of 317,000 ordinary shares of the Company. In December 2011, the Group repurchased and cancelled a further $1.7 million of the 2006 Notes for cash in addition to accrued and unpaid interest. Subsequently, in March 2012, the Group redeemed and cancelled the remaining principal amount ($9.6 million) of 2006 Notes along with accrued and unpaid interest.

21. Finance leases

The Group leased operating equipment during the period valued at $346,000 (2010: $354,000) which has been classified as a finance lease in accordance with IAS 17.

	Minimum lease payments 2011 $'000	Interest 2011 $'000	Present value 2011 $'000
Not later than one year	135	20	115
Later than one year	270	39	231
Total	**405**	**59**	**346**

	Minimum lease payments 2010 $'000	Interest 2010 $'000	Present value 2010 $'000
Not later than one year	371	17	354

The fair value of the Group's lease obligation is approximate to the carrying amount. The remaining lease term for the 2011 addition is three years (2010: one year). For the year ended 31 December 2011, the effective borrowing rate in finance leases was 7.02 per cent (2010: 7.5 per cent).

22. Obligations under operating lease contracts

	2011 $'000	2010 $'000
Minimum lease payments	426	486
Outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:		
Within one year	287	40
Between two and five years	268	625
Total annual lease payments	555	665

All commitments relate to land and buildings. There are no lease agreements where the Group is a lessor.

23. Provisions

	2011 $'000	2010 $'000
Environmental provision at start of year[1]	96	152
Change in estimate	(14)	(56)
Environmental provision at end of year	82	96
Long-term benefits[2]	280	91
Total long-term provisions	362	187
Maturity analysis of provisions:		
Due within one year	82	96
Due in more than one year	280	91
Total	**362**	**187**

1 The environmental provision represents the creation of an environmental investment reserve to reflect a liability under Colombian law for certain exploration and producing contracts requiring the Group to perform additional reinvestment in the amount of 1 per cent of specified investment activity to provide for the recovery, conservation, preservation, and monitoring of the hydrographic basin of the exploration areas. In such cases, a provision is provided and an amount equal to the provision is recognised within the cost of the respective asset and amortised on a unit of production basis. Changes in estimates are recognised prospectively, with corresponding adjustments to the provisions and the associated fixed asset.

2 The Company granted to specific management employees long-term incentive bonus awards. (See note 29.)

24. Decommissioning liability

	2011 $'000	2010 $'000
Decommissioning liability at start of year[1]	**2,891**	879
Unwinding of discount	**265**	88
Change in estimate[2]	**(657)**	1,924
Decommissioning liability at end of year	**2,499**	2,891
Maturity analysis of provisions:		
Due in more than one year	**2,499**	2,891

1 The decommissioning provision represents the present value of decommissioning costs for existing assets in the Group's oil operations, which are expected to be incurred between 2012 and 2024. These provisions have been generated based on the Group's internal estimates, and where available, studies and analyses from external sources. Assumptions, based on the current economic environment, have been made which management believes are a reasonable basis upon which to estimate the future liability. These estimates are reviewed periodically to take into account any material changes to those assumptions. However, actual decommissioning costs will ultimately depend upon future market prices for the necessary decommissioning work required at the time assets are decommissioned and abandoned. Furthermore, the timing of decommissioning is likely to depend on when the fields cease to produce at economically viable rates, which in turn is dependent upon future oil and gas prices that are inherently uncertain.
2 The change in estimate is due to an adjustment of the decommissioning liability of certain non-producing wells which were abandoned in 2011.

25. Trade and other payables

	2011 $'000	2010 $'000
Trade payables[1]	**3,793**	3,459
Accrued liabilities	**1,763**	1,815
Advance payment[2]	**–**	2,000
Total current liabilities	**5,556**	7,274

1 Trade payables reflect balances owed on invoices received from vendors and contractors related to active projects in progress at the end of each period. It is considered that values of trade and other payables approximate to fair value at 31 December 2011 and 2010.
2 During 2010, the Group entered into a farm-out agreement between its wholly owned subsidiary Harken del Perú Limitada and GTE. As part of this agreement, an advance of $2 million was received to cover the cost of previously incurred work carried out by Harken del Perú Limitada on the area. The assignment of 60 per cent of the Peruvian Block 95 Licence Contract to GTE was approved by the Peruvian authorities in December 2011. Accordingly, Harken del Perú Limitada earned the advance of $2 million in 2011 following the contractual terms.

26. Corporate and equity tax

	2011 $'000	2010 $'000
Non-current tax		
Equity tax[1]	**968**	–
Current tax		
Withholding tax[2]	**342**	276
VAT payable[2]	**587**	362
Current equity tax[1]	**193**	–
Other tax[2]	**62**	62
Total corporate and equity	**2,152**	700

1 The Group pays an equity tax calculated using a taxable base of the net equity as at 1 January 2011 and a rate of 6 per cent. The payment of the tax is over four years with payments made twice per year.
2 Correspond to taxes payables in Colombia.

27. Financial instruments

Financial instruments – Risk management

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

- Price risk
- Credit risk
- Market risk
- Liquidity risk

This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

During 2011 the Group extinguished a significant balance of the previously outstanding convertible loan notes, otherwise there have been no substantive changes in the Group's exposure to financial instruments, its objectives, policies and processes for managing those risks and the methods to measure them as in previous periods.

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For the 12 months ended 31 December 2011

27. Financial instruments continued

Principal financial instruments
The principal financial instruments used by the Group, from which financial instrument risk arises are as follows:

- Trade and others receivables
- Cash and cash equivalents
- Short-term deposits
- Trade and other payables
- Convertible loan notes
- Short-term loans and other borrowings

General objectives, policies and processes
The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's finance function. The Board receives regular reports from the Group Finance Director through which it reviews the effectiveness of the processes in place and the appropriateness of the objectives and policies it sets. The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below.

Price risk
The Group is exposed to the risk of fluctuations in prevailing market prices of crude oil, specifically the WTI crude price which was the source reference price in Global's crude sales contracts during 2011.

Crude oil price sensitivity analysis
A sensitivity analysis based on a 30 per cent price volatility assumption is used internally by management to estimate the potential impact of variations in crude oil market prices. As at 31 December 2011, a 30 per cent increase in the average sales price obtained during the year would have increased revenues and equity by $22 million (2010: $12 million) and a 30 per cent decrease in the average sales price would have reduced revenues and equity by $14 million (2010: $8 million).

Credit risk
Credit risk is the risk of financial loss to the Group if a customer or a counterpart to a financial instrument fails to meet its contractual obligations. The Group is mainly exposed to credit risk from credit sales. It is Group policy, implemented locally, to assess the credit risk of new customers before entering contracts. Such credit ratings are taken into account by local business practices. The Group's review includes external credit ratings, when available. Potential customers that fail to meet the Group's benchmark credit worthiness may transact with the business on a prepayment basis only.

Credit risk also arises from cash and cash equivalents, and deposits with banks and financial institutions. The Group's cash deposits are only held in banks and financial institutions which are independently-rated with a minimum grading of "A".

The Group does not enter into derivatives to manage credit risk, although in certain isolated cases may take steps to mitigate such risk if it is sufficiently concentrated.

The Group monitors the utilisation of credit ratings and available credit evaluation information as appropriate and at the reporting date does not envisage any losses from non-performance of counterparties, other than the provision created in relation to the unitisation negotiations and the related receivable (see note 15).

Market risk
Cash flow interest rate risk
The Group is exposed to cash flow interest rate risk from its deposits of cash and cash equivalents with banks. The cash balances maintained by the Group are proactively managed in order to ensure that the maximum level of interest is received for the available funds but without affecting the working capital flexibility the Group requires.

The Group does not consider itself exposed to cash flow interest rate risk from its borrowings in the form of convertible loan notes or short-term loans, both of which carry fixed and floating interest rates within the terms of the agreements. Through the fixing of the interest rates within the agreements the Company considers it has minimised the exposure of the Group to cash flow interest rate risk. No subsidiary company of the Group is permitted to enter into any borrowing facility or lease agreement without the prior consent of the Board.

27. Financial instruments continued

Interest rates on financial assets and liabilities

The interest rate profile of the Group's financial assets and liabilities at 31 December 2011 was as follows:

US Dollar equivalent of:	US Dollar $'000	Colombian Peso $'000	Peruvian Nuevo Sol $'000	Pound Sterling $'000	Total $'000
Cash at bank at floating interest rate	2,025	198	–	–	2,223
Cash at bank on which no interest is received	2,095	–	13	–	2,108
Fixed rate debt	(14,372)	–	–	–	(14,372)
Floating rate debt	–	(449)	–	–	(449)
Net (debt)/cash	**(10,252)**	**(251)**	**13**	**–**	**(10,490)**

The profile at 31 December 2010 for comparison purposes was as follows:

US Dollar equivalent of:	US Dollar $'000	Colombian Peso $'000	Peruvian Nuevo Sol $'000	Pound Sterling $'000	Total $'000
Cash at bank at floating interest rate	7,062	80	–	(5)	7,137
Cash at bank on which no interest is received	205	1	1	–	207
Fixed rate debt	(21,946)	–	–	–	(21,946)
Floating rate debt	–	(2,313)	–	–	(2,313)
Net (debt)/cash	(14,679)	(2,232)	1	(5)	(16,915)

Cash at bank at floating rates consisted of demand deposits and money market investments subject to floating rates which vary from 0.75 per cent to 2 per cent.

The Group has fixed and floating rate debt. Fixed rate debt consists of obligations under finance agreements of one year or less, loans and convertible loan notes with rates fixed in advance for periods longer than three months. The average interest rate on these contracts for the year is 8.7 per cent (2010: 7.3 per cent). The floating rate debt consists of an obligation under finance lease agreements of one year to three years; the average floating rate on these contracts for the year is 7.02 per cent (2010: 7.5 per cent).

Interest rate sensitivity analysis

At 31 December 2011, the Group had net cash totalling $1.8 million (2010: $5.0 million) in financial assets with floating interest rates, which averaged 0.14 per cent (2010: 0.78 per cent) return on investment and net debt totalling $0.4 million (2010: 2.0 million). As required by IFRS 7, the Group has estimated the interest rate sensitivity on year-end balances and determined that a two percentage point increase or decrease in the interest rate earned on floating rate deposits and loans would have caused a corresponding increase or decrease in net income and net assets in the amount of $7,420 (2010: $114,000).

Foreign exchange risk

Foreign exchange risk arises because the Group has operations located in various parts of the world whose local operational currency is not the same as the functional currency of the Group. Although its wider market penetration reduces the Group's operational risk, the Group's net assets arising from such overseas operations are exposed to currency risk resulting in gains and losses on translation into US Dollars. Only in exceptional circumstances will the Group consider hedging its net investments in overseas operations as generally it does not consider that the reduction in foreign currency exposure warrants the cash flow risk created from such hedging techniques. It is the Group's policy to ensure that individual Group entities enter into local transactions in their operational currency and that surplus funds over and above working capital requirements should be transferred to the Parent Company treasury. The Group considers this policy minimises any unnecessary foreign exchange exposure.

In order to monitor the continuing effectiveness of this policy, the Board, through their approval of capital expenditure budgets and review of management accounts, considers the effectiveness of the policy on an ongoing basis. The following table discloses the exchange rates of those currencies utilised by the Group:

Foreign currency units to $1.00 US Dollar	Colombian Peso	Peruvian Nuevo Sol	Pound Sterling
At 31 December 2011	**1,943**	**2.697**	**0.646**
At 31 December 2010	1,914	2.809	0.646

Notes to the Primary Financial Statements continued
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27. Financial instruments continued

Currency exposures
The monetary assets and liabilities of the Group that are not denominated in US Dollars and are therefore exposed to currency fluctuations are shown below. The amounts shown represent the US Dollar equivalent of local currency balances.

US Dollar equivalent of exposed net monetary assets and liabilities	Colombian Peso $'000	Peruvian Nuevo Sol $'000	Pound Sterling $'000	Total $'000
At 31 December 2011	**(1,646)**	**97**	**10**	**(1,539)**
At 31 December 2010	(960)	95	10	(855)

The year on year fluctuation in Colombian Peso denominated balances is attributed primarily to accrued liabilities payable (see note 25).

Foreign currency sensitivity analysis
The Group is mainly exposed to currency rate fluctuations of the Colombian Peso versus the US Dollar, and measures its foreign currency risk through a sensitivity analysis considering 10 per cent favourable and adverse changes in market rates on exposed monetary assets and liabilities denominated in Colombian Pesos. At 31 December 2011, a 10 per cent devaluation of the Peso against the US Dollar would have resulted in translation gains of $292,000 (2010: gains of $87,000), and a 10 per cent revaluation of the Peso against the US Dollar would have resulted in a translation loss of $265,000 (2010: loss of $96,000) with the corresponding movement in net assets.

Liquidity risk
Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. To achieve this aim, the Group seeks to maintain minimal cash balances (and agreed facilities) to meet expected requirements for a period of at least 45 days. The Group also seeks to reduce liquidity risk through the monthly update cash flow projection process, in order to provide the Company with solid tools to monitor, define and approve all the cash uses with the purpose of ensuring the funds required to develop the expected operational activities.

The Group maintains an integrated business performance and cash flow forecasting model, incorporating the most recent statement of financial position information (updated monthly) with the business plan and current year budget and management forecast of benchmark oil prices. The Group performance against budget and associated cash flow forecast is evaluated on a monthly basis. The GED management receives rolling 12-month cash flow projections on a periodic basis as well as information regarding cash balances and Group performance against budget. At the reporting date, these projections indicate that the Group expected to have sufficient liquidity to meet its obligations under all reasonably expected circumstances and will not need to draw down on its agreed overdraft facilities.

The following tables illustrate the contractual maturity analysis of the Group's financial liabilities, including the liabilities that must be settled gross based, where relevant, on statement of financial position interest rates and exchange rates prevailing at the reporting date.

Maturity analysis of the financial liabilities is as follows:

Analysis of current liabilities include	**2011 $'000**	2010 $'000
Up to 3 months	**5,048**	3,933
3 to 6 months	**2,114**	363
Over 6 months	**410**	909
Total	**7,572**	5,205

Capital management policies
The Board has established guidelines and policies which are for the management of the Group's capital resources, including shareholder equity and debt, based on a long-term strategy against which the Board continually evaluates and monitors the achievement of corporate objectives and the development of the Group's portfolio in core areas. Specific capital management policies set forth include the following:

- the reinvestment of all profits into new and existing assets that fit the corporate objectives;
- consolidation of positions in developing regions and disposition of assets of low materiality or where meaningful operational influence cannot be achieved;

27. Financial instruments continued

- to identify the appropriate mix of debt, equity and partner sharing opportunities in order to balance the highest returns to shareholders overall with the most advantageous timing of investment flows;
- to hire and maintain highly qualified employees through effective manpower management processes, including compensation and benefit programmes in concert with ongoing training and motivational programmes; and
- retain maximum flexibility to allocate capital resources between exploration and appraisal, and production and development projects based on available funds and quality of opportunities.

On a monthly basis, management receives financial and operational performance reports that enable continuous management of assets, liabilities and liquidity. In addition, management communicates frequently with the Board of Directors to provide consistent information and data to evaluate and measure the achievement of objectives. The above policies and practices are consistent with strategies and objectives employed in prior years and are expected to remain consistent in the extension of future resource allocation objectives.

28. Share capital

	2011 Number of shares	2011 $'000	2010 Number of shares	2010 $'000
Authorised[1]				
Unclassified shares of £1 each	**50,000**	**92**	50,000	92
Allotted, called up and fully paid				
Ordinary shares of 1p each	**35,766,774**	**546**	35,439,009	540

1. The concept of authorised capital was removed by the Companies Act 2006, and the new Articles of Association adopted by the Company at the 2011 Annual General Meeting do not contain any references to authorised share capital and unissued shares. The disclosure in the current year and prior year has therefore been amended to reflect this change in the Articles of Association of the Company.

The ordinary shares confer the right to vote at general meetings of Global Energy Development PLC, to a repayment of capital in the event of liquidation or winding up and certain other rights as set out in Global Energy Development PLC's Articles of Association.

The ordinary shares also confer the right to receive dividends if declared by the Directors and approved by the Company. The unclassified shares do not carry any rights.

In January 2011, the Group issued 317,000 ordinary shares of 1p each in consideration for the purchase and cancellation of $600,000 of 2006 Notes plus all accrued interest due.

In April 2011, following a notice of exercise of options in respect of 10,765 ordinary shares of 1p each in the Group, the Group issued 10,765 ordinary shares to a Director of the Company.

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

Reserve	Description and purpose
Share capital	Represents the nominal value of shares issued.
Share premium	Amount subscribed for share capital in excess of nominal value.
Other reserve	Equity element of the convertible loan notes accounted for in accordance with IAS 32 and IAS 39.
Retained losses	Cumulative net gains and losses recognised in the consolidated income statement.
Capital reserve	Reserve created on issue of shares on acquisition of subsidiaries in prior years.

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29. Share-based payments
Equity-settled – Discretionary share option incentive plan
The Group periodically grants share options to employees and Directors, as approved by the Board. At 31 December 2011 and 31 December 2010 the following share options were outstanding in respect of the ordinary shares:

Year ended 31 December 2011

Year of grant	Number of shares	Issued in year	Forfeited/ lapsed	Redemption during year	Number of shares	Number exercisable at year end	Start date	End date	Price per share
2002	2,915,196	–	–	–	2,915,196	2,915,196	31.01.2002	31.01.2014	50.0p
2002	30,000	–	–	(30,000)	–	–	08.08.2002	08.08.2012	54.5p
2004	665,000	–	–	–	665,000	665,000	03.12.2004	03.12.2014	151.1p
2005	130,000	–	–	–	130,000	130,000	08.12.2005	08.12.2015	265.1p
2007	50,000	–	–	–	50,000	50,000	13.06.2007	13.06.2017	85.7p
2008	508,334	–	(83,334)	–	425,000	425,000	11.02.2008	11.02.2018	100.0p
2008	66,667	–	–	–	66,667	66,667	15.07.2008	15.07.2018	113.3p
2008	656,666	–	–	–	656,666	603,333	11.12.2008	11.12.2018	70.0p
2011	–	125,000	–	–	125,000	–	06.10.2011	06.10.2021	83,0p
Total	**5,021,863**	**125,000**	**(83,334)**	**(30,000)**	**5,033,529**	**4,855,196**			

Year ended 31 December 2010

Year of grant	Number of shares	Issued in year	Forfeited/ lapsed	Number of shares	Number exercisable at year end	Start date	End date	Price per share
2002	2,915,196	–	–	2,915,196	2,915,196	31.01.2002	31.01.2012	50.0p
2002	30,000	–	–	30,000	30,000	08.08.2002	08.08.2012	54.5p
2004	675,000	–	(10,000)	665,000	665,000	03.12.2004	03.12.2014	151.1p
2005	130,000	–	–	130,000	130,000	08.12.2005	08.12.2015	265.1p
2007	50,000	–	–	50,000	50,000	13.06.2007	13.06.2017	85.7p
2008	508,334	–		508,334	–	11.02.2008	11.02.2018	100.0p
2008	100,000	–	(33,333)	66,667	–	15.07.2008	15.07.2018	113.3p
2008	710,000	–	(53,334)	656,666	–	11.12.2008	11.12.2018	70.0p
Total	**5,118,530**	**–**	**(96,667)**	**5,021,863**	**3,790,196**			

Cash-settled – Long-term service benefits
The Group granted to specific management employees a long-term incentive bonus award. The incentive confers the right, exercisable after three years of effectiveness of the grant and provided that the employee continues to be eligible (i.e. employed with a valid grant) to receive a payment equal to the excess, if any, over the "Notional Exercise Price" (as determined by the Board with respect to each grant) of the average 30 day stock price for the Company's stock at the time of exercise multiplied by the number of share units in respect of which the grant is exercised (the "Grant Profit") (see note 23).

Year ended 31 December 2011

Year of grant	Number of shares	Issued in year	Forfeited/ lapsed	Number of shares	Number exercisable at year end	Start date	End date	Price per share
2010	2,100,000	–	–	–	2,100,000	30.06.2010	30.06.2015	150.0p
2010	540,000	–	–	–	540,000	15.08.2010	15.08.2015	150.0p
2011	–	400,000	–	–	400,000	01.01.2011	01.01.2016	150.0p
2011	–	25,000	–	–	25,000	15.01.2011	15.01.2016	150.0p
2011	–	200,000	–	–	200,000	15.03.2011	15.03.2016	150.0p
Total	**2,640,000**	**625,000**	**–**	**–**	**3,265,000**			

Year ended 31 December 2010

Year of grant	Number of shares	Issued in year	Forfeited/ lapsed	Number of shares	Number Exercisable at year end	Start date	End date	Price per share
2010	–	2,100,000	–	–	2,100,000	30.06.2010	30.06.2015	150.0p
2010	–	840,000	(300,000)	–	540,000	15.08.2010	15.08.2015	150.0p
Total	**–**	**2,940,000**	**(300,000)**	**–**	**2,640,000**			

29. Share-based payments continued

The Group's mid-market closing share price at 31 December 2011 was 106.0p (31 December 2010: 110.5p). The highest and lowest mid-market closing share prices during the year were 128.0p (2010: 130.5p) and 63.5p (2010: 59.5p) respectively.

The weighted average exercise price at the beginning of 2011 was 79.65p (2010: 81.40p) and end of period was 77.86p (2010: 79.65p).

Under the terms of the equity-settled option scheme the holder has the option, at the time of exercise, to elect to forego a number of their share options, and thereby reduce the exercise price of the remaining shares by the notional gain on the shares foregone. The effect of this is that the number of shares exercised and the price per share may be lower than as disclosed in the table above.

The options and long-term benefits are granted to employees; exercise of the vested options is conditional upon the individual being employed by the Company at the date of exercise.

The initial fair values of awards granted under the Group's equity option and long-term cash settled plan have been calculated using a variation of a binomial option pricing model that takes into account factors specific to share incentive plans such as the vesting periods, estimated share price volatility, the expected dividend yield on the Company's shares and expected exercise of share options.

The liability in relation to the cash-settled long-term service benefits is recalculated at each balance sheet date based on the fair value of the cash-settled benefit at the balance sheet date, with the corresponding movement recognised in the income statement.

The following principal assumptions were used in the valuation:

Equity-settled – Discretionary share option incentive plan

Grant date	Share price at date of grant	Exercise price	Volatility	Option life	Dividend yield	Risk-free investment rate	Employee turnover
3 Dec 2004	151.1p	151.1p	36.73%	3 Dec 2014	0%	4.645%	3.7 years
8 Dec 2005	265.1p	265.1p	33.02%	8 Dec 2015	0%	4.226%	3.3 years
13 Sep 2006	174.5p	174.5p	40.68%	13 Sep 2016	0%	4.568%	4.3 years
13 Jun 2007	85.7p	85.7p	30.99%	13 Jun 2017	0%	5.416%	4.0 years
11 Feb 2008	82.4p	100.0p	53.14%	11 Feb 2018	0%	4.492%	4.2 years
15 Jul 2008	113.3p	113.3p	53.14%	15 Jul 2018	0%	5.165%	3.0 years
11 Dec 2008	67.5p	70.0p	55.63%	11 Dec 2018	0%	4.492%	3.8 years
06 Oct 2011	87.0p	83.0p	49.57%	6 Oct 2021	0%	1.5843%	5.0 years

Cash-settled – Long-term service benefits

Grant date	Share price at date of grant	Exercise price	Volatility	Option life	Dividend yield	Risk-free investment rate	Employee turnover
30 Jun 2010	150.0p	150.0p	47.72%	30 Jun 2015	0%	2.067%	3.5 years
15 Aug 2010	150.0p	150.0p	47.97%	15 Aug 2015	0%	1.836%	3.0 years
01 Jan 2011	110.9p	150.0p	52.83%	1-Jan-14	0%	2.0294%	3.0 years
15 Jan 2011	104.5p	150.0p	52.93%	15-Jan-14	0%	2.2746%	3.0 years
15 Mar 2011	92.8p	150.0p	51.18%	15-Mar-14	0%	2.0619%	3.0 years

The fair values of awards granted under the Group's option plan have been calculated based on a Volatility Cone calculation model using the historic share price two years prior to each grant date and assigning a probability weighting. Volatilities were selected between the median and the 75th percentile calculations.

Based on the above assumptions the fair values of the options granted are estimated to be:

Equity-settled – Discretionary share option incentive plan

Grant date	Fair value
3 Dec 2004	51p
8 Dec 2005	76p
13 Sep 2006	66p
13 Jun 2007	28p
11 Feb 2008	47p
15 Jul 2008	46p
11 Dec 2008	32p
06 Oct 2011	23p

Notes to the Primary Financial Statements continued
For the 12 months ended 31 December 2011

29. Share-based payments continued
Cash-settled – Long-term service benefits

Grant date	Fair value
30 Jun 2010	55p
15 Aug 2010	51p
01 Jan 2011	31p
15 Jan 2011	27p
15 Mar 2011	20p

Expense arising from share-based payments
Based on the above fair values and the Group's expectations of employee turnover, the expense arising from equity-settled share options made to employees was $107,000 for the period (2010: $251,000) and for cash-settled was $190,000 for the period (2010: $91,000).

During the period, there were no ordinary shares issued in lieu of certain portions of salaries and Director fees (2010: $nil). There were no other share-based payment transactions.

Details of the Directors' interests in the ordinary shares of the Company and options over ordinary shares are set out below:

	As at 31 December 2011		As at 1 January 2011	
	Ordinary shares	**Options**	Ordinary shares	Options
Mikel Faulkner	**205,250**	**1,890,000**	205,250	1,890,000
Stephen Voss	**113,068**	**1,200,000**	113,068	1,200,000
Stephen Newton[1]	**–**	**–**	–	83,334
Alan Henderson	**25,292**	**150,000**	14,527	180,000
David Quint	**94,390**	**150,000**	94,390	150,000
Lord Freeman[2]	**–**	**–**	10,106	140,000
Total	**438,000**	**3,390,000**	437,341	3,643,334

1 Stephen Newton resigned in January 2009.
2 Lord Freeman resigned in May 2010.

All the holdings are beneficially held.

During 2011, Alan Henderson exercised options in respect of 10,765 ordinary shares. The gain made by Alan Henderson was $14,412.

30. Capital commitments
Capital commitments at the end of the financial year, for which no provision has been made, are as follows:

	2011 $'000	2010 $'000
Rio Verde (Colombia) – Drilling of two wells[1]	**–**	21,294
Block 95 (Peru)[2]	**15,000**	15,000
Total	**15,000**	36,294

1 Requirement for drilling of two wells has been indefinitely suspended.
2 The contractual obligation to drill a well or perform seismic works in Peru, reflected on above relate to the gross obligation. The commitment is currently suspended owing to force majeure, declared by Harken del Perú Limitada and approved by Perupetro, the local authority on the matter. Force majeure was declared based on the unjustified delay by the Peruvian Government to grant the required environmental permits for the activity. In 2010, a farm-out agreement was signed between Harken de Perú Limitada and GTE, which transfers 60 per cent of the contract interests, as well as the operatorship of the contract to the latter on December 29, 2011. Thus, the commitment is for GTE to assume 100 per cent of the burden and cost of drilling the commitment well or performing the obligations, up to a limit of $15 million. Beyond this cap, each party will assume their respective burdens as allocated within the agreement with GTE remaining as the contract Operator. Therefore if force majeure is lifted this commitment passes to GTE and not to the Group.

31. Related party disclosures

HKN and its parties in concert are major shareholders of the Group. The Group holds a loan payable with HKN for $5 million at a fixed interest rate of 10.5 per cent which is due and payable in September 2012. Please see note 33 for information on an additional loan payable placed with HKN in 2012.

David Quint is a Director of the Company and a director of RP&C International Ltd. ("RP&C"). RP&C provided certain corporate finance services during 2011 and none in 2010.

	Services provided 2011 $'000	Amounts owed from/(to) related parties as at 31 December 2011 $'000	Services provided 2010 $'000	Amounts owed from/(to) related parties as at 31 December 2010 $'000
HKN, Inc.	676	(5,000)	149	(5,000)
RP&C International Ltd.	70	–	–	–

Compensation paid to key management personnel including Directors, Executive Directors and senior management is disclosed in note 6.

32. Contingent liability

Historically, the Group has elected to benefit from a tax deduction on eligible capital expenditure related to drilling activity. The tax deduction would reverse upon the sale of the qualifying asset. To the extent that, on a pro-rata basis, the deduction has not been earned within a 10 year time limit, a pro-rata tax charge will accrue. No additional deduction was taken during 2011 (2010: $nil). As at the year end the Directors do not consider that disposal of any subject assets is probable, therefore no provision has been recognised.

33. Post reporting date events

i. In January 2012, the assignment of 60 per cent of the Peruvian Block 95 License Contract to GTE was duly signed by involved parties completing the farm-out contractual conditions; however financial impact was recognised in December 2011, meaning that the cash received in 2010 ($2 million) was offset against the Group's intangible assets relating to Peru.
ii. In January 2012 the Group received approval of the extension of the Boral Area from the Rio Verde contract to include the Rio Verde #2 well, which will be subject to a workover to convert it to a water injection well, thus allowing for the disposal of water and the recovery of secondary reserves.
iii. In January 2012 the Group closed a Fixed Rate Note Payable with HKN for the principal amount of $12 million (the "Note Payable"). The Group has drawn down $9.6 million of the Note Payable. The Note Payable is not convertible into shares and is subject to an interest charge of 10.5 per cent per annum, payable quarterly in arrears, with the principal amount being repayable in full on 30 September 2013. The Note Payable is currently unsecured, but HKN can require the Company to provide adequate collateral security in the event of a material adverse effect. The Group paid to HKN a 1.75 per cent transaction fee of approximately $210,000 upon closing of the Note Payable in January 2012.
iv. In February 2012, the Group announced it has exercised the option to redeem the outstanding principal amount of its remaining 2006 Notes totaling $9.6 million. The 2006 Notes were redeemed for cash in March 2012 (the "Redemption Date") at the principal amount of the Notes together with interest accrued up to (but excluding) the Redemption Date.

Company Accounts

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Statement of Directors' Responsibilities

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Company financial statements in accordance with United Kingdom Accounting Standards. Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Website publication

The Directors are responsible for ensuring that the annual report and the financial statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Independent Auditors' Report to the Members of Global Energy Development PLC

We have audited the Parent Company financial statements of Global Energy Development PLC for the year ended 31 December 2011 which comprise the Parent Company balance sheet and the related notes. The financial reporting framework that has been applied in preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors
As explained more fully in the statement of Directors' responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Parent Company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's ("APB's") Ethical Standards for Auditors.

Scope of the Audit of the Financial Statements
A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on Financial Statements
In our opinion the Parent Company financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2011;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on Other Matters Prescribed by the Companies Act 2006
- the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the Parent Company financial statements.

Matters on Which We Are Required to Report by Exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter
We have reported separately on the group financial statements of Global Energy Development Plc for the year ended 31 December 2011.

Anne Sayers (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London
United Kingdom
20 March 2012

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Company Balance Sheet
As at 31 December 2011

	Note	2011 $'000	2010 $'000
Fixed assets			
Tangible assets	3	**8**	28
Investment in subsidiaries	4	**10,734**	11,807
		10,742	11,835
Current assets			
Debtors	5	**65**	44
Cash at bank and on hand	6	**4,104**	7,255
		4,169	7,299
Creditors: amounts falling due within one year	7	**(15,318)**	(7,801)
Convertible loan notes	9	**(9,372)**	–
Net current (liabilities)		**(20,521)**	(502)
Total assets less current liabilities		**(9,779)**	11,333
Non-current liabilities			
Convertible loan notes	9	**–**	(16,967)
Long-term service benefits	10	**(280)**	(91)
Net (liabilities)		**(10,059)**	(5,725)
Capital and reserves			
Called up share capital	11	**546**	540
Share premium account	13	**27,139**	26,544
Other reserve	13	**927**	1,826
Profit and loss account	13	**(38,671)**	(34,635)
Shareholders' (deficit)	14	**(10,059)**	(5,725)

These financial statements were approved by the Board of Directors and authorised for issue on 20 March 2012 and were signed on its behalf by:

Mikel Faulkner
Chairman
20 March 2012

Stephen Voss
Managing Director
20 March 2012

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3 More London Riverside
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The notes on pages 54 to 58 form an integral part of these financial statements.

Notes to the Financial Information
For the 12 months ended 31 December 2011

1. Accounting policies

Basis of preparation
The financial statements have been prepared under the historical cost convention in accordance with the Companies Act 2006 and UK Generally Accepted Accounting Practice ("UK GAAP"). The following paragraphs describe the main accounting policies under UK GAAP, which have been applied consistently.

Results and dividends
In accordance with the provisions of section 408 of the Companies Act 2006 the Company has elected not to present a profit and loss account.

The loss for the year was $5,018,000 (2010: $6,385,000).

The Directors do not propose to recommend any distribution by way of a dividend for the year ended 31 December 2011 (2010: $nil).

Changes in accounting policies
There have been no changes in accounting policies adopted during the year.

Investments
Fixed asset investments in subsidiaries are included in the accounts at cost less provision for impairment.

Tangible assets
Depreciation is charged on fixed assets so as to write off the cost, less estimated residual value, on a straight-line basis over their useful lives of between three and five years.

Taxation
The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Convertible debt
In accordance with FRS25, the Company has classified the convertible debt in issue as a compound financial instrument. Accordingly, the Company presents the liability and equity components separately on the balance sheet. The classification of the liability and equity components is not reversed as a result of a change in the likelihood that the conversion option will be exercised. No gain or loss arises from initially recognising the components of the instrument separately. Interest on the debt element of the loan is accreted over the term of the loan. Costs associated with the raising of debt are set off against the gross value of monies received (see note 9).

Share-based payments
The Company has applied the requirements of FRS20 'Share-based payments', reflecting the economic cost of awarding shares and share options to employees and Directors by recording an expense in the profit and loss equal to the fair value of the benefit awarded. The expense is recognised in the profit and loss over the vesting period of the award.

Fair value is measured by use of a binomial model which takes into account conditions attached to the vesting and exercise of the equity instruments. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

Where share-based payments are awarded in lieu of services, the fair value of the share-based payment is considered to be the value of services.

Long-term service benefits
The Company also operates a cash settled share-based payment scheme ("the long-term incentive bonus award"). An option pricing model is used to measure the Company liability at each reporting date, taking into account the terms and conditions on which the bonus is awarded and the extent to which employees have rendered service. Movements in the liability (other than cash payments) are recognised in the profit and loss account.

Post retirement benefits
The Company contributes to a defined contribution scheme at the discretion of the Board of Directors. Contributions are charged to the profit and loss account as they become payable.

1. Accounting policies continued

Foreign currencies

The functional currency of the Company is the US Dollar. Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date. Exchange gains or losses on translation are included in the profit and loss account.

Borrowings

Borrowings are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the balance sheet. Interest expense in this context includes initial transaction costs and premium payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

Leases

Operating leases and the corresponding rental charges are charged to the profit and loss on a straight-line basis over the life of the lease. Assets under finance leases are included under tangible fixed assets at their capital value and depreciated over their useful lives. Capital value is defined as the amount equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. Lease payments consist of capital and finance charge elements; the finance charge element is charged to the profit and loss account.

2. Staff costs and audit fee

The disclosures relating to the Directors' remuneration for the current and prior year, as well as share holdings and share options interests are included in note 6.

3. Tangible assets

	Office Equipment & Other $'000
Cost	
At 1 January 2011	1,073
Disposals	–
Additions	–
At 31 December 2011	**1,073**
Depreciation	
At 1 January 2011	(1,045)
Provided during the year	(20)
Disposals	–
At 31 December 2011	**(1,065)**
Net book value at 31 December 2011	**8**
Net book value at 31 December 2010	28

4. Investments in subsidiaries

	$'000
At 1 January 2011	11,807
Reductions	(1,073)
At 31 December 2011	**(10,734)**

Included within investments in subsidiaries are inter-Group loans. The investments in subsidiaries is primarily related to cash proceeds on inter-Group loans from Colombia operations transferred to the Company and used to fund Company expenses. During 2011, Harken South America Ltd. and the Panamanian subsidiaries were dissolved as a result of no activity.

Notes to the Financial Information continued
For the 12 months ended 31 December 2011

4. Investments in subsidiaries continued

The principal subsidiary undertakings in which the Company's interest at the year-end is equal to or more than 50 per cent are as follows (these undertakings are included on consolidation):

Held directly	Country of incorporation	Class of share capital held	Proportion held by the Company
Colombia Energy Development Co. (f/k/a Harken de Colombia Ltd.)	Cayman Islands	Ordinary	100%
Harken de Peru Holdings, Ltd.	Cayman Islands	Ordinary	100%
Harken del Perú Limitada	Cayman Islands	Ordinary	100%
Global Energy Management Resources Inc.	United States	Ordinary	100%

The following branches are included in the subsidiaries listed above:

Colombia Energy Development Co. (f/k/a Harken de Colombia Ltd.)	Colombian Branch	Indirect holding	100%
Harken del Perú Limitada	Peruvian Branch	Indirect holding	100%
Harken de Panama Ltd.	Panamanian Branch	Indirect holding	100%

All of the above companies and branches are engaged in oil development and production. During 2011, Harken South America Ltd. and the Panamanian subsidiaries were dissolved as a result of no activity. During 2010 Harken de Colombia II (subsidiary and Colombian branch), were dissolved as a result of no activity.

5. Debtors

	2011 $'000	2010 $'000
Employee loan	–	40
Other debtors	49	4
Prepayments	16	–
	65	44

All amounts fall due for payment within one year.

6. Cash in bank and on hand

	2011 $'000	2010 $'000
Cash in bank and on hand	4,104	7,255

All cash balances constitute demand deposits or short-term investments available at call and held in US Dollars and British Pounds Sterling.

7. Creditors: amounts falling due within one year

	2010 $'000	2010 $'000
Amounts owed to subsidiaries	9,864	2,348
Accrued liabilities	454	474
Short-term loan payable	5,000	4,979
	15,318	7,801

8. Creditors: amounts falling due in more than one year

	2011 $'000	2010 $'000
Convertible loan notes (see note 9)	–	16,967
Long-term service benefits (see note 10)	280	91
	280	17,058

9. Convertible loan notes

	2011 $'000	2010 $'000
Balance bought forward	**16,967**	16,582
Purchase and cancelled convertible notes	**(7,950)**	–
Cash paid interest	**(1,179)**	(1,072)
Coupon interest	**1,179**	1,072
Accreted interest	**355**	385
Balance carried forward	**9,372**	16,967

At 1 January 2011, the Group had two convertible note agreements outstanding as follows:

- Variable Coupon Convertible Notes Due October 2012 (the "2005 Notes") with an outstanding principal balance of $5.8 million, and a conversion price of 179p; and
- Variable Coupon Convertible Notes Due December 2012 (the "2006 Notes") with an outstanding principal balance of $11.9 million and a conversion price of 305.8p.

All convertible notes incurred an interest charge of 5 per cent per annum for the first three years, 6 per cent per annum for the next two years and thereafter an interest rate of 7 per cent. Interest was payable quarterly. The effective interest rate was therefore 5.96 per cent. The convertible notes were not secured against any assets of any Group company. In accordance with the provisions of FRS25, the Group had determined the convertible loan notes to be a compound financial instrument requiring a proportion of the loan to be classified as equity. The reclassified element represents the difference between the fair value of a similar liability with no equity conversion option and the fair value of the existing convertible notes in current terms. Accordingly, an amount of $512,000 was reclassified to equity in 2006. Accreted interest was charged to the profit and loss account over the life of the notes.

2005 Notes: In November 2011, the Group redeemed the outstanding principal amount ($5.8 million) of its 2005 Notes, along with accrued and unpaid interest, with existing cash resources. As at 31 December 2011, the 2005 Notes are no longer outstanding.

2006 Notes: In January 2011, in a privately negotiated transaction, the Group purchased and cancelled $600,000 of the 2006 Notes in consideration for the issuance of 317,000 ordinary shares of the Company. In December 2011, the Group repurchased and cancelled a further $1.7 million of the 2006 Notes for cash in addition to accrued and unpaid interest. Subsequently, in March 2012, the Group redeemed and cancelled the remaining principal amount ($9.6 million) of 2006 Notes along with accrued and unpaid interest.

10. Long-term service benefits provision

	2011 $'000	2010 $'000
Balance bought forward	**91**	–
Charge for year	**189**	91
Balance carried forward	**280**	91

The Company granted to specific management employees a long-term incentive bonus award (see note 29, in the Group financial statements).

11. Share capital

See note 28, in the Group Financial Statements.

12. Share-based payments

See note 29, in the Group Financial Statements.

13. Movement on reserves

	Share premium account $'000	Profit and loss account $'000	Other reserve $'000
At 1 January 2011	26,544	(34,635)	1,826
Transfer or equity portion of convertible note on repurchase and cancellation	–	875	(899)
Loss for the year	–	(5,018)	–
Share-based payment – options	–	107	–
Repurchase of convertible notes	595	–	–
At 31 December 2011	**27,139**	**(38,671)**	**927**

Notes to the Financial Information continued
For the 12 months ended 31 December 2011

14. Reconciliation of movements in shareholders' deficit

	2011 $'000	2010 $'000
Loss for financial year	(5,018)	(6,385)
Increase in share capital	6	–
Increase in share premium	595	–
Share option movements	83	252
Opening shareholders' funds	(5,725)	408
Closing shareholders' (deficit)/funds	(10,059)	(5,725)

15. Contingent liabilities
The Company did not have any contingent liabilities in either 2011 or 2010.

16. Related party disclosures
HKN and its parties in concert are major shareholders of the Group. The Group holds a loan payable with HKN for $5 million at a fixed interest rate of 10.5 per cent which is due and payable in September 2012. Please see note 17 for information on an additional loan payable placed with HKN in 2012.

David Quint is a Director of the Company and a director of RP&C International Ltd. ("RP&C"). RP&C provided certain corporate finance services during 2011 and none in 2010.

	Services provided 2011 $'000	Amounts owed from/(to) related parties as at 31 December 2011 $'000	Services provided 2010 $'000	Amounts owed from/(to) related parties as at 31 December 2010 $'000
HKN Inc.	676	(5,000)	149	(5,000)
RP&C International Ltd.	70	–	–	–

17. Post reporting date events
i. In January 2012, the assignment of 60 per cent of the Peruvian Block 95 License Contract to GTE was duly signed by involved parties completing the farm-out contractual conditions; however financial impact was recognised in December 2011, meaning that the cash received in 2010 ($2 million) was offset against the Group's intangible assets relating to Peru.

ii. In January 2012 the Company received approval for the extension of the Boral Area from the Rio Verde contract to include the Rio Verde #2 well, which will be subject to a workover to convert it to a water injection well, thus allowing for the disposal of water and the recovery of secondary reserves.

iii. In January 2012 the Company closed a Fixed Rate Note Payable with HKN for the principal amount of $12 million (the "Note Payable"). The Group has drawn down $9.6 million of the Note Payable. The Note Payable is not convertible into shares and is subject to an interest charge of 10.5 per cent per annum, payable quarterly in arrears, with the principal amount being repayable in full on 30 September 2013. The Note Payable is currently unsecured, but HKN can require the Company to provide adequate collateral security in the event of a material adverse effect. The Company paid to HKN a 1.75 per cent transaction fee of approximately $210,000 upon closing of the Note Payable in January 2012.

iv. In February 2012, the Company announced it has exercised the option to redeem the outstanding principal amount of its remaining 2006 Notes totalling $9.6 million. The 2006 Notes were redeemed for cash in March 2012 (the "Redemption Date") at the principal amount of the Notes together with interest accrued up to (but excluding) the Redemption Date.

Corporate Directory

Directors
Mikel Faulkner (Chairman)
Stephen Voss (Managing Director)
Alan Henderson (Non-executive Director)
David Quint (Non-executive Director)

Executive management
Elmer Johnston (Operations Director)
Anna Williams (Director of Business Development and Company Secretary)
Rocio Calderon (Finance Director)

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Forward-looking statements

This Annual Report may include statements that are, or may be deemed to be, "forward-looking statements". These forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "plans", "projects", "anticipates", "expects", "intends", "may", "will" or "should" or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this Annual Report and include, but are not limited to, statements regarding the Group's intentions, beliefs, or current expectations concerning, among other things, the Group's results of operations, financial position, liquidity, prospects, growth, strategies and expectations of the industry. By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances. Forward-looking statements are not guarantees of future performance and the development of the markets and the industry in which the Group operates may differ materially from those described in, or suggested by, any forward-looking statements contained in this Annual Report. In addition, even if the development of the markets and the industry in which the Group operates are consistent with the forward-looking statements contained within this Annual Report, those developments may not be indicative of the developments in subsequent periods. A number of factors could cause developments to differ materially from those expressed or implied by the forward-looking statements including, without limitation, general economic and business conditions, industry trends, competition, commodity prices, changes in law or regulation, currency fluctuations (including the US Dollar), the Group's ability to recover its reserves or develop new reserves, changes in its business strategy, and political and economic uncertainty. Save as required by law, the Group is under no obligation to update the information contained in this Annual Report.

Past performance cannot be relied on as a guide to future performance.

Designed and produced by **Emperor Design Consultants Ltd**
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