



PETROMAGDALENA ENERGY CORP.

ANNUAL INFORMATION FORM

DATED: APRIL 9, 2012

NOTE TO READER:

All references in this Annual Information Form to Common Shares, Options, Warrants, units (if comprised of Common Shares and/or Warrants) and respective price per security, as applicable, even those that pre-date the Share Consolidation, have been adjusted to reflect the 7:1 Share Consolidation effected on July 19, 2011

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ABBREVIATIONS AND DEFINITIONS

bbl	barrels	Mboe	thousand barrels of oil equivalent
bbl/d	barrels per day	MMboe	million barrels of oil equivalent
Bcf	billion cubic feet	Mcf	thousand cubic feet
boe	barrels of oil equivalent	Mcf/d	thousand cubic feet per day
boe/d	barrels of oil equivalent per day	MMBtu	million British thermal units
Btu	British thermal units	MMcf	million cubic feet
ha	hectares	MMcf/d	million cubic feet per day
km	kilometers	NGL	natural gas liquids
m	meters	psi	pounds per square inch
m ²	square meters	psia	pounds per square inch absolute
m ³	cubic meters	psig	pounds per square inch gauge
Mbbl	thousand barrels	Tcf	trillion cubic feet
MMbbl	million barrels	US\$	United States dollars

NOTE: Disclosure provided herein that is expressed in boe is derived by converting natural gas to oil in the ratio of six Mcf of natural gas to one bbl of oil. Boe may be misleading, particularly if used in isolation. A boe conversion ratio of 6 Mcf: 1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

GLOSSARY OF TERMS

The following terms used but not otherwise defined in this Annual Information Form have the meanings set out below. Words importing the singular, where the context requires, include the plural and vice versa and words importing any gender include all genders.

“**AIF**” means this Annual Information Form dated April 9, 2012 in respect of the fiscal year ended December 31, 2011.

“**ANH**” means Agencia Nacional de Hidrocarburos, the governmental entity in the Republic of Colombia with responsibility for the granting of exploration and exploitation agreements with respect to hydrocarbons.

“**ANH 2010 Open Round**” means the bidding process conducted by the ANH in respect of certain blocks of oil and gas properties in Colombia held in June 2010.

“**Association Contract**” means a contract entered into with Ecopetrol, as amended, giving rights to the Company to explore and exploit Colombian state-owned hydrocarbons with participation rights for Ecopetrol, excluding those surface rights, easements and permits used, useful or held for use in connection with such contract.

“**BCCA**” means the *Business Corporations Act* (British Columbia) including the regulations promulgated thereunder, as amended.

“**Beta**” means Beta Energy Corp.

“**Board**” or “**Board of Directors**” means the board of directors of the Company.

“**CEO**” means the Chief Executive Officer of the Company.

“**Cierra Pacific Cubiro Warrant**” has the meaning ascribed thereto under the section “*Historical Overview – July 2009-December 2010*”.

“**Codis**” means Colombiana de Distribucion y Servicio CI S.A.

“**Columbus**” means Columbus Energy Ltd.

“**Common Shares**” means the common shares in the capital of the Company.

“**Companies Act**” means the *Companies Act* (British Columbia).

“**Company**” or “**PetroMagdalena**” means PetroMagdalena Energy Corp.

“**COO**” means the Chief Operating Officer of the Company.

“**COP**” means Colombian pesos.

“**Cubiro Acquisition**” means the acquisition by the Company of Montecz’s participating interest in the Cubiro E&PC.

“**Cubiro E&PC**” means the Cubiro Exploration and Production Contract with respect to the area located in Orocué, San Luis de Palenque y Trinidad, Departamento de Casanare, Colombia, comprising approximately 38,772 hectares.

“**Delavaco**” means Delavaco Energy Inc.

“**Delavaco Acquisition**” means the acquisition by the Company of all of the issued and outstanding common shares of Delavaco on October 22, 2009.

“**Delavaco Agreement**” means the transaction agreement between Delavaco and the Company dated September 30, 2009 pursuant to which the Delavaco Acquisition was completed.

“**Delavaco Shares**” means the common shares in the capital of Delavaco.

“**E&PC**” means an exploration and production contract with ANH which grants participation interest(s) in certain blocks of oil and gas properties.

“**Ecopetrol**” means Ecopetrol S.A., a company majority-owned by the state of Colombia and involved in the exploration and exploitation of hydrocarbons.

“**Exchange**” means the TSX Venture Exchange.

“**February 2011 Offering**” means the prospectus offering of the Company which closed on February 22, 2011 whereby the Company issued 33,350,000 units of the Company at a price of \$2.10 per unit for gross proceeds of \$70,035,000. Each unit consisted of one Common Share and one-half of a Warrant.

“**G&A**” means general and administrative expenses of the Company.

“**GMP**” means GMP Securities, L.P.

“**Gran Tierra**” means Gran Tierra Energy Inc.

“**GTE Transaction**” means the transaction whereby the Company acquired a 40% interest in the Rio Magdalena Association Contract and a 15% interest in the Mecaya E&PC on November 30, 2009 for total cash consideration of US\$3.0 million.

“**Jaguar Transaction**” means the acquisition of certain interests by the Company through the acquisition of all of the issued and outstanding shares of Jaguar E&P CPR Consultants, S.A., a wholly-owned subsidiary of Columbus, which was completed on April 15, 2011.

“**Kappa**” means Kappa Resources Colombia Ltd.

“**May 2011 Offering**” means the private placement closed on May 5, 2011 whereby the Company issued 31,050 units at a price of \$1,000 per unit for aggregate proceeds of \$31,050,000, with each unit consisting of one Note and 43 Warrants.

“**MCP**” means Mecaya Colombia Partners LLC.

“**Montecz**” means Montecz S.A.

“**Montecz MOU**” means the memorandum of understanding dated July 31, 2009 in connection with the Cubiro Acquisition.

“**MOU**” means memorandum of understanding.

“**Name Change**” means the change in the name of the Company, as of July 19, 2011, from Alange Energy Corp. to PetroMagdalena Energy Corp.

“**NCT**” means NCT Energy Group.

“**NEX Exchange**” means the NEX trading board of the Exchange.

“**NI 51-101**” means National Instrument 51-101 - *Statement of Reserves Data and Other Oil and Gas Information*.

“**NVC**” means Next Ventures Corp.

“**Old Alange**” means Alange, Corp., which was a company engaged in the acquisition, exploration and production of oil and gas properties in Colombia and that was involved in the RTO.

“**Old Alange Exchangeable Warrant**” has the meaning ascribed thereto under the section “*Historical Overview – July 2009-December 2010*”.

“**Old Alange Private Placement**” means the private placement undertaken by Old Alange, prior to the RTO, whereby it raised \$140,000,000 through an issuance of subscription receipts on July 7, 2009.

“**Pacific Rubiales**” means Pacific Rubiales Energy Corp.

“**person**” includes an individual, body corporate, partnership, syndicate or other form of unincorporated entity.

“**Petex**” means Petex Offshore Inc.

“**Petrotech**” means Petrotech Engineering Ltd. of Burnaby, British Columbia, an independent petroleum engineering consulting firm.

“**Petrotech Report**” means the reserves estimation and economic evaluation report entitled “Evaluation Of the Interests of PetroMagdalena Energy Corp. in Proved & Probable Reserves for Year-Ending 2011 in Twelve Properties In Colombia” prepared by Petrotech with an effective date of December 31, 2011.

“**Preferred Shares**” means the preferred shares of the Company.

“**Prospero**” means Prospero Hydrocarbons Inc.

“**Prospero Acquisition**” means the business combination completed on September 9, 2009 pursuant to an arrangement agreement between the Company, Prospero and 1434858 Alberta Ltd., a wholly-owned subsidiary of the Company.

“**Rights Plan**” means the shareholder rights plan adopted by the Shareholders effective May 13, 2011 which was ratified at the annual and special meeting of Shareholders held on June 15, 2011.

“**RTO**” means the reverse takeover transaction completed on July 13, 2009 between the Company and Old Alange.

“**Rubiales MOU**” means the MOU dated October 16, 2008 between Old Alange and Pacific Rubiales in respect of the Topoyaco block.

“**Share Consolidation**” means the one-for-seven share consolidation of the issued and outstanding Common Shares and Warrants in conjunction with the Name Change.

“**Shareholder**” means a holder of Common Shares.

“**Senior Secured Notes**” means the senior secured series A notes issued under the May 2011 Offering.

“**SRP**” means the shareholder protection rights plan agreement of the Company approved by the Board on May 13, 2011 and ratified by Shareholders at the annual and special meeting of Shareholders held on June 15, 2011.

“**Third Quarter 2010**” means the quarter ended September 30, 2010.

“**Trayectoria**” means Trayectoria Oil & Gas, S.A.

“**Warrant**” means a common share purchase warrant of the Company.

“**WL**” means Well Logging Ltda.

“**YPF**” means YPF S.A.

TECHNICAL TERMS

“**barrel**” means the volume unit of measure of liquid hydrocarbons equivalent to forty-two (42) U.S. gallons, corrected to standard conditions (a temperature of sixty degrees Fahrenheit (60°F) and to one (1) atmosphere of absolute pressure).

“hydrocarbons” are all the organic compounds mainly composed of the natural mixture of carbon and hydrogen, as well as of those substances which accompany them or are derived from them.

“natural gas” is the mixture of hydrocarbons in a gaseous state, under standard conditions (a temperature of sixty degrees Fahrenheit (60° F) and one (1) atmosphere of absolute pressure), composed of the most volatile members of the paraffin series of hydrocarbons.

“reserves” means estimated reserves of natural gas, natural gas liquids and crude oil.

“undeveloped reserves” means reserves that are expected to be recovered from known accumulation where a significant expenditure is required to render them capable of production (e.g. in comparison to the costs of drilling a well). Such reserves must fully meet the requirements of the reserves classification to which they are assigned (proved or probable).

“working interest” means the percentage of participation within a specified area for the exploration and/or production of hydrocarbons.

“workover” means an operation carried out in the walls of a well after being completed to ensure, restore or improve production in a zone that is currently open for production in the well. Said operations will include, but are not limited to, well stimulation operations, excluding however any routine repair or maintenance work, drilling, sidetracking, deepening, completion, recompletion or retroplugging of a well.

FORWARD-LOOKING INFORMATION

Certain information in this AIF may constitute “forward-looking” information which involves known and unknown risks, uncertainties, and other factors which may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking information. When used in this AIF, such information uses words such as “may”, “will”, “expect”, “believe”, “plan”, “intend” and other similar terminology. This information reflects current expectations regarding future events and operating performance and speaks only as of the date of this AIF. Forward-looking information involves significant risks and uncertainties, should not be read as a guarantee of future performance or results, and will not necessarily be an accurate indication of whether or not such results will be achieved and accordingly undue reliance should not be put on such statements. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking information, including, but not limited to, the factors discussed under “Risk Factors”. Although the forward-looking information contained in this AIF is based upon what management of the Company believes are reasonable assumptions, the Company cannot assure readers that actual results will be consistent with the forward-looking information.

In particular, this AIF contains, or incorporates by reference, forward-looking information pertaining to, among other things, the following:

- drilling inventory, drilling plans and timing of drilling, re-completion and tie-in of wells;
- plans for facilities construction and completion and the timing and method of funding thereof;
- results of various projects of the Company;
- timing of development of undeveloped reserves;
- the Company’s oil and natural gas production levels;
- the performance and characteristics of the Company’s oil and natural gas properties;
- the size of the Company’s oil and natural gas reserves;

- projections of market prices and costs;
- supply and demand for oil and natural gas;
- expectations regarding the ability to raise capital and to continually add to reserves through acquisitions, exploration and development;
- treatment under governmental regulatory regimes and tax laws; and
- capital expenditure programs and the timing and method of financing thereof.

With respect to forward-looking information contained in this AIF, the Company has made assumptions regarding, among other things:

- future prices for oil and natural gas;
- future currency and interest rates;
- the Company's ability to generate sufficient cash flow from operations and access existing credit facilities and capital markets to meet its future obligations;
- the regulatory framework representing taxes and environmental matters in the countries in which the Company conducts its business; and
- the Company's ability to obtain qualified staff and equipment in a timely and cost-efficient manner to meet the Company's demand.

The actual results could differ materially from those anticipated in this forward-looking information as a result of the risk factors set forth below and elsewhere in this AIF:

- generation of sufficient cash flow;
- volatility in market prices for oil and natural gas;
- the potential for the return of conditions persisting during the global financial crisis and economic downturn;
- liabilities inherent in oil and gas operations;
- uncertainties associated with estimating oil and natural gas reserves;
- competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel;
- incorrect assessments of the value of acquisitions;
- geological, technical, drilling and processing problems;
- fluctuations in foreign exchange or interest rates and stock market volatility;
- changes in income tax laws or changes in tax laws and incentive programs relating to the oil and gas industry; and
- the other factors discussed under "Risk Factors".

Information relating to "reserves" or "resources" is deemed to be forward-looking information, as it involves the implied assessment, based on certain estimates and assumptions, about the profitable production of the resources and reserves described. There is no certainty that any of the identified reserves of oil, natural gas, or natural gas liquids will be commercially viable to produce. Estimated values of future net revenue disclosed do not represent fair market value.

Although PetroMagdalena has closed the acquisitions of its working interests in Carbonera, Catguas, Rio Magdalena, Arrendajo, Yamu, Topoyaco, La Punta, Las Quinchas and Mecaya, it is currently in the process of completing the required approvals from ANH/Ecopetrol, as applicable, for the formal transfer of title and or operatorship.

Readers are cautioned that the foregoing lists of factors are not exhaustive. The forward-looking information contained in this AIF is expressly qualified by this cautionary statement. The Company does

not undertake any obligation to publicly update or revise any forward-looking information, other than as required by law.

GENERAL MATTERS

In this AIF, unless otherwise indicated, all dollar amounts are expressed in Canadian dollars and references to “\$” are to Canadian dollars.

The industry and other statistical data presented in this AIF, except where otherwise noted, have been compiled from sources and participants which, although not independently verified by the Company, are considered by the Company to be reliable sources of information. References in this AIF to research reports or articles should not be construed as depicting the complete findings of the entire referenced report or article and such report or article is expressly not incorporated by reference into this AIF.

Please note that all references in this Annual Information Form to Common Shares, Options, Warrants, units (if comprised of Common Shares and/or Warrants) and their related prices, as applicable, even those that pre-date the Share Consolidation, are stated on the 7:1 post-Share Consolidation basis.

EXCHANGE RATE INFORMATION

United States Exchange Rate Information

The following table sets out: (1) the rate of exchange for one Canadian dollar in U.S. dollars in effect at the end of each of the following periods; (2) the high and low rate of exchange during those periods; and (3) the average rate of exchange for those periods, each based on the noon spot rate as published by the Bank of Canada. On April 9, 2012, the noon nominal rate for one Canadian dollar in U.S. dollars as published by the Bank of Canada was CDN\$1.00 = US\$1.0028.

	High	Low	Average	End of Period
Years ended December 31,				
2011	1.0583	0.9430	1.0110	0.9833
2010	1.0054	0.9278	0.9709	1.0054
2009	0.9716	0.7692	0.8757	0.9555

Colombia Exchange Rate Information

The following table sets out: (1) the rate of exchange for one Canadian dollar in COP in effect at the end of each of the following periods; (2) the high and low rate of exchange during those periods; and (3) the average rate of exchange for those periods, each based on the noon spot rate as published by the Bank of Canada. On April 9, 2012 the noon nominal rate for one Canadian dollar in Colombian pesos as published by the Bank of Canada was CDN\$1.00 = COP 1,788.9088.

	High	Low	Average	End of Period
Years ended December 31,				
2011	1,968.5039	1,792.1147	1,867.4484	1,904.7619
2010	1,960.7843	1,709.4017	1,840.5673	1,930.5019
2009	2,079.0021	1,763.6684	1,882.9001	1,956.9472

On April 9, 2012 the official market exchange rate for one U.S. dollar in Colombian pesos as published by the Banco de la República (Colombia) was US\$1.00 = COP 1,783.8998.

	High	Low	Average	End of Period
Years ended December 31,				
2011	1,972.76	1,748.41	1,846.97	1,942.70
2010	2,044.23	1,786.77	1,898.68	1,913.98
2009	2,596.37	1,825.68	2,155.67	2,044.23

INFORMATION CONCERNING THE COMPANY

Name, Address and Incorporation

PetroMagdalena was incorporated as a specially limited company on May 3, 1966 pursuant to the Companies Act under the name Cameo Mining Corporation Ltd. (N.P.L.). On August 23, 1966, a special resolution was passed to change its name to Fury Explorations Ltd. (N.P.L.). On January 14, 1985, the Company converted into a limited company under the Companies Act and changed its name to Fury Explorations Ltd. On December 28, 1989, a special resolution was passed to change its name to Sundance Resources Ltd. Another special resolution was passed on October 21, 1994 to change the name to Mammoth Energy Inc. On February 25, 1998, the name of the Company was once again changed to Sierra Pacific Ventures Ltd. pursuant to a special resolution passed on December 15, 1997. On January 17, 2005, the Company made an application for transition into the BCCA, and on February 15, 2007, the Company passed a special resolution to change its authorized capital to unlimited shares without par value. At the annual and special meeting held on November 10, 2008, the Company's shareholders approved a consolidation of its share capital on a three (3) to one (1) basis which was effected on July 10, 2009 in connection with the RTO described below.

On July 13, 2009, the Company completed the RTO with Old Alange, a company engaged in the acquisition, exploration and production of oil and gas properties in Colombia, pursuant to which the Company acquired all of the issued and outstanding securities of Old Alange by way of a three-cornered amalgamation in exchange for the issuance of 73,328,571 Common Shares and the issuance of a warrant to acquire an additional 4,754,931 Common Shares. Prior to the completion of the RTO, the Company changed its name to Alange Energy Corp.

On July 19, 2011, the Company changed its name to PetroMagdalena Energy Corp. In conjunction with approving the Name Change, the Company's shareholders approved a consolidation of its share capital on a seven (7) to one (1) basis effected on July 19, 2011.

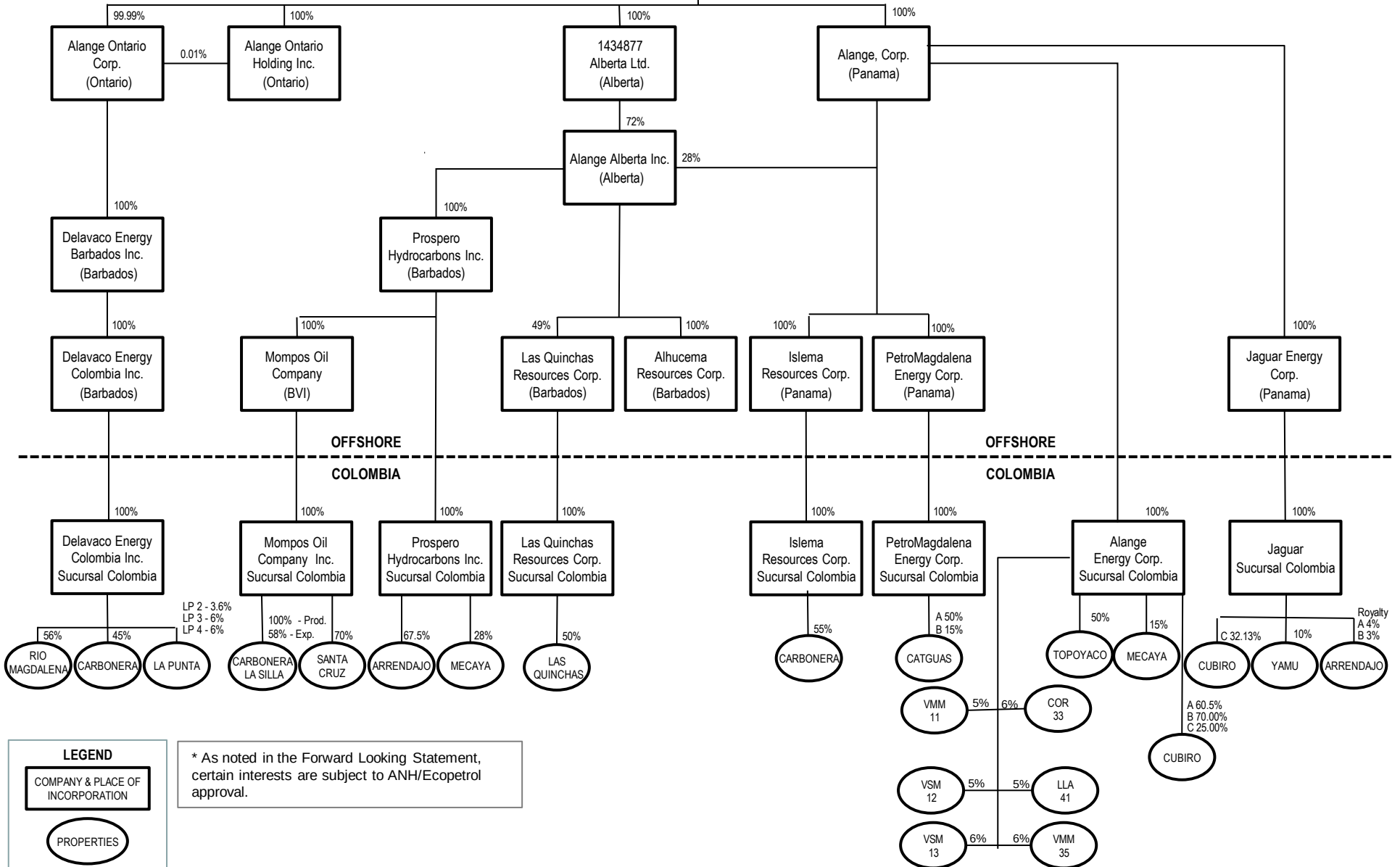
The corporate office of the Company is located at 333 Bay Street, Suite 1100, Toronto, Ontario M5H 2R2 and its registered office is located at 1188 West Georgia Street, Suite 650, Vancouver, British Columbia V6E 4A2. The Company's operations office is located in Bogota, Colombia.

Intercorporate Relationships

The following chart illustrates the principal subsidiaries of the Company, together with the jurisdiction of incorporation of each company and the percentage of voting securities beneficially owned or over which control or direction is exercised by the Company as at the date hereof:

CORPORATE CHART*

PETROMAGDALENA ENERGY CORP.
(British Columbia)



GENERAL DEVELOPMENT OF THE BUSINESS

Historical Overview

Inception to June 2009

Since its inception and until it became inactive on October 31, 2000, the Company was in the business of exploration of mineral properties. On August 18, 2003, the Company's listing was transferred to the NEX Exchange. See "Information Concerning the Company - Name, Address and Incorporation".

On December 5, 2008, prior to the completion of the RTO, the Company announced a reverse takeover transaction with Old Alange on terms substantially similar to the RTO described below. On February 19, 2009, the Company announced that, due in part to adverse global economic conditions at the time, it had elected not to proceed with the transaction and to terminate the November 30, 2008 acquisition agreement with Old Alange.

July 2009 – December 2010

Alange RTO

On July 13, 2009, the Company completed the RTO. Immediately prior to the completion of the RTO, the Company consolidated its share capital on a one (1) new share for each three (3) existing shares basis and changed its name from "Cierra Pacific Ventures Ltd." to "Alange Energy Corp."

Also, prior to the completion of the RTO, Old Alange consolidated its share capital on a one for two basis and raised gross proceeds of \$140,000,000 through the Old Alange Private Placement. Upon the satisfaction of certain escrow release conditions prior to the completion of the RTO, each subscription receipt was automatically exercised for one exchangeable warrant of Old Alange (an "**Old Alange Exchangeable Warrant**"), which entitled the holder thereof to automatically receive one Common Share in connection with the completion of the RTO.

Pursuant to the terms of the RTO, Old Alange amalgamated with Viauno, Corp., a wholly-owned Panamanian subsidiary of the Company, which resulted in Old Alange becoming a wholly-owned subsidiary of the Company.

As a result of the RTO, each common share of Old Alange was exchanged for one Common Share, each Old Alange Exchangeable Warrant was exchanged for one Common Share, and a warrant of Old Alange issued to Montecz in connection with the Cubiro Acquisition was exchanged for a warrant of the Company (the "**Cierra Pacific Cubiro Warrant**"). In connection with the RTO, an aggregate of 73,328,571 Common Shares were issued to the securityholders of Old Alange and an additional 4,754,931 Common Shares were made issuable pursuant to the Cierra Pacific Cubiro Warrant. Immediately following completion of the RTO, 74,507,777 Common Shares were issued and outstanding on a non-diluted basis.

In addition, Old Alange's secured bridge loan in the principal amount of US\$30,000,000, together with interest and penalties, was repaid with proceeds from the July 7, 2009 private placement of subscription receipts. Following the RTO, the Common Shares were listed and began trading on the Exchange under the symbol "ALE-V".

Cubiro E&P

The Company completed the Cubiro Acquisition on July 31, 2009, pursuant to the Montecz MOU. Under the terms of the Montecz MOU, the Company had the right to acquire up to 100% of Montecz's working interest in the Cubiro E&PC for US\$30,000,000 in cash and US\$10,000,000 in shares. Prior to the completion of the RTO, a total of US\$10,000,000 in cash had been paid to Montecz under the Montecz MOU. Concurrently with the RTO, Montecz was issued the Cierra Pacific Cubiro Warrant, pursuant to which it acquired 4,754,931 Common Shares. The balance of the cash consideration owing under the Montecz MOU, being US\$20,000,000, was paid on July 31, 2009 from the proceeds of the Old Alange Private Placement. A business acquisition report dated October 14, 2009 describes the Cubiro Acquisition and is available under the Company's profile on SEDAR at www.sedar.com.

Prospero Acquisition

On June 29, 2009, Old Alange and Prospero entered into a letter of intent in connection with the Prospero Acquisition. On July 27, 2009, the Company entered into an arrangement agreement with Prospero and 1434858 Alberta Ltd., a wholly-owned subsidiary of the Company, in respect of the Prospero Acquisition, which was completed on September 9, 2009. Pursuant to the Prospero Acquisition, the Company acquired the balance of the issued and outstanding securities of Prospero not already held by Old Alange for the purchase price of US\$15,453,000, paid by the Company through the issuance of Common Shares. The Prospero Acquisition was completed on September 9, 2009. Pursuant to this acquisition, the Company acquired interests in the following areas: Alhucema, Las Quinchas, Mecaya, Arrendajo, Santa Cruz and Carbonera La Silla.

Carbonera Gas Supply Contract

On October 16, 2009, the Company entered into a five-year take-or-pay sales contract with a third party for the delivery of 1.5 MMcf/d of natural gas from the Carbonera Cerro Gordo 1 well at a base price of US\$2.50 per MMBtu at the wellhead and increasing on January 15, 2011, as a result of completion of construction of a local delivery pipeline to the La Florida site, to 1.7 MMcf per day at a base price of \$4.75 per MMBtu. The base price is adjusted annually for Colombian inflation. The minimum take-or-pay requirement under the sales contract was 60% of the daily delivery amount. This agreement was cancelled on November 6, 2011 and a new ten-year sales contract was signed with a third party on February 1, 2012 for the delivery of 1.1 MMm³/per month of natural gas from the Carbonera Cerro Gordo 1 well at a base price of US\$4.50 per MMBtu at the La Florida site. The base price will be adjusted annually for Colombian inflation. On February 2, 2012, the Company signed an MOU with a third party to deliver 2.5 MMscfd of natural gas and natural gas liquids from Carbonera at a selling price of \$6.50 per MMscfd.

On March 1, 2010, the Company entered into a five-year take-or-pay sales contract with a third party for the delivery of 3.5 MMcf per day of natural gas from the Carbonera block at a base price of \$4.75 per MMBtu at the La Florida site. The minimum take-or-pay requirement under the sales contract is 70% of the daily delivery amount. On April 28, 2011, the term was extended to 10 years.

Delavaco Acquisition

On October 22, 2009, the Company completed the Delavaco Acquisition, consisting of the acquisition of all of the issued and outstanding common shares of Delavaco, a private Ontario oil and gas exploration and development company with operations in Colombia. The Delavaco Acquisition resulted in the Company gaining the following working interests: (a) 51% in the Rio Magdalena Association Contract;

(b) 45% in Carbonera; (c) 3.6% participating interest in the La Punta 2 well; and (d) 6% participating interest in each of the La Punta 3, 4, and 5 wells.

The Delavaco Acquisition was completed by way of a three-cornered amalgamation in accordance with the terms of the Delavaco Agreement. Pursuant to the terms of the Delavaco Agreement, Delavaco amalgamated with Alange Ontario Corp., a wholly-owned Ontario subsidiary of the Company, and the holders of Delavaco Shares received 0.1239 Common Shares for each Delavaco Share held. The Company issued an aggregate of 20,351,179 Common Shares to the holders of Delavaco Shares in connection with the Delavaco Acquisition.

The total purchase price that the Company paid to the holders of Delavaco Shares, assuming a deemed value of \$4.90 per Common Share issued in connection with the Delavaco Acquisition, was approximately \$99.7 million. At the closing of the Delavaco Acquisition, Delavaco had approximately US\$12.3 million in cash. A business acquisition report dated November 30, 2009 describes the Delavaco Acquisition and is available under the Company's profile on SEDAR at www.sedar.com.

Additional Cubiro Working Interest

On November 10, 2009, the Company announced that it had executed a letter agreement with Columbus, a private company, to acquire its 19.27% working interest in the Development and Central Areas of the Cubiro E&PC for US\$20,000,000 in cash. The acquisition increased the Company's working interest in the Development Area Cubiro A of the Cubiro E&PC from 41.23% to 60.5% and its working interest in the Central Area Cubiro B of the Cubiro E&PC from 50.73% to 70%. Although the acquisition closed on January 12, 2010, the effective date was set as November 1, 2009 and the Company assumed the increased production from that date.

Rio Magdalena

On November 30, 2009, the Company entered into an agreement pursuant to which it acquired Gran Tierra's 40% interest in the Rio Magdalena Association Contract and its 15% interest in the Mecaya E&PC pursuant to the GTE Transaction. Prior to the agreement with Gran Tierra, the Company had a 51% interest in the Rio Magdalena Association Contract obtained pursuant to the Delavaco Acquisition.

In August 2010, Gran Tierra announced that it had cancelled its divestiture under the GTE Transaction and subsequently applied the \$3.0 million paid by the Company toward cash calls for the current drilling program at Rio Magdalena. As noted below, the Company currently has a 43% working interest in Mecaya and a 56% interest in the Rio Magdalena Association Contract. The Company acquired the additional 5% pursuant to the assignment of a third party's participating interest by default as per the joint operating agreement in respect of Rio Magdalena.

Mecaya

On November 12, 2009, the Company executed an agreement with MCP related to Prospero's existing agreement to acquire a 28% working interest in the Mecaya E&PC from MCP for an aggregate purchase price of US\$4.5 million, US\$200,000 of which had previously been paid by Prospero. Subsequently, the Company has paid US\$1.0 million in shares and US\$300,000 in cash.

On November 19, 2009, the Company executed a purchase and sale agreement with Petex to acquire a 15% working interest in the Mecaya E&PC. Petex held a 30% working interest in the Mecaya block. The Company paid US\$250,000 on November 25, 2009 and will pay a further US\$250,000, following the completion of the Phase 1 exploration program. In addition, the Company will fund Petex's 15% share of

the Phase 2 cash calls for the Mecaya No. 2 well and the 3D seismic program on the Mecaya block. The Company's 15% share of the first US\$500,000 of revenues, net of transportation costs and royalties, from the Mecaya No. 1 well will be paid to Petex as part of the purchase price for the acquired working interest.

The Mecaya Block is located in the Putumayo Basin of Colombia and the Company has a beneficial interest of 43% in the block.

Topoyaco

The Topoyaco block of the Putumayo basin covers an area of over 60,000 acres and constitutes one of the largest unexplored portions of that zone in the foothills of the Andean mountain chain. The Company has a 50% working interest in Topoyaco with Pacific Rubiales holding the other 50%. PetroMagdalena Energy was initially the contract operator of this block, however, as announced on March 7, 2011, the Company has agreed to transfer contract operatorship, subject to ANH approval, to Pacific Rubiales to leverage Pacific Rubiales' technical expertise in Colombia and its financial capacity to operate the joint venture. On December 30, 2011, the ANH approved the assignment of its Topoyaco block rights from Trayectoria to Pacific Rubiales.

Carbonera Gas Plant

On September 10, 2010, the Company entered into a contract with a third party for the design, construction, operation, maintenance and transfer of a natural gas and liquids recovery plant for the Carbonera Block at the La Florida site. The contract is comprised of an installation phase, during which the compression plant is being installed at the La Florida site, and a subsequent five-year operation phase. The estimated cost of the compression plant is approximately \$8.8 million. During the installation phase, the Company made a down payment of \$1 million, included in deferred acquisition costs at December 31, 2010, toward its purchase option. Pursuant to the purchase option, the Company may acquire the plant after five years from the beginning of the operation phase for 65% of the total cost of the plant less the down payment, or approximately \$5.1 million. If the Company does not exercise its purchase option, the contract is automatically renewed for periods of one year.

During the year ended December 31, 2011, installation of the gas plant was completed and the plant began operations.

6 Additional Blocks Awarded in the ANH 2010 Open Round

In 2010, the Company successfully bid on six blocks in the 2010 Open Round conducted by the ANH with 100% participation and operatorship.

On November 8, 2010, the Company was awarded 100% participation and operatorship over the following six blocks pursuant to the 2010 Open Round: LLA 41, COR 33, VMM 11, VMM 35, VSM 12 and VSM 13. These blocks are located in the Llanos, Cordillera and Magdalena basins and cover a total area of 274,553 hectares. In April 2011, the Company finalized the block awards with the ANH for which it will be the operator.

The Company entered into an agreement with a third party, subject to ANH approval, to fund 100% of the preliminary seismic program for the phase 1 exploration commitments in respect of the above blocks in exchange for a 90% interest in the blocks with an option for the Company to increase its participation in the blocks from 10% to 20% at the end of the preliminary phase 1 seismic program. The phase 1 period has a duration of 36 months.

On September 2011, the Company entered into an amendment to the above agreement, subject to ANH approval, whereby the third party has the option (i) to fund 100% of the phase 1 preliminary seismic exploration commitments of VSM-11, VSM-12 and LLA-41 in exchange for a 95% interest in these blocks, with an option for the Company to increase its participation in the blocks to a 15%; and (ii) to fund 100% of the phase 1 preliminary seismic exploration commitments as well as other obligations of the phase 1 exploratory commitments of VSM-13, COR-33 and VMM-35, in exchange for a 94% interest in these blocks.

January 2011 – December 2011

Restated Production Numbers

On January 13, 2011, the Company revised production numbers it had earlier provided in its Management's Discussion and Analysis for the Third Quarter 2010, which numbers had been announced on November 29, 2010. The production numbers that were reported on November 29, 2010 related to production capacity rather than production as of the referenced dates.

During the Third Quarter 2010, the Company instituted a new internal production reporting system for better operational control, which it was believed allowed the Company to better pinpoint each field's production capacity and improve optimization. These capacity numbers were reported on November 29, 2010 rather than the production numbers, which had been used appropriately for all previous quarters. This revision had no impact on the unaudited interim consolidated financial statements for the three and nine month periods ended September 30, 2010 previously filed on SEDAR since the financial statements were appropriately prepared based on actual production numbers and sales volumes rather than production capacity.

For additional information respecting the Company's revision to its production numbers, see the revised Management's Discussion and Analysis for the Third Quarter 2010 as filed on www.sedar.com.

Internal Review Process and Recapitalization and Restructuring Initiatives

On January 19, 2011, the Company announced it was taking a number of actions in connection with the internal review process that was initiated with the sole objective of re-establishing investor confidence in the Company's operations, disclosure and future prospects. The Company advised that the review process included a full analysis of the strategic opportunities available to the Company including development of the Company's portfolio of core assets, joint ventures and the sale of non-core assets.

The Company announced that the internal review process included the following organizational, operational and strategic initiatives:

- Commencement of management restructuring;
- Recapitalization of balance sheet with the proceeds of the February 2011 Offering which would be used to repay bank debt and to, among other things, provide funding for exploration and development of the Company's core assets in 2011;
- Focus on the Company's core oil assets: Cubiro, La Punta, Topoyaco, Santa Cruz, Mecaya;
- Transfer of control of operatorship of Topoyaco to Pacific Rubiales to leverage Pacific Rubiales' technical expertise in Colombia and its financial capacity to operate the joint venture;

- Immediate targeting of a 40% decrease in ongoing G&A expenses;
- Dispose or farm out of non-core assets, in particular, gas assets and the Las Quinchas heavy oil interest; and
- Reorganization of the Board and management (as discussed below).

On March 7, 2011, the Company provided a further update on the ongoing internal review process to announce the termination of certain contracts (please see “Change in Contracts” below) and further reduction of Company’s ongoing G&A expenses by way of: staff reductions including 10 senior managers, 20 support staff and 19 technical consultants; and the cancellation of the local public relations contract in Colombia. The Company also repaid part of its long-term debt from the proceeds of the February 2011 Offering and completed the transfer of the control of operatorship of Topoyaco to Pacific Rubiales, subject to receipt of ANH approval.

On April 7, 2011 the Corporation announced that as a result of the continued Internal Review led by the Executive Committee, among other things, the Corporation had appointed a new Chief Executive Officer as detailed below. On April 26, 2011, the Executive Committee met to deliberate over their findings and, on April 29, 2011, reported to the Board, which concluded that the Executive Committee had completed its mandate which had included: (i) a complete financial audit; (ii) restructuring the investor relations and communications initiatives of the Corporation; (iii) conducting a contract audit, including contracts with ANH and Ecopetrol; (iv) a comprehensive review of the management structure of the Corporation; and (v) a corporate finance and strategy review audit. As a result of the Board’s conclusion, the Executive Committee was disbanded on April 29, 2011.

Prospectus Offering of \$70,035,000

On February 21, 2011, the Company closed the February 2011 Offering for aggregate proceeds of \$70,035,000. The units were sold pursuant to an underwriting agreement with a syndicate of underwriters led by GMP and including Canaccord Genuity Corp., Jennings Capital Inc. and Raymond James Ltd.

Each unit consisted of one Common Share and one-half of one Warrant. Each full Warrant entitles the holder thereof to purchase an additional Common Share at an exercise price of \$3.50 for a term of 5 years. The Company issued units equal to 6% of the units sold pursuant to the offering to the underwriters in settlement of their underwriting commission.

The net proceeds raised under the February 2011 Offering were subsequently used in March and April 2011 to repay approximately US\$31 million of bank debt and approximately US\$14 million of accounts payable and to fund US\$2 million of the drilling cost commitment for the La Punta-4 well. The balance of the net proceeds of approximately US\$23 million were earmarked to fund exploration and development of the Company’s core assets in 2011 but were used toward the temporary funding of the acquisition of an additional interest in Cubiro, as described below, and were replenished through the funds raised under the May 2011 Offering.

Board and Management Reorganization

The Board underwent the following changes in 2011: (i) Mr. Boris Abad-Guerra, who had been appointed to the Board in July 2010, resigned effective February 10, 2011; Mr. Ian Mann was appointed to the Board on March 7, 2011 to replace Mr. Abad-Guerra; and (ii) Mr. Luis Giusti Sr. and Mr. Horacio Santos resigned from the Board effective April 7, 2011; Mr. Serafino Iacono and Mr. Miguel de la Campa replaced Mr. Santos and Mr. Giusti, respectively, on the same date.

Mr. Gregg Vernon was appointed as Interim COO of the Corporation on January 13, 2011; Mr. Giusti stepped down as the CEO on January 19, 2011 and at the same time Mr. Vernon commenced acting as de facto CEO. On April 7, 2011, the Company announced the appointment of Mr. Luciano Biondi Golinucci as CEO; Mr. Biondi had been formerly retained as a consultant of the Company. Mr. Vernon agreed to remain as the Interim COO of the Company until its shareholders' meeting in June 2011 in order to help complete tasks already underway and to assist with the transition to the new CEO. Mr. Vernon has continued to act as Interim COO since the shareholders' meeting held in June 2011.

In addition, the Company appointed Mr. Camilo Valencia to act as an advisor to the Board. Mr. Valencia is currently the Executive Vice-President and was formerly the General Manager of Meta Petroleum Corp., a wholly-owned subsidiary of Pacific Rubiales. The Board also appointed Mr. Jaime Perez Branger as the Executive Chairman of the Board.

Jaguar Transaction

On April 15, 2011, the Company closed the Jaguar Transaction for a purchase price of US\$25,000,000, whereby the Company acquired:

- an additional 32.13% participating interest in Block C of the Cubiro E&PC located in the Llanos Basin;
- a 10% participating interest over the entire block and an option to acquire 15% participating interest in the Yamu 1 and Mapuro/Picure 1 exploration prospects on the Yamu E&PC (which option was not exercised and has since expired), located in the Llanos Basin; and
- overriding royalties of 4% and 3% in the A and B Sectors, respectively, of the Arrendajo E&PC, in which the Company holds a 35% working interest.

Financing of Jaguar Transaction

On May 5, 2011, the Company completed the May 2011 Offering with GMP, which acted exclusively on a “best efforts” private placement basis, for an offering of 31,050 units of the Company at a price of \$1,000 per unit for aggregate gross proceeds of \$31,050,000.

Each unit consisted of:

- one \$1,000 principal amount Senior Secured Notes, secured by a general security interest of the Company and guaranteed by the Company’s subsidiaries holding its 57.13% interest in Cubiro Block C. The Senior Secured Notes will bear interest at the rate of 9% per annum, payable quarterly in arrears in equal instalments. The first instalment will be on June 30, 2011 and will consist of interest accrued from the date of issue. Further, the Company has undertaken a mandatory redemption schedule whereby it shall redeem, at a price equal to the principal amount, one-third of the Senior Secured Notes, on a pro-rata basis, every twelve months after the closing date until maturity; and
- 43 Warrants. Each Warrant shall entitle the holder thereof to purchase one Common Share at a price of \$3.50 at any time prior to 5:00 p.m. (Toronto time) on February 22, 2016.

The Company paid GMP a cash commission equal to 4.0% of the gross proceeds of the May 2011 Offering. The net proceeds of the May 2011 Offering were principally used to replenish the existing funds of the Company used to pay the purchase price under the Jaguar Transaction.

Shareholder Rights Plan

The Company adopted the SRP effective May 13, 2011. The SRP is intended to ensure that, to the extent possible, all Shareholders are treated equally and fairly in connection with any attempt to acquire control of the Company. The Rights Plan was confirmed by Shareholders within six months of its effective date, as required by the Exchange, at an annual and special meeting of Shareholders held on June 15, 2011. For more information on the Rights Plan, please see “*Description of Capital Structure – Shareholder Rights Plan*”.

Strategic Joint Venture with YPF

On July 11, 2011, the Company announced its strategic joint venture with YPF as part of its strategy to focus on production growth and optimization of assets in its current portfolio. The partnership with YPF encompasses three agreements: (a) a farm-out of an interest in the Carbonera E&PC to YPF for a total work program commitment of US\$23 million spread out over the next three years, with the Company retaining a 40% beneficial working interest in the property; (b) a farm-out of interests in the Catguas E&PC for a total work program commitment that could reach US\$100 million over the next three to five years, whereby the Company’s beneficial working interest in each of the Catguas A Northern area and Catguas B Southern area would be reduced to 15% and 4.5% from 50% and 15% respectively; and (c) to explore further business opportunities for joint exploration and development of the Company’s interests in Rio Magdalena, Santa Cruz, Cerrito, Carbonera La Silla, Arrendajo and five of the blocks awarded to the Company in the ANH 2010 Open Round. The Company is in the process of finalizing the above agreements with YPF, which are subject to ANH approval.

Share Consolidation and Name Change

Upon receipt of shareholder approval at the Company’s annual and special meeting of Shareholders held on June 15, 2011, the Company effected the Share Consolidation (on a one-for-seven basis) on July 19, 2011. The Share Consolidation was undertaken to reduce volatility in the Company’s stock and make it more attractive to institutional investors. Concurrently with the Share Consolidation, the Company changed its name from “Alange Energy Corp.” to “PetroMagdalena Energy Corp.” Effective July 19, 2011, the Company’s Common Shares and Warrants began trading under the symbols “PMD” and “PMD.WT” respectively.

Farm-out of Santa Cruz

In October 2011, the Company announced that it had finalized an agreement in respect of a farm-out of 30% of the Santa Cruz block to a Colombian investment fund in order to minimize its capital expenditure commitment at the block while maintaining the benefits from a potentially significant new discovery since all required permits had been obtained to begin drilling the first exploratory well on the Santa Cruz block. The investment fund will earn its 30% participation by funding 60% (up to a cap of US\$14.28 million, after which the investment fund will pay its 30% share) of the first exploratory well and 45% (up to a cap of US\$10 million, after which the investment fund will pay its 30% share) of the first development well to be drilled. The Company would retain its 70% working interest in the block and remain the operator.

Additional Interest at Arrendajo

On November 24, 2011, the Company announced the acquisition of an additional 32.5% working interest in the Arrendajo block from Pacific Rubiales, bringing the Company’s working interest in the block to 67.5%, subject to ANH approval.

Cerrito

In December 2011, as Ecopetrol's approval for the transfer of the working interest and operatorship for the Cerrito block had remained pending since 2008, the Company transferred its working interest in the Cerrito block back to Pacific Rubiales for cash proceeds of US\$7.5 million. The Company also received amounts owing from Pacific Rubiales totaling \$1.0 million related to the Company's share of the income from the operations of the property.

Subsequent to Year-End 2011

Shares for Debt Issuance

The Company issued 4,826,600 Common Shares on February 3, 2012 to Pacific Rubiales in settlement of a debt of approximately US\$6 million in respect of cash calls at the Topoyaco block of which Pacific Rubiales is the operator. On January 18, 2012, the parties agreed to a deemed share price of \$1.25 per share in determining the terms of settlement for the Common Shares to be issued to settle the Topoyaco debt. The closing price of the Common Shares on January 18, 2012 was \$1.10 per share.

LLA-47

On February 29, 2012, the Company announced that it had entered into a binding letter of intent with Interoil Colombia E&P Inc. in respect of a 50% participation to farm in to the LLA-47 block located in the Llanos basin just south of and on trend with the Company's main Cubiro block. The Company agreed to undertake a US\$30 million work program commitment in the three years of Phase 1 of the E&P contract with the ANH. This transaction is subject to ANH approval. In addition, the Company is to pay a US\$2 million signing fee upon receipt of ANH approval.

DESCRIPTION OF THE BUSINESS

Summary

As of the date hereof, the Company is a Canadian-based oil and gas exploration and production company with working interests in 18 properties in Colombia. The Company is focused on optimizing and increasing production from its producing properties while undertaking an aggressive exploration program on its entire portfolio to identify targets and increase reserves. The Company evaluated and acquired its existing portfolio of properties in Colombia to benefit from both the existing production capacity as well as the potential that management believes is currently undeveloped in its properties.

The Company's current oil production comes from Cubiro, La Punta, Yamu and Arrendajo. In the opinion of management of the Company, these blocks, together with the Company's interest in the Mecaya Block (which includes a productive oil well that has been suspended since 1989), have an upside potential through additional development activities.

The Company's current gas production, representing approximately 3.5% of its total oil and gas production, is produced from its interests in the Carbonera block. The Company's gas reserves in its portfolio are largely undeveloped and require investment in both facilities and drilling of additional wells to render them capable of production.

Oil and Gas Production

In 2011, the Company successfully brought eight new wells into production including seven at Cubiro

and one at Yamu. The Company's share of production, before deduction of royalties, increased to an average of 4,181 boe/d for the month of December 2011 as compared to 2,374 boe/d at the end of December 2010. The Company's share of production, before deduction of royalties, averaged 2,761 boe/d for the year ended December 31, 2011.

Exploration

The Company has interests in 18 E&PCs in Colombia at the end of 2011 and in 2012, the Company entered into a binding farm-in agreement in respect of the LLA-47 block. In 2011, exploration activities were conducted in the Cubiro, Topoyaco, Carbonera, La Punta, Yamu and Arrendajo blocks, with a focus on light oil. In 2011, the Company participated in the drilling of eight exploratory wells and five development wells. The Company's total net exploration investment for 2011 was approximately US\$65.5 million (including amounts capitalized) accounting for 49 km² of 3D seismic on the Carbonera block, 4 exploration wells in Cubiro and 1 exploration well in each of La Punta, Topoyaco, Santa Cruz and Arrendajo.

Specialized Skill and Knowledge

Operations in the oil and natural gas industry mean that the Company requires professionals with skills and knowledge in diverse fields of expertise. In the course of its exploration, development and production activities, the Company requires the expertise of drilling engineers, exploration geophysicists and geologists, petrophysicists, petroleum engineers, petroleum geologists, and well-site mud specialists. The Company has not to date experienced any difficulties in hiring and retaining the professionals and experts it requires for its operations.

Competitive Conditions

The oil and natural gas industry is inherently competitive. The Company faces competition in the areas of finance, technical facilities, and acquisition of assets. While the Company has been successful in its ability to acquire properties from other organizations in the industry, there is no assurance that it will continue to do so. Nonetheless, management of the Company believes that it will be able to compete successfully with local and foreign competitors in Colombia and elsewhere in Latin America. See below at "Risk Factors - Competition".

Employees

As at the date hereof, the Company had 7 employees at its head office in Toronto, Canada, and approximately 124 employees in Colombia.

Foreign Operations

The Company's revenues are generated through the sale of hydrocarbons. All of the Company's hydrocarbon production activity is located in Colombia and all of the Company's exploration properties are located in Colombia.

Changes to Contracts

On March 7, 2011, the Company announced that it had terminated, without liability or further obligation, the commercial strategy for the direct export of its oil to the "Cartagena Oil Export Platform" which was launched in November 2010 but did not prove to be cost effective given the Company's current or anticipated levels of production. This platform included a sales agreement with Arcadia Petroleum Limited and Codis and three-year contracts with each of Transporte Sanchez Polo S.A. for the trucking of oil and with Codis for storage and port handling services in Cartagena. The Company has, in the place of this commercial strategy, implemented a more conventional marketing contract with Pacific Rubiales to significantly improve its netback per barrel, relative to the previous Cartagena Oil Export Platform.

At the same time, the Company also announced that the transfer of contract operatorship of Topoyaco to Pacific Rubiales was completed and approved by the ANH on December 30, 2011, without any resulting payment or compensation. Although no longer the contract operator, the Company retains its full economic interest of 50% in the block.

Environmental Protection

The oil and natural gas industry in Colombia is subject to environmental laws and regulations under varied governmental legislation. Compliance with such obligations and requirements can mean significant expenditures and/or may constrain the Company's operations in the country. Breach of environmental obligations could lead to suspension or revocation of requisite environmental licenses and permits, civil liability for damages caused and the possible fines and penalties, all of which may significantly and negatively impact the Company's position and competitiveness. See "Risk Factors".

Social or Environmental Policies

The Company has established guidelines and management systems to comply with the laws and regulations of Colombia. The Company has dedicated employees responsible for all matters affecting the environment. While the Company endeavours to meet all of its environmental obligations, it cannot guarantee that it has and will be in compliance at all times. Nonetheless, management believes that operations are in substantial compliance with all material Colombian environmental laws and regulations. See "Risk Factors". In demonstrating its commitment to social development, the Company has established an investment plan for the communities in its areas of operations. This plan focuses on six major areas: rural education; infrastructure improvement; sustainable productive initiatives; institutional support; health promotion; and culture, recreation, sports and traditions. The Company believes that environmental protection and education are the primary areas through which it can impact the communities in which it operates.

RISK FACTORS

The business and operations of the Company will be subject to a number of risks. The Company considers the risks set out below to be the most significant to potential investors in the Company, but not all of the risks associated with an investment in securities of the Company. If any of these risks materialize into actual events or circumstances or other possible additional risks and uncertainties of which the Company is currently unaware or which it considers to be material in relation to the Company's business actually occur, the Company's assets, liabilities, financial condition, results of operations (including future results of operations), business and business prospects, are likely to be material and adversely affected. In such circumstances, the price of the Company's securities could decline and investors may lose all or part of their investment.

Generation of Sufficient Cash Flow

The Company's ability to make payments on its debt and to fund its operations, working capital and capital expenditures depends in large part on its ability to generate sufficient positive cash flows in the future. The Company's cash flow is subject to general economic, industry, financial, competitive, technological, operating, regulatory and other factors, many of which are beyond its control. The Company's business may not generate cash flow in an amount sufficient to enable it to repay its debt or to fund its other liquidity needs.

Claims and Legal Proceedings

The Company may be subject to claims or legal proceedings covering a wide range of matters that arise in the course of its business activities. These matters may give rise to legal uncertainties or have unfavourable results. The Company carries liability insurance coverage and mitigates risks that can be reasonably estimated. In addition, the Company may be involved in disputes with other parties in the future that may result in litigation or unfavourable resolution which could materially adversely impact the Company's financial position, cash flow and results of operations. Specific disclosure of current legal proceedings, and the risks associated with current proceedings and litigation general, is disclosed under the heading entitled "Legal Proceedings".

Risks Relating to the Market for the Common Shares and Volatility of Pricing

The public market for the Common Shares has been characterized by significant price and volume fluctuations. There can be no assurance that the market price of the Common Shares will not decline below its current or historic price ranges. The price of the Common Shares is expected to be highly volatile and will be drastically affected by exploration and test results. The Company cannot predict the results of its exploration activities expected to take place in the future. The results of these tests will inevitably affect the Company's decisions related to further exploration and/or production at any of the properties that the Company may explore in the future and will likely trigger major changes in the trading price of the Common Shares.

The market price may bear no relationship to the prospects, stage of development, existence of oil and gas reserves, revenues, earnings, or assets of the Company and may not be indicative of its future business performance. The trading price of the Common Shares could be subject to wide fluctuations. Fluctuations in the price of oil and gas and related international political events can be expected to affect the price of Common Shares. In addition, the stock market in general has experienced extreme price and volume fluctuations that have affected the market price for many companies, which fluctuations have been unrelated to the operating performance of these companies. The market fluctuations, as well as general economic, political and market conditions, may have a material adverse effect on the market price of the Common Shares. In the past, following periods of volatility in the market place of a company's securities, securities class action litigation has often been instituted against such companies. Such litigation, if instituted, and irrespective of the outcome of such litigation, could result in substantial costs and a diversion of management's attention and resources and have a material adverse effect on the Company's business, results of operations and financial condition.

Ongoing Need for Financing

Although the Company is expected to generate cash flow from its oil and gas operations, its ability to continue exploration, development and acquisition efforts may also be dependent on its continued attractiveness to equity investors or its ability to complete additional debt financings. There is no guarantee that the Company will be able to profitably develop its properties. Additionally, should the Company require additional financing to continue exploration, development or acquisition efforts, failure to raise such financing could result in the Company ceasing to carry on business. From time to time, the Company may enter into transactions to acquire assets or the shares of other companies. These transactions may be financed wholly or partially with debt, which may temporarily increase the Company's debt levels above industry standards.

Fluctuating Prices

Oil and gas prices will have a direct impact on the Company's earnings and are subject to volatile price fluctuations. The Company's revenues are expected to be in large part derived from the extraction and sale of oil and natural gas. The price of oil will be affected by numerous factors beyond the Company's control, including international economic and political trends, expectations of inflation, war, currency exchange fluctuations, interest rates, global or regional consumption patterns, speculative activities and increased production due to new extraction developments and improved extraction and production methods. Any substantial decline in the prices of oil or natural gas could have a material adverse effect on the Company and the level of its oil and natural gas reserves.

Prices have varied considerably throughout 2009-2011 and into 2012, concurrent with shifts in the global economy. Any decreases in oil and natural gas prices typically result in a reduction of the Company's net production revenue and may change the economics of producing from some wells which could result in a reduction in the volume of the Company's reserves. Any further substantial declines in the prices of crude oil or natural gas could also result in delay or cancellation of existing or future drilling, development or construction programs or the curtailment of production. All of these factors could result in a material decrease in the Company's net production revenue, cash flows and profitability causing a reduction in its oil and gas acquisition and development activities. In addition, bank borrowings available to the Company will in part be determined by the Company's borrowing base. A sustained material decline in prices from historical average prices could further reduce such borrowing base, therefore reducing the bank credit available and could require that a portion of its bank debt, if any, be repaid.

From time to time the Company has and may in the future enter into agreements to receive fixed prices on its oil and natural gas production to offset the risk of revenue losses if commodity prices decline; however, if commodity prices increase beyond the levels set in such agreements, the Company will not benefit from such increases.

Global Financial Conditions

Current global financial conditions have been subject to increased volatility and numerous commercial and financial enterprises have either gone into bankruptcy or creditor protection or have had to be rescued by governmental authorities. Access to public financing has been negatively impacted by sub-prime mortgage defaults in the United States, the liquidity crisis affecting the asset-backed commercial paper and collateralized debt obligation markets, massive investment losses by banks with resultant recapitalization efforts and deterioration in the global economy. More recently, the European debt crisis has affected equity investor sentiment and if it worsens could also affect worldwide credit markets which might impact the Company. Notwithstanding various actions by governments, concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions caused the broader credit markets to further deteriorate and stock markets to decline substantially. Banks have been adversely affected by the worldwide economic crisis and have severely curtailed existing liquidity lines, increased pricing and introduced new and tighter borrowing restrictions to corporate borrowers, with extremely limited access to new facilities or for new borrowers. These factors, if they were to occur, could negatively impact the Company's ability to access liquidity needed for the Company's business in the longer term.

Petroleum and natural gas prices are expected to remain volatile for the near future as a result of market uncertainties over the supply and demand of these commodities due to the current state of the world economies, natural disasters, political unrest, OPEC actions and the ongoing global credit and liquidity concerns.

These factors may impact the Company's ability to obtain equity, debt or bank financing on terms commercially reasonable to the Company, or at all. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. If these increased levels of volatility and market turmoil continue, the Company's operations could be adversely impacted and the trading price of the Company's securities could continue to be adversely affected.

In addition, certain of the Company's customers could be unable to pay it, in the event they are unable to access the capital markets to fund their business operations.

Cash Flows and Additional Funding Requirements

Although the Company presently has sufficient financial resources and has been successful in the past in obtaining equity and debt financing to undertake its currently planned exploration and development programs and acquisitions, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms advantageous to the Company. The ability of the Company to arrange such financing in the future will depend in part upon the prevailing capital market conditions as well as the business performance of the Company. The recent global financial crisis resulted in severe economic uncertainty and illiquidity in capital markets which, if it were to reoccur, would increase the risk that additional financing will only be available on terms and conditions unacceptable to the Company or not at all.

Fluctuations in Currency Exchange Rates

All of the Company's current operations are located in Colombia. Domestic oil sales in Colombia are denominated in COP, natural gas sales are denominated in COP and operating and capital costs are generally incurred in COP. Fluctuations in the U.S. dollar or COP exchange rates may cause a negative impact on revenue and costs. These types of fluctuations could have a material adverse impact on the Company's operations.

Exploration and Development

The exploration and development of oil and natural gas deposits involve a number of uncertainties that even thorough evaluation, experience and knowledge of the industry cannot eliminate. It is impossible to guarantee that the exploration programs on the Company's properties will generate economically recoverable reserves. The commercial viability of a new hydrocarbon pool is dependent upon a number of factors which are inherent to reserves, such as the content and the proximity of infrastructure, as well as oil and natural gas prices which are subject to considerable volatility, regulatory issues such as price regulation, taxes, royalties, land tax, import and export of oil and natural gas, and environmental protection issues. The individual impact generated by these factors cannot be predicted with any certainty but, once combined, may result in non-economical reserves. The Company will remain subject to normal risks inherent to the oil and natural gas industry, such as unusual and unexpected geological changes in the parameters and variables of the petroleum system and operations.

Regulatory and Permitting Delays

The Company could encounter regulatory and/or permitting delays in the future. The Company will endeavour to ensure timely application for any government permits necessary for carrying out its business in Colombia. However, the past ability of the Company to obtain all necessary permits in a timely fashion is not a guarantee of future results as factors that are beyond the Company's control, such as bureaucratic impediments, minor changes in legislation and even government holidays, could substantially impede the

timing of receiving essential permits and delay or stall the Company's exploration efforts. The exercise of discretion by governmental authorities under existing regulations, the implementation of new regulations or the modification of existing regulations could reduce demand for oil and gas, increase the Company's costs and have a material adverse impact on the Company. Moreover, failure to obtain regulatory approvals, or failure to obtain them on a timely basis, could result in delays and abandonment or restructuring of the projects undertaken by the Company and increased costs, all of which could have a material adverse effect on the Company.

Legal Systems

As a civil law jurisdiction, Colombia has a legal system which is different from the common law jurisdictions of Canada. There can be no assurance that joint ventures, licenses, license applications or other legal arrangements will not be adversely affected by changes in governments, the actions of government authorities or others, or the effectiveness and enforcement of such arrangements.

Shortage of Experienced Personnel and Equipment

The ability to identify, negotiate and consummate transactions that will benefit the Company is dependent upon the efforts of the Company's management team. The loss of the services of any member of management could have a material adverse effect on the Company. The Company's future exploration and development activities may require significant investment in additional personnel and capital equipment. Given the current shortage of equipment and experienced personnel within the oil and gas industry, there can be no assurance that the Company will be able to acquire the necessary resources to successfully implement its business plan.

Ability to Attract and Retain Qualified Personnel

Recruiting and retaining qualified personnel is critical to the Company's success. The number of persons skilled in the acquisition, exploration, development and operation of oil and gas properties in the jurisdictions in which the Company operates is limited and competition for such persons is intense. As the Company's business activity grows, it will require additional key financial, administrative, technical and operations staff. If the Company is not successful in attracting and training qualified personnel, the efficiency of its operations could be affected, which could have a material adverse impact on the Company's future cash flows, earnings, results of operations and financial condition.

Joint Ventures

The Company may enter into joint ventures in the future. Any failure of a joint venture partner to meet its obligations to the Company or third parties, or any disputes with respect to the parties' respective rights and obligations could have a material adverse affect on such joint ventures. In addition the Company may be unable to exert influence over strategic decisions made in respect of properties that are the subject of such joint ventures.

Reserve Estimates

The process of estimating oil and gas reserves is complex and involves a significant number of assumptions in evaluating available geological, engineering and economic data; therefore, reserves estimates are inherently uncertain. Despite the fact that the Company has reviewed the estimates related to the potential reserve evaluation and probabilities attached thereto and it is of the opinion that the methods used to appraise its estimates are adequate, these figures remain estimates, even though they have been calculated or validated by independent appraisers. The reserves disclosed by the Company

should not be interpreted as assurances of property life or of the profitability of current or future operations given that there are numerous uncertainties inherent in the estimation of economically recoverable oil and natural gas reserves.

Operating Hazards and Risks

Exploration for natural resources involves many risks, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. Operations in which the Company has a direct or indirect interest will be subject to all the hazards and risks normally incidental to exploration, development and production of natural resources, any of which could result in work stoppages, damage to persons or property and possible environmental damage. In addition, the Company's operations may be adversely affected by security incidents which are not within the control of the Company, including, among other things, kidnappings, extortion or criminal activity.

Although the Company may obtain liability insurance in an amount which is expected to be adequate, the nature of these risks is such that liabilities might exceed policy limits, the liabilities and hazards might not be insurable, or the Company might not elect to insure itself against such liabilities due to high premium costs or other reasons, in which event the Company could incur significant costs that could have a material adverse effect upon its financial condition.

Transportation Costs

Disruption in or increased costs of transportation services could make oil and natural gas a less competitive source of energy or could make the Company's oil and natural gas less competitive than other sources. The industry depends on rail, trucking, ocean-going vessel, pipeline facilities, and barge transportation to deliver shipments, and transportation costs are a significant component of the total cost of supplying oil and natural gas. Disruptions of these transportation services because of weather-related problems, strikes, lockouts, delays or other events could temporarily impair the ability to supply oil and natural gas to customers and may result in lost sales. In addition, increases in transportation costs, or changes in transportation costs for oil and natural gas produced by competitors, could adversely affect profitability. To the extent such increases are sustained, the Company could experience losses and may decide to discontinue certain operations forcing the Company to incur closure and/or care and maintenance costs, as the case may be. Additionally, lack of access to transportation may hinder the expansion of production at some of the Company's properties and the Company may be required to use more expensive transportation alternatives.

Disruptions in Production

Other factors affecting the production and sale of oil and natural gas that could result in decreases in profitability include: (i) expiration or termination of leases, permits or licenses, or sales price re-determinations or suspension of deliveries; (ii) future litigation; (iii) the timing and amount of insurance recoveries; (iv) work stoppages or other labor difficulties; (v) worker vacation schedules and related maintenance activities; (vi) general strikes, social protests and community demonstrations and (vii) changes in the market and general economic conditions. Weather conditions, equipment replacement or repair, fires, amounts of rock and other natural materials and other geological conditions can have a significant impact on operating results.

Political Risk

The Company's projects are located in Colombia and consequently the Company will be subject to certain risks, including currency fluctuations and possible political or economic instability. Exploration

and production activities may be affected in varying degrees by political stability and government regulations relating to the industry. Colombia has been home to South America's largest and longest running insurgency, and over the past two decades has experienced significant social upheaval and criminal activity relating to drug trafficking. While the situation has improved dramatically in recent years, there can be no guarantee that the situation will not again deteriorate. Any increase in kidnapping and/or terrorist activity in Colombia generally may disrupt supply chains and discourage qualified individuals from being involved with the Company's operations. Additionally, the perception that matters have not improved in Colombia may hinder the Company's ability to access capital in a timely or cost effective manner. Any changes in regulations or shifts in political attitudes are beyond the control of the Company and may adversely affect its business. Exploration may be affected in varying degrees by government regulations with respect to restrictions on future exploitation and production, price controls, export controls, foreign exchange controls, income taxes, expropriation of property, environmental legislation and site safety.

The Company's operations may also be adversely affected by the laws and policies of Canada affecting foreign trade, taxation and investment. In the event of a dispute arising in connection with the Company's foreign operations, the Company may be subject to the exclusive jurisdiction of foreign courts or may not be successful in subjecting foreign persons to the jurisdictions of the courts of Canada or enforcing Canadian judgments in such other jurisdictions. The Company may also be hindered or prevented from enforcing its rights with respect to governmental instrumentality because of the doctrine of sovereign immunity. Accordingly, the Company's exploration, development and production activities in the foreign jurisdictions in which it operates could be substantially affected by factors beyond the Company's control, any of which could have a material adverse effect on the Company.

Environmental Factors

All phases of the Company's operations are subject to environmental regulation in Colombia.

Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. In addition, certain types of operations require the submission and approval of environmental impact assessments. Environmental assessments of proposed projects carry a heightened degree of responsibility for companies and directors, officers and employees. The cost of compliance with changes in governmental regulations has a potential to reduce the profitability of operations. The exploration, development and production activities of the Company will require certain permits and licenses from various governmental authorities and such operations are and will be governed by laws and regulations governing exploration, development and production, labor standards, occupational health, waste disposal, toxic substances, land use, environmental protection, safety and other matters. Companies engaged in exploration activities generally experience increased costs and delays as a result of the need to comply with applicable laws, regulations and permits. There can be no assurance that all licenses and permits which the Company may require to carry out exploration and development of its projects will be obtainable on reasonable terms or on a timely basis, or that such laws and regulations would not have an adverse effect on any project that the Company may undertake.

Title Matters

The acquisition of title to oil and natural gas properties in Colombia is a detailed and time consuming process. The Company's properties may be subject to unforeseen title claims. While the Company will diligently investigate title to all property and will follow usual industry practice in obtaining satisfactory title opinions and, to the best of the Company's knowledge, title to all of the Company's properties is in

good standing, this should not be construed as a guarantee of title. Title to the properties may be affected by undisclosed and undetected defects.

In civil law jurisdictions such as Colombia, legal title is not perfected until such time as the appropriate governmental authorities (such as the ANH or Ecopetrol) approve the assignment of a participating interest, record the title holder in the appropriate registry and issue a decree. This process can take time, even several years. As a result, it is common business practice for commercial parties to proceed with the completion of a purchase and sale transaction, notwithstanding the fact that governmental approval may take years to properly reflect these business dealings. The Company cannot guarantee that such ANH/Ecopetrol approvals will be granted in a timely manner or at all.

Dependence on Third Party Operators and Management

To the extent that PetroMagdalena is not the operator of certain of its properties, the Company will be dependent upon other third party operators for the timing of activities and will be largely unable to control the activities of such operators.

In addition, the Company strongly depends on the business and technical expertise of its management team and there is little possibility that this dependence will decrease in the near term. If the Company is not successful in attracting and retaining qualified personnel, the efficiency of its operations could be affected, which could have a material adverse impact on the Company's future cash flows, earnings, results of operations and financial condition.

Changes in Legislation

The oil and natural gas industry in Colombia is subject to extensive controls and regulations imposed by various levels of government. All current legislation is a matter of public record and the Company will be unable to predict what additional legislation or amendments may be enacted. Amendments to current laws, regulations and permits governing operations and activities of oil and natural gas companies, including environmental laws and regulations which are evolving in Colombia, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in expenditures and costs, affect the Company's ability to expand or transfer existing operations or require the Company to abandon or delay the development of new oil and natural gas properties.

Repatriation of Earnings

All of the Company's revenue generating operations are located in Colombia. Currently there are no restrictions on the repatriation from Colombia of earnings to foreign entities. However, there can be no assurance that restrictions on repatriation of earnings from Colombia will not be imposed in the future.

Integration of Acquired Operations

In 2009, Old Alange acquired a number of properties on some of which it became the operator of record with the ANH and Ecopetrol. In addition, the Company has completed the acquisitions of six new blocks during the ANH 2010 Open Round as well as the acquisition of additional interest in Cubiro and the Yamu block under the Jaguar Transaction and the acquisition of the interest in the LLA-47 block. The future success of the Company will depend to some extent on the success of management of the Company in integrating these operations, technologies and personnel now that each has been acquired. The failure of the Company to achieve such integration could result in the failure of the Company to realize some or all of the anticipated benefits of these acquisitions, and could impair the results of operations, profitability and financial results of the Company. In addition, the overall integration of the operations, technologies

and personnel of the acquired operations into the Company may result in unanticipated operational problems, expenses, liabilities, loss of key personnel, transfer of knowledge, and diversion of management's attention.

Enforcement of Civil Liabilities

Substantially all of the assets of the Company will be located outside of Canada and certain of the directors and officers of the Company will be resident outside of Canada. As a result, it may be difficult or impossible to enforce judgments granted by a court in Canada against the assets of the Company or the directors and officers of the Company residing outside of Canada.

Competition

The oil and natural gas industry is competitive in all its phases. The Company will compete with many companies and individuals that have substantially greater financial and technical resources than the Company in the search for, and the acquisition of, properties as well as for the recruitment and retention of qualified employees. The Company's ability to increase its interests in the future will depend not only on its ability to explore and develop its present properties, but also on its ability to select, acquire and develop suitable properties or prospects.

Dividends

Any payments of dividends on the Common Shares of the Company will be dependent upon the financial requirements of the Company to finance future growth, the financial condition of the Company and other factors which the Board of Directors may consider appropriate in the circumstance. It is unlikely that the Company will pay dividends in the immediate or foreseeable future.

OIL AND NATURAL GAS CONTRACTS AND PROPERTIES

The following describes the Company's principal oil and gas contracts, properties and areas under evaluation as of December 31, 2011. Readers are cautioned that any estimates of reserves and future net revenue for individual properties disclosed in this AIF may not reflect the same confidence level as estimates of reserves and future net revenue for all properties, due to the effects of aggregation.

The Company is engaged in the acquisition and exploration of oil and gas prospects in Colombia. The Company has acquired various interests in several projects, representing a large exploration and production area throughout Colombia. As at December 31, 2011, the Company held interests in eighteen properties in Colombia, of which eleven are exploration properties and seven are exploration and production properties, as follows:

Area⁽²⁾	Exploration	Production/ Exploration	Working Interest
<i>Catatumbo Basin</i>			
Carbonera		X	100%
Catguas	X		50% (North) ⁽⁴⁾ 15% (South)
Santa Cruz	X		70%
Carbonera – La Silla		X	58% exploration and 100% production

Area ⁽²⁾	Exploration	Production/ Exploration	Working Interest
Magdalena Basin			
Las Quinchas		X	24.5%
Rio Magdalena		X	56%
VMM-11	X		5% ⁽¹⁾
VMM-35	X		6% ⁽¹⁾
VSM-12	X		5% ⁽¹⁾
VSM-13	X		6% ⁽¹⁾
Llanos Basin			
Arrendajo	X		67.5%
Cubiro		X	60.5%(Development Area Cubiro A) 70%(Central Area Cubiro B) 57.14%(East Area Cubiro C)
La Punta ⁽³⁾		X	Up to 6%
LLA-41	X		5% ⁽¹⁾
Yamu		X	10%
Putumayo Basin			
Topoyaco	X		50%
Mecaya	X		43%
Cordillera Basin			
COR-33	X		6% ⁽¹⁾

Notes:

- (1) The Company was initially awarded a 100% interest in each of these blocks during the ANH 2010 Open Round. However, the Company entered into an agreement with a third party to fund 100% of the phase 1 preliminary seismic exploration commitments in respect of these blocks in exchange for a 90% interest in the blocks with an option for the Company to increase its participation in the blocks to 20% at the end of the phase 1 preliminary seismic exploration commitments. Phase 1 has a duration of 36 months. On September 2011, the Company entered into an amendment to this agreement, whereby the third party has the option (i) to fund 100% of the phase 1 preliminary seismic exploration commitments of VSM-11, VSM-12 and LLA-41 in exchange for a 95% interest in these blocks, with an option for the Company to increase its participation in the blocks to a 15%; and (ii) to fund 100% of the phase 1 preliminary seismic exploration commitments as well as other obligations of the phase 1 exploratory commitments of VSM-13, COR-33 and VMM-35, in exchange for a 94% interest in these blocks.
- (2) In December 2011, the Company transferred back its working interest in the Cerrito block to Pacific Rubiales as Ecopetrol approval had been pending since 2008. In March 2012, the Company signed a binding letter of intent to acquire a 50% working interest in the LLA-47 block in the Llanos.
- (3) On April 2, 2012, the Company filed an arbitration with an arbitration tribunal of the Chamber of Commerce of Bogota against P1 Energy Alpha SAS and Petroleum Equipment International SAS in respect certain joint venture payments and the assignment to the Company of the La Punta interest that the Company contends are invalid.
- (4) The Company is currently negotiating a farm-out agreement with YPF whereby YPF will acquire a 35% and 10.5% interest in each of the Northern and Southern areas of the Catguas block, if such farm-out agreement is finalized and approved by the ANH.

Catatumbo Basin

Location and Geology

The Catatumbo Basin is a southwest extension of the Maracaibo Basin in Venezuela. Oil in Cenozoic and Cretaceous sandstone and limestone is trapped in faulted anticlines. The Cretaceous and Cenozoic in this

basin represent two distinct tectonic and sedimentary settings. Cretaceous rocks are marine sandstone, shale and limestone that represent deposition in a broad, shallow sea; it extended across northern Venezuela and continued south through Colombia. Most of the remaining hydrocarbon potential in this basin occurs in en-echelon folds associated with the regional left-lateral Chinácota fault system. This fault system, referred to as the “Catatumbo Flexure” in the northern portion of the basin, is on the western flank.

Carbonera

The Carbonera E&PC became effective on December 28, 2005, between WL and the ANH. Old Alange acquired its initial 51% beneficial working interest in the Carbonera E&PC from WL and several other Colombian entities in October, 2008. The Company acquired, subject to ANH approval, an additional 45% working interest in the Carbonera area through the Delavaco Acquisition. An additional 4% beneficial working interest was acquired from WL, subject to ANH approval, pursuant to a purchase and sale agreement dated August 6, 2011.

The Company is currently negotiating a farm-out agreement with YPF in respect of a farm-out of 60% of its working interest. In exchange, YPF will fund up to US\$23 million of the exploration and capital program costs of the block over the next three years, including the Company’s share, including costs associated with the acquisition of 3D seismic and drilling of one exploratory well or development well. The farm-out is subject to ANH approval and in conjunction, the Company would apply to the ANH to request that YPF become the operator of the Carbonera E&PC.

The Carbonera E&PC expires in April 2012. There was no gross production in the Carbonera block for December 2011. The average gross production of the Carbonera block in 2011 was 134 bbl/d. In 2011, the Company shot a total of 49 square kilometers of 3D seismic over the Carbonera block.

Catguas

The Catguas E&PC became effective November 17, 2005, between the Colombian Branch of Solana Petroleum Exploration Colombia Limited and the ANH. Trayectoria subsequently acquired a 50% working interest in the Catguas A Northern area, and a 15% working interest in the Catguas B Southern area.

Pursuant to an agreement with Trayectoria dated October 27, 2008, the Company acquired a 20% working interest in the Catguas A Northern area and a 5% working interest in the Catguas B Southern area. The Company also agreed to carry the interest of Trayectoria in the Catguas Block until completion of the current exploration program. Trayectoria also granted an exclusive and irrevocable option to the Company to acquire its remaining 30% working interest in the Catguas A area and 10% working interest in the Catguas B area up and until the date of commencement of drilling of the next well in the Catguas Block required to complete the current exploration commitment under the applicable contract with ANH. This option was exercised by the Company on December 3, 2009.

The Company is currently negotiating a farm-out agreement with YPF whereby YPF will acquire a 35% and 10.5% interest in each of the Northern and Southern areas of the Catguas block, respectively. YPF will undertake a total work program commitment that could reach up to US\$100 million over the next three to five years, with additional consideration as mutually agreed. Under certain conditions, the Company has the option to increase its working interests up to an additional 10% in the Northern area and 5% in the Southern Area. The farm-out is subject to ANH approval.

The Catguas E&PC has been suspended since February 10, 2010 because the operator needs to obtain an ethnic communities certification from the government.

Santa Cruz

The Company acquired a 100% working interest in the Santa Cruz E&PC pursuant to the Prospero Acquisition. The current area of the Santa Cruz block is 16,211.07 hectares. On November 30, 2009, the Company announced that it was cooperating with Ecopetrol for data sharing on their neighboring Rio Zulia field, which has resulted in a better understanding of the exploration potential in the block.

In October 2011, the Company finalized an agreement in respect of a farm-out of 30% of the Santa Cruz block to a Colombian investment fund whereby the investment fund will fund a carry of 60% of the first exploratory well and 45% of the first development well to be drilled. The Company would retain its 70% working interest in the block and remain the operator.

The Santa Cruz E&PC expires on March 8, 2015. In 2011, the Company spudded the Santa Cruz-1 exploratory well and the well reached total depth in 2012. Tests on this well are currently ongoing.

Carbonera – La Silla

The Company acquired its 58% working interest in the Carbonera – La Silla exploration area with a 100% working interest in the existing production, pursuant to the Prospero Acquisition. The Carbonera – La Silla Contract with Ecopetrol was signed effective October 25, 2004 and has an expiration date of October 2014. The current area of the block is 5,082.84 hectares located in the Zulia municipality in Norte de Santander.

An integrated reservoir study conducted jointly with Halliburton was concluded in 2009 in respect of the Carbonera – La Silla property, supporting a program of five workovers. Results of the study also led to the identification of three new development locations and a proposed 3D seismic survey. During 2010, Carb 1, Carb 2, Carb 5K were intervened for pump changes and recompletion, and Carb A2 and Carb A3 were unsuccessfully tested at the Mirador formation.

On August 7, 2011, operations had to be suspended due to a security issue at the block. The Company is currently taking all necessary measures to put the field back in production.

There was no gross production at this block for December 2011. The average gross production of the block in 2011 was 16 bbl/d.

Magdalena Basin

Location and Geology

The Middle Magdalena Basin is located along the central reaches of the Magdalena River Valley between the Central and Eastern Cordilleras of the Colombian Andes. The exploratory process has been mainly oriented towards the identification of structural traps in the Paleogene sequences; this process has not adequately studied subtle stratigraphic traps yet. The sedimentary record shows a succession of Jurassic continental deposits overlaid by Cretaceous sediments. These sediments are both calcareous and siliciclastic, and of transitional to marine origin. The Paleogene sequence is made up of siliciclastic rocks deposited mainly under continental conditions with some marine influence. The three major deformational phases present in the basin, rifting, thrusting and wrenching, are responsible for all types of trap geometries.

Las Quinchas

The Las Quinchas Association Contract with Ecopetrol was signed effective February 19, 1996 and has an expiration date of October 2024. The current area of the block is 50,389 hectares. Production is subject to a 6% royalty for heavy oil. In both the Acacia Este and Arce Fields, the Company has a 12.5% working interest. Under the Las Quinchas Association Contract, Ecopetrol has the right to back-in for 50% and has yet to exercise the back-in right for the Acacia Este Field. The Arce Field is capable of production but is not economic at this time.

Rio Magdalena

The Company has a 56% working interest in the Rio Magdalena Association Contract, with the sole risk period expiring as of April 8, 2030. As noted above under “General Development of the Business – Historical Overview - July 2009 - Present”, the Company had a 51% beneficial interest in the Rio Magdalena Association Contract obtained pursuant to the Delavaco Acquisition and acquired an additional 5% pursuant to the assignment of a third party’s participating interest by default as per the joint operating agreement, subject to Ecopetrol approval.

During 2010, the Popa-3 well was drilled, cased and left suspended for testing. The Popa-3 well has not been tested as of the current date as studies are being conducted to determine whether testing should be started or if the well should be temporarily abandoned. In September 2010, a Declaration of Commerciality was submitted to Ecopetrol for its consideration and a response was received in March 2011 stating that the operator may proceed with a development plan under a sole risk scheme.

VMM-11

The Company obtained a 100% interest in this block as part of the ANH 2010 Open Round but has since lowered its interest in the block to 10% and later to 5% (see Note 1 in table above). This block is made up of an area of 56,505 hectares and was awarded to the Company as a Type 1 E&P block and carries an additional X factor royalty of 1%. Located near Puerto Boyaca, Bolivar and Cimitarra municipalities in the Departments of Boyaca and Santander within the Magdalena Medio basin, this block is near important productive fields such as Nare, Teca, Velasquez, Palagua and Caipal. The first 36-month exploration phase includes the drilling of one exploratory well and the acquisition of seismic. This block has potential structures with API gravity of 25% and others with heavy oil.

VMM-35

The Company obtained a 100% interest in this block as part of the ANH 2010 Open Round but has since lowered its interest in the block to 10% and later to 6% (see Note 1 in table above). This block, which has an area of 7,704 hectares, was awarded to the Company as a Type 1 E&P block and carries an additional X factor royalty of 1%. The 36-month first exploration phase includes the drilling of one exploratory well and the acquisition of seismic. Located in the Middle Magdalena Valley, near the Nare and Las Quinchas fields, the main reservoirs of VMM-35 are tertiary sandstones and the source rock is the La Luna Formation. This block has potential structures with API gravity of greater than 15 degrees.

VSM-12

The Company obtained a 100% interest in this block as part of the ANH 2010 Open Round but has since lowered its interest in the block to 10% and later to 5% (see Note 1 in table above). This block was awarded to the Company as a Type 1 E&P block, carrying an additional X factor royalty of 1%. Covering

an area of 56,730 hectares, the initial 36-month exploration phase includes the drilling of one exploratory well and the acquisition of seismic. Located in the Upper Magdalena Valley, close to the biggest field in the basin, San Francisco, the main reservoirs of VSM-12 are Caballos sandstones and the source rock is the Villeta Formation. This block has potential for structures with oil accumulation and API gravity of greater than 25 degrees.

VSM-13

The Company obtained a 100% interest in this block as part of the ANH 2010 Open Round but has since lowered its interest in the block to 10% and later to 6% (see Note 1 in table above). This block, with an area of 58,693 hectares, was awarded to the Company as a Type 1 E&P block, carrying an additional X factor royalty of 1%. During the first 36-month exploratory phase, the Company is committed to the drilling of one exploratory well and the acquisition of seismic. Located in the Upper Magdalena Valley, near the main oil fields in the basin of Tello, Rio Ceibas, Pijao, Dina and Tenay, VSM-13 has potential structures for oil accumulation with API gravity of greater than 25°. The reservoirs are the Caballos and Monserrat sandstones and the source rock is the Villeta Formation.

Llanos Basin

Location and Geology

The Eastern Llanos Basin is located in the Eastern region of Colombia. The northern limit of this basin is the Colombian-Venezuelan border. The south of the basin extends as far as the Macarena High, the Vaupés Arch and the Precambrian metamorphic rocks that outcrop to the south of the Guaviare River. The eastern limit is marked by the outcrops of the Precambrian plutonic rocks of the Guyana Shield and the west of the basin is limited by the frontal thrust system (Guaicaramo fault system) of the Eastern Cordillera.

Arrendajo

The Company has a 67.5% beneficial working interest in the Arrendajo E&PC, 35% of which was acquired through the Prospero Acquisition. In November 2011, the Company acquired, subject to ANH approval, an additional 32.5% beneficial controlling interest from Pacific Rubiales with the purchase price to be satisfied from future production.

The Arrendajo E&PC has an effective date of December 16, 2005 and an expiration date of February 19, 2016 and is currently in phase 1 of the additional exploration period. The area of the block is 31,607.3 hectares. Pursuant to the Jaguar Transaction, the Company acquired an overriding royalty of 4% for Sector A and 3% for Sector B of the Arrendajo E&PC, subject to ANH approval.

The Azor-1 exploratory well was spudded and tested in the first quarter of 2011 with commercial production from two Carbonera C5 sands, which will allow the operator to apply for an Evaluation Program for this discovery and proceed with the retention of acreage for an additional exploration program.

Cubiro

As described above under “General Development of the Business – Historical Overview - July 2009 – Present,” the Company acquired its interest in the Cubiro block pursuant to the Cubiro Acquisition and two subsequent transactions with Columbus. Through the Cubiro Acquisition, the Company acquired Montecz’s working interest in the Cubiro E&PC, being 41.23% in area A; 50.73% in area B and 25% in area C. The transactions with Columbus in January 2010, whereby the Company acquired Columbus’

subsidiary, Jagalan S.A., increased the Company's working interest in the Western Development Cubiro A area from 41.23% to 60.5% and its working interest in the Central Cubiro B area from 50.73% to 70%. Pursuant to the Jaguar Transaction, the Company increased its working interest in the Eastern Cubiro C area from 25% to 57.14%.

The Cubiro E&PC has an expiration date of July 7, 2012 in respect of the exploration program. The production contracts for each of Careto and Arauco expire on January 7, 2032 and November 17, 2032, respectively.

A total of 8 wells, 4 exploration and 4 development, were drilled on the block during 2011, resulting in the discovery of 4 fields: Petirrojo, Copa A Sur, Copa B and Yopo. The drilling campaign in the Copa trend discovered commercial oil in the C5 and C7 Carbonera sands, and extended the prospectivity of the C3 sands in the Copa trend. The Copa B-1 and Copa A Sur 1 found good potential pays in the C3 sands tested in the Copa 1 well, however production tests are still pending. The discoveries in Petirrojo and Yopo were in the C7 sands.

The average gross daily production of this field (i) for December 2011 was 3,757 bbl/d; and (ii) throughout 2011 was 2,123 bbl/d.

La Punta

The Company acquired a 3.6% participating interest in the producing La Punta-2 well pursuant to the Delavaco Acquisition. Drilling of the La Punta-3 well commenced in the first quarter of 2010, in which the Company's participating interest increased to 6%. For the La Punta-4 and La Punta-5 wells, the Company's participating interest is 6.0%. The La Punta E&PC has an expiration date of August 2, 2020. On April 2, 2012, the Company filed an arbitration with an arbitration tribunal of the Chamber of Commerce of Bogota against P1 Energy Alpha SAS and Petroleum Equipment International SAS in respect of certain joint venture payments and the assignment to the Company of the La Punta interest that the Company contends are invalid.

There was one exploratory well, La Punta Extremo Sur-1, drilled on the block in 2011 to the Une Formation, but it was abandoned as a dry well by the operator after testing two zones in the Gacheta Formation.

The average gross daily production for the La Punta block for December 2011 was 196 bbl/d and for 2011 was 261 bbl/d.

LLA-41

The Company obtained a 100% interest in this block as part of the ANH 2010 Open Round but has since lowered its interest in the block to 10% and later to 5% (see Note 1 in table above). This block, which has an area of 72,263 hectares, was awarded to the Company as a Type 1 E&P block and carries an additional X factor royalty of 1%. During the first 36-month exploration phase, the Company is committed to the drilling of one exploratory well and the acquisition of seismic. Located in the Llanos Basin, near the giant Cano Limon field, the main reservoirs of LLA-41 are tertiary sandstones and there is potential for several structures with API gravity of greater than 25 degrees.

Yamu

The Company obtained, pursuant to the Jaguar Transaction, a 10% participating interest in this block along with an option to obtain a 15% participating interest in the Yamu 1 and Mapuro/Picture 1

exploration prospects in this block. The Company did not exercise such option and no longer has the right to do so. The Yamu exploration program expires in September 2012 and the production contract for the Yamu field has an expiration date of June 27, 2034.

In August 2011, production commenced from a successful new well in the block, Yamu-2. The Company's share of daily production from Yamu-2 at that time was 95 bbl/d bringing the Company's share of production from Yamu close to 180 bbl/d at that time.

The average gross daily production for Yamu in December 2011 was 120 bbl/d. The average gross production for Yamu throughout 2011 was 84 bbl/d.

Putumayo Basin

Location and Geology

The Caguan-Putumayo Basin is the northern extension of the Oriente Basin of Ecuador. It is about 104,000 km² and reserves of more than 365 MMboe have been found to date in 19 oil fields. Texaco began exploration in the basin in 1948. In 1963, Texaco discovered the major Orito oil field with reserves of approximately 250 Mmboe. Several oil fields discovered in the basin document the existence of a petroliferous system at work. Two main structural plays, (1) a high-angle reverse fault and (2) wrench-related anticlines, account for most of the oil discovered so far. In addition, stratigraphic plays are also important exploration targets.

Topoyaco

The Topoyaco E&PC was signed by Trayectoria, which remains operator with the ANH since June 12, 2007. The total area of the Topoyaco Block is 24,295 hectares.

On May 28, 2008, NVC entered into an assignment agreement with Trayectoria to purchase 100% of Trayectoria's working interest in the Topoyaco E&PC. NVC subsequently assigned its rights under the assignment agreement to Old Alange. Old Alange then executed the Rubiales MOU with Pacific Rubiales on October 16, 2008 to sell 50% of its interest in the Topoyaco block for US\$15.5 million, subject to ANH approval. Pursuant to the Rubiales MOU, US\$7.5 million of the consideration was paid to Old Alange through the transfer to it by Pacific Rubiales of its rights to approximately 71-77% of the working interest in the Cerrito Block, subject to Ecopetrol approval.

The Company completed the transfer of contract operatorship of Topoyaco to Pacific Rubiales without any resulting payment or compensation upon receipt of ANH approval on December 30, 2011. Although no longer the contract operator, the Company retains its full economic interest of 50% in the block.

In November 2011, the operator of the block began setting casing to test the Yaraqui-1X exploratory well of the block and began the first test conducted in the Villeta formation. However, in January 2012, the operator decided to suspend the Yaraqui-1X well as tests over indicated log pays resulted in uneconomic heavy oil flows.

Mecaya

The Company has acquired a 43% beneficial interest in the Mecaya E&PC. On December 15, 2009 the Company acquired, pursuant to the Prospero Acquisition, a 28% beneficial interest in the Mecaya Block, subject to ANH approval. The Company also executed a purchase and sale agreement on November 19,

2009 with Petex to acquire an additional 15% beneficial interest in the Mecaya Block, subject to ANH approval.

Cordillera Basin

COR-33

The Company obtained a 100% interest in this block as part of the ANH 2010 Open Round but has since lowered its interest in the block to 10% and later to 6% (see Note 1 in table above). This block, which has an area of 22,658 hectares, was awarded to the Company as a Type 1 E&P block and carries an additional X factor royalty of 1%. During the first 36-month exploration phase, the Company is committed to the drilling of one exploratory well and the acquisition of seismic. Located on the border of the Cordillera and Upper Magdalena Valley basins, near the Guando field, the main reservoirs of COR-33 are Monseratte Sandstones and the source rock is the Villeta Formation. The block has potential structures with API gravity of greater than 25 degrees.

RESERVES DATA AND OTHER INFORMATION

The Company's reserves were evaluated by Petrotech, an independent petroleum engineering consulting firm, effective December 31, 2011, in accordance with NI 51-101. Petrotech is an independent qualified reserves evaluator appointed pursuant to NI 51-101. The Petrotech Report is dated effective December 31, 2011 with a preparation date as of April 9, 2012 and is filed on the Company's website. The Petrotech Report has been prepared in accordance with all industry standard procedures and is in conformity to the COGE guidelines.

The Company's *Statement of Reserves Data and Other Oil and Gas Information* on Form 51-101F1, the *Report on Reserves Data by Independent Qualified Reserves Evaluator* on Form 51-101F2, the *Report of Management and Directors on Oil and Gas Disclosure* on Form 51-101F3, and the *Notice of Filing of 51-101F1 Information* on Form 51-101F4 in respect of the year ended December 31, 2011 have been filed under the Company's profile on SEDAR at www.sedar.com and are incorporated by reference in this AIF.

DESCRIPTION OF CAPITAL STRUCTURE

The authorized capital of the Company consists of an unlimited number of Common Shares and an unlimited number of preferred shares ("**Preferred Shares**"). Prior to the completion of the RTO, the Company consolidated its issued and outstanding Common Shares on a one-for-three basis. On July 19, 2011, in conjunction with the Name Change, the Company once again consolidated its issued and outstanding Common Shares on a one-for-seven basis under the Share Consolidation. As at the date hereof, there are 147,116,904 Common Shares issued and outstanding as fully paid and non-assessable and no Preferred Shares. As at the date hereof, there are 14,711,690 Common Shares reserved for issuance pursuant to the exercise of options, of which 13,743,529 have been granted and are fully vested. As at the date hereof, there are 19,006,215 Warrants issued and outstanding.

Common Shares

Subject to the rights of the holders of Preferred Shares, the holders of Common Shares are entitled to dividends if, as and when declared by the Board of Directors, to one vote per Common Share at meetings of the Shareholders and upon liquidation, dissolution or winding-up, to share equally in such assets of the

Company as are distributable to the holders of Common Shares. The Common Shares do not carry any pre-emptive, subscription or conversion right.

Preferred Shares

The Preferred Shares may be issued in one or more series and; with respect to the payment of dividends and the distribution of assets in the event that the Company is liquidated, dissolved or wound-up; rank prior to the Common Shares. The Board of Directors have the authority to issue Preferred Shares in series and determine the designation, rights, privileges, restrictions and conditions to attach to the Preferred Shares of each series without any further vote or action by Shareholders.

Warrants

Each full Warrant entitles the holder thereof to purchase an additional Common Share at an exercise price of \$3.50 (post-Share Consolidation) for a term of 5 years from the date of grant. Additional rights of the Warrant holders, such as rights to adjustments to exercise price, subdivision and consolidation, amongst others, are set out in the Warrant Indenture and First Supplemental Indenture which are filed on SEDAR and can be found at www.sedar.com. The following table describes the outstanding Warrants of the Company as at April 9, 2012:

Number of Warrants Outstanding and Exercisable	Exercise Price	Expiry Date
17,675,500 ⁽¹⁾⁽³⁾	\$3.50 ⁽³⁾	February 22, 2016
1,330,715 ⁽²⁾⁽³⁾	\$3.50 ⁽³⁾	February 22, 2016

Notes:

- (1) The Warrants were issued pursuant to the February 2011 Offering and includes Warrants issued as part of the agent's commission thereunder;
- (2) These Warrants were issued pursuant to the May 2011 Offering on a private placement basis.
- (3) Effective July 19, 2011, and in conjunction with the Share Consolidation and Name Change, the Company consolidated the Warrants on a 7:1 basis, with the result that each consolidated Warrant now entitles its holder to acquire one Common Share at a price of \$3.50.

Senior Secured Notes

On May 5, 2011, the Company closed an offering of \$31,050,000 Units, which consisted of one Senior Secured Note and 43 Warrants. The net proceeds from the sale of the Senior Secured Notes and Warrants were used by the Company to replenish the funds of the Company that were used to purchase certain interests under the Jaguar Transaction, including the 32.13% interest in Cubiro Block C, with the remainder of the proceeds being used to fund the increase in the Company's share of the 2011 capital and exploration program at Cubiro Block C as a result of the acquisition of the additional interest.

The Senior Secured Notes bear interest at a rate of 9% per annum from May 5, 2011, payable quarterly in arrears, and are secured by, among other things, the Company's interest in Cubiro Block C, a general security agreement of the Company and a pledge by the Company of its wholly-owned Panamanian subsidiary, Alange, Corp. which holds the interest in Cubiro Block C, as well as secondary security in the form of a pledge by the Company of the shares of its remaining wholly-owned subsidiaries.

In addition, the Company has undertaken a mandatory redemption schedule whereby it shall redeem, at a price equal to the principal amount, one-third of the Senior Secured Notes, on a pro-rata basis, every

twelve months until maturity, being May 5, 2014. For further details regarding the Senior Secured Notes, see “Historical Overview – Financing of Jaguar Transaction”.

Shareholder Rights Plan

On May 13, 2011, the Board of Directors approved the SRP entered into between the Company and Equity Financial Trust Company as rights agent. The purpose of the SRP is to encourage an offeror to either make a Permitted Bid (as defined in the SRP), without approval of the Board of Directors, having terms and conditions designed to meet the objectives of the SRP, or to negotiate the terms of the offer with the Board of Directors. Failure to do either creates the potential for substantial dilution of the offeror’s position by allowing current shareholders to purchase Common Shares at a deep discount.

The Exchange accepted notice of filing of the SRP, subject to standard conditions including ratification of the SRP by Shareholders. The SRP was subsequently confirmed by Shareholders at the Company’s 2011 annual and special meeting held on June 15, 2011. The SRP will continue to be in force until the annual meeting of Shareholders in 2014 or until otherwise terminated pursuant to the provisions of the SRP. A copy of the SRP has been filed and is available on SEDAR at www.sedar.com.

Dividends

Since the RTO on July 13, 2009, the Company has not paid any dividends. Other than pursuant to the Exchange’s policies, there are no restrictions on the Company that would prevent it from paying a dividend. However, the Company does not currently have a dividend distribution policy in place.

MARKET FOR SECURITIES **Trading Price and Volume**

The Common Shares and Warrants are listed on the Exchange under the trading symbols “PMD” and “PMD.WT” respectively. The closing price of the Common Shares and Warrants on April 9, 2012 was \$1.49 and \$0.405 respectively. The Common Shares were formerly listed on the NEX Exchange. On April 16, 2009, the trading of the Company’s Common Shares was halted at its request pending the announcement of the RTO. Following the RTO, the Common Shares commenced trading on the Exchange on July 15, 2009.

Common Shares

The following table sets out the high and low trading of the Common Shares for the periods indicated, as reported by the Exchange:

Period (2011)	High	Low	Trading Volume
December	\$1.62	\$1.07	3,472,018
November	\$1.79	\$1.42	4,408,271
October	\$1.93	\$0.84	5,638,511
September	\$1.16	\$0.88	3,841,806
August	\$1.32	\$0.81	3,874,329
July	\$1.75	\$1.12	1,675,234
June	\$1.89	\$1.33	2,234,414
May	\$2.03	\$1.295	5,614,823
April	\$2.38	\$1.82	7,931,114
March	\$2.345	\$1.96	11,771,041

February	\$2.24	\$1.82	10,218,777
January	\$3.85	\$1.925	33,724,766

Warrants

The Warrants are listed on the Exchange as “PMD.WT” and commenced trading on February 22, 2011.

Period (2011)	High	Low	Trading Volume
December	\$0.41	\$0.26	49,513
November	\$0.55	\$0.34	247,570
October	\$0.44	\$0.12	33,074
September	\$0.40	\$0.16	174,600
August	\$0.35	\$0.18	95,429
July	\$0.525	\$0.28	100,130
June	\$0.56	\$0.42	285,214
May	\$0.91	\$0.42	523,314
April	\$0.98	\$0.63	304,572
March	\$0.98	\$0.63	2,286,972
February	\$0.875	\$0.595	799,936

Prior Sales

There are no securities of the Company that were issued but not listed on a marketplace during the most recently completed financial year of the Company and up to the date hereof, other than the Prospero Warrants and the following:

Date of Grant	Type of Security	Number of Securities	Exercise/Conversion Price	Expiry Date
May 9, 2011	Stock Options	5,184,285	\$2.10	May 9, 2016
June 15, 2011	Stock Options	100,000	\$2.10	June 15, 2016
October 24, 2011	Stock Options	270,000	\$1.13	October 24, 2016
October 27, 2011	Stock Options	120,000	\$1.20	October 27, 2016
November 11, 2011	Stock Options	4,278,000	\$1.60	November 11, 2016
December 14, 2011	Stock Options	61,000	\$1.60	December 14, 2016

Escrowed Securities

The Common Shares held by principals of the Company following the completion of the RTO are subject to escrow. The following table sets forth the number of Common Shares held in escrow as of the date hereof.

Designation of Class	Number of Common Shares held in Escrow	Percentage of Total Common Shares
Common Shares	23,037	0.016%

At the completion of the RTO, there were 153,571 Common Shares held in escrow. Equity Financial Trust Company is the escrow agent. Any Common Shares acquired pursuant to options to purchase Common Shares held by principals of the Company will be subject to escrow as required by Policy 5.4 of the Exchange. Pursuant to the rules of the Exchange, where shares subject to escrow are to be held by a company, such company will be required to agree not to carry out, while its shares are in escrow, any

transaction that would result in the change of control of the Company. Any such company will be required to further undertake to the Exchange that, to the extent reasonably possible, it will not permit or authorize any issuance or transfer of securities which could reasonably result in a change of control of the Company. All holders of escrowed Common Shares must obtain a consent from the Exchange to transfer such shares, other than in specified circumstances set out in the applicable escrow agreement.

Escrow Release Schedule

The schedule of release of the Common Shares subject to escrow is as follows:

Release Dates	Percentage of Total Escrowed Securities to be Released
July 14, 2009	10% of the remaining escrow securities
January 14, 2010	15% of the remaining escrow securities
July 14, 2010	15% of the remaining escrow securities
January 14, 2011	15% of the remaining escrow securities
July 14, 2011	15% of the remaining escrow securities
January 14, 2012	15% of the remaining escrow securities
July 14, 2012	15% of the remaining escrow securities

DIRECTORS AND OFFICERS

As of the date hereof, the directors and executive officers of the Company (as a group) owned, or exerted direction or control over, a total of 2,159,871 Common Shares, representing approximately 1.47% of the total outstanding Common Shares.

The following table sets forth the name, state or province and country of residence of each director and executive officer of the Company, as well as such individual's position within the Company, principal occupation within the five preceding years and number of Common Shares beneficially owned by each such director or executive officer. Information as to residence, principal occupation and Common Shares owned is based upon information furnished by the person concerned and is as at the date hereof. Each director will hold office until the next annual meeting of the Company or until his successor is elected or appointed, unless his office is earlier vacated.

Name, Location of Residence and Current Position with the Company	Director Since	Principal Occupation	Common Shares Owned
Serafino Iacono ⁽⁸⁾ Caracas, Venezuela Director	April 7, 2011 November 4, 2008 – February 19, 2009 ⁽¹¹⁾	Co-Chairman of the board and director of Pacific Rubiales since January 23, 2008; Co-Chairman of the board of Pacific Stratus from August 21, 2006 to January 23, 2008. Chief Executive Officer of Bolivar Gold Ltd., a gold producer, from February 2003 to February 2006. Mr. Iacono is also a director of Gran Colombia Gold Corp. and Pacific Coal Resources Ltd.	821,571 ⁽¹³⁾

Name, Location of Residence and Current Position with the Company	Director Since	Principal Occupation	Common Shares Owned
Luis M. Morelli ⁽²⁾⁽⁵⁾⁽⁷⁾ Bogota, Colombia Director	July 13, 2009 November 4, 2008 – February 19, 2009 ⁽¹¹⁾	Director, Solana Resources Limited (May, 2008 - November 2008); Governor of Department of Norte de Santander, Colombia (2004-2008); several positions with Occidental de Colombia, Inc. (March 1989 – July 2003).	Nil
Miguel de la Campa ⁽³⁾ Caracas, Venezuela Director	April 7, 2011 November 4, 2008 – February 19, 2009 ⁽¹¹⁾	Co-Chairman of the board and director of Pacific Rubiales since January 23, 2008; Co-Chairman of the board of Pacific Stratus from August 21, 2006 to January 23, 2008. President and Chief Operating Officer of Bolivar Gold Ltd., a gold producer, from February 2003 to February 2006. Mr. de la Campa is also a director of Gran Colombia Gold Corp. and Pacific Coal Resources Ltd.	644,857 ⁽¹²⁾
Robert J. Metcalfe ⁽¹⁾⁽⁴⁾⁽⁶⁾ Ontario, Canada Director	July 13, 2009 November 4, 2008 – February 19, 2009 ⁽¹¹⁾	Counsel, Metcalfe, Blainey & Burns LLP (January 2001 to present); Director, Coalcorp Mining Inc. (2006-March 2009); Director, President and CEO, NXA Inc. (2007 to October 2009); Director, AirIQ Inc. (2007-January 2010); Director, Envirotower Inc. (2005 to present); Director and Chairman of the Board, Medoro Resources Ltd. (2009 to present); Director, Xinergy Inc. (2009 to present).	3,043
Ian Mann ⁽²⁾⁽⁴⁾⁽⁸⁾ Smith's Parish, Bermuda Director	March 7, 2011	President, Meridian Fund Managers Ltd., a BVI-registered fund manager that oversees two alternative investment funds primarily focused on global mining and oil and gas companies (November 2003-present)	35,714
Jaime Perez Branger ⁽⁶⁾⁽⁹⁾ Caracas, Venezuela Director Executive Chairman	October 8, 2009	Executive Chariman of the Company since June 2011; Managing Director of NextVentures Corp. (2006 to present); President, C.A. Agropecuaria, San Francisco, a Venezuelan family holding company which, among other things, holds interests in tourism and construction companies (May 2003 – May 2010).	405,523 ⁽¹⁰⁾
Nelson Ortiz Caracas, Venezuela Director	March 5, 2012	Partner of Grupo Austral (April 2007 - present); President of the Caracas Stock Exchange (November 2000 to April 2007).	25,714 ⁽¹⁴⁾
Luciano Biondi Golinucci Bogota, Colombia Chief Executive Officer	N/A	CEO of the Company since April 2011; Consultant, PetroMagdalena Energy Corp. (January 2011 to April 2011); Chairman and Chief Executive Officer, Infuca (May 2008 to January 2011); Chairman and Chief Executive Officer, Cascopet (Auguts 1999 to May 2008)	14,286
Gregg Vernon Calgary, Alberta Interim Chief Operating Officer	N/A	Interim COO of the Compnay since January 2011; Consultant to the Company since September 2009; Chairman of Prospero Hydrocarbons from January 2008 to September 2009; Vice President of Petro Andina Resources Inc. from January 2005 to December 2007.	90,621

Name, Location of Residence and Current Position with the Company	Director Since	Principal Occupation	Common Shares Owned
Michael Davies Ontario, Canada Chief Financial Officer	N/A	Chief Financial Officer of the Company since July 2009; Chief Financial Officer, Gran Colombia Gold Corp. (August 2010 – present); Chief Financial Officer, Coalcorp Mining Inc. (May 2007 to December 2008); and Vice President Finance, The Clorox Company of Canada (September 2004 to April 2007).	47,371
Peter Volk Ontario, Canada General Counsel & Secretary	N/A	General Counsel and Secretary of the Company since July 2009; General Counsel and Secretary, Pacific Rubiales Energy Corp. (January 23, 2008 - present); and General Counsel and Secretary, Pacific Stratus Energy Ltd. (October 26, 2004 - January 23, 2008).	71,171

Notes:

- (1) Chair of the Audit Committee.
- (2) Member of the Audit Committee.
- (3) Chair of the Compensation Committee.
- (4) Member of the Compensation Committee.
- (5) Chair of the Corporate Governance and Nominating Committee.
- (6) Member of the Corporate Governance and Nominating Committee.
- (7) Chair of the Reserves Committee.
- (8) Member of the Reserves Committee.
- (9) Executive Chairman of the Board
- (10) 259,286 held indirectly through Next Ventures Corp.
- (11) Each of Messrs. Iacono, de la Campa, Morelli and Metcalfe was elected to the Board of the Directors on November 4, 2008 in anticipation of the completion of the RTO and resigned on February 19, 2009 following termination of the initial plan to complete the RTO.
- (12) 28,571 held indirectly through Orinoquia Belt C.A.
- (13) 40,714 held indirectly through Taribo Holdings Ltd. and 478,000 held indirectly through Ice Rose Holdings Inc.
- (14) Held indirectly through Galisteo Investments C.V.

Corporate Cease Trade Orders

Except as disclosed below, no director or executive officer of the Company, is, or within the ten years prior to the date hereof, has been a director, chief executive officer or chief financial officer of any company that was the subject of a cease trade order or similar order or an order that denied the relevant company access to any exemptions under securities legislation for a period of more than 30 consecutive days, while such director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer of the company being the subject of such order, or that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer in the company being the subject of such order and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer of the subject company.

Robert Metcalfe, a director of the Company, was a judge-affirmed independent director of Hollinger Inc. from September 27, 2004 to July 21, 2005, in which capacity he was the subject of a management and insider cease trade order (since lifted) which existed prior to his appointment to the board of directors of Hollinger Inc., due to the inability of Hollinger Inc. to file financial statements resulting from the non-filing of financial statements by Hollinger Inc.'s U.S. subsidiary, Hollinger International Inc.

Luis Miguel Morelli is a director of Azabache Energy Inc., which was the subject of cease trade orders by the Alberta Securities Commission (November 4, 2010), the British Columbia Securities Commission (November 5, 2010) and the Ontario Securities Commission (November 22, 2010) for failing to file its

annual financial statements and associated filings for the year ended June 30, 2010. In connection with the cease trade orders, the Exchange suspended the trading of Azabache Energy Inc.'s securities effective November 4, 2010; trading has since been resumed.

Ian H. Mann was a director of L.G.R. Resources Ltd., a reporting issuer whose shares were then listed for trading on the CNQ, at a time when its shares were subject to a management cease trade order issued by the British Columbia Securities Commission on April 4, 2007 (revoke May 18, 2007) for a period in excess of 30 consecutive days for failure to file certain financial information within the required time period as prescribed by applicable securities legislation. This was due to funds which had been deposited in an escrow account at a bank in the Ukraine as a show of good faith for a pending oil and gas concession not being repaid by the bank as agreed on the termination of negotiations for the properties. What was not known was that the bank was controlled by the person who was trying to sell them the concessions. After intervention of the Canadian consulate in Ukraine, the funds were repaid and they were able to release their financial statements.

Corporate Bankruptcies

No director or executive officer, or a shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company, is or within ten years prior to the date hereof, has been a director or executive officer of any company, that while that person was acting in that capacity or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

Penalties or Sanctions

No director or executive officer of the Company, and no shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company, has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority, or any other penalties or sanctions imposed by a court or regulatory body that would be likely to be considered important to a reasonable investor making an investment decision.

Personal Bankruptcies

No director or executive officer of the Company, and no shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company, nor any personal holding company of any such person, has, during the ten years prior to the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or has been subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold his, her or its assets.

Conflicts of Interest

There are potential conflicts of interest to which the directors or officers of the Company may be subject in connection with the operations of the Company. All of the directors and officers are engaged in and will continue to be engaged in corporations or businesses which may be in competition with the business of the Company. Accordingly, situations may arise where the directors and officers will be in direct competition with the Company. Conflicts, if any, will be subject to the procedures and remedies as provided under the BCCA.

The Company's directors and officers may serve as directors or officers of other companies or have significant shareholdings in other resource companies and, to the extent that such other companies may participate in ventures in which the Company may participate, the directors of the Company may have a conflict of interest in negotiating and concluding terms respecting the extent of such participation. If such conflict of interest arises at a meeting of the Company's directors, a director who has such a conflict will abstain from voting for or against the approval of such participation or such terms. From time to time several companies may participate in the acquisition, exploration and development of natural resource properties thereby allowing for the participation in larger programs, permitting involvement in a greater number of programs and reducing financial exposure in respect of any one program. It may also occur that a particular company will assign all or a portion of its interest in a particular program to another of these companies due to the financial position of the Company making the assignment. In accordance with the laws of the province of British Columbia, the directors of the Company are required to act honestly, in good faith and in the best interests of the Company. In determining whether or not the Company will participate in a particular program and the interest therein to be acquired by it, the directors will primarily consider the degree of risk to which the Company may be exposed and its financial position at that time.

Currently, Serafino Iacono and Miguel de la Campa are directors and officers of Pacific Rubiales and Peter Volk is an officer of the Company and of Pacific Rubiales, which has an interest in the Topoyaco area property and is the vendor of the Cerrito and Arrendajo properties.

LEGAL PROCEEDINGS

From time to time, the Company is the subject of litigation arising out of the Company's operations. Damages claimed under such litigation may be material or may be indeterminate and the outcome of such litigation may materially impact the Company's financial condition or results of operations. While the Company assesses the merits of each lawsuit and defends itself accordingly, the Company may be required to incur significant expenses or devote significant resources to defend itself against such litigation. These claims (if any) are not currently expected to have a material impact on the Company's financial position.

In April 2011, the Company was named in a proposed class action (including a claim based on the Ontario *Securities Act*) grounded in the restatement of production numbers detailed under the section "*Historical Overview – Restatement of Production Numbers*". The damages claimed are in the amount of \$50 million. On May 26, 2011, the Company was served with the statement of claim. The Company has filed a Notice of Intent to Defend. The Court has not yet been asked to certify the class action or to provide the required leave for the plaintiffs to proceed with the portion of the class action based on the Ontario *Securities Act*.

The Company is also presently undergoing an arbitration dispute which was filed against the Company by NCT with respect to NCT's claim that it is entitled to a payment of US\$36 million for a share of the reserves acquired in Cubiro by the Company. The dispute is being heard before the Camara de Comercio de Bogota arbitration tribunal and is in the evidentiary phase.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Except as disclosed herein, management of the Company does not have any material interest in any transactions or any proposed transactions which has materially affected or will materially affect the Company or any of its subsidiaries.

TRANSFER AGENT AND REGISTRAR

Equity Financial Trust Company at its Toronto office located at 200 University Ave., Suite 400, Toronto, Ontario, M5H 4H1 is transfer agent and registrar of the Common Shares.

MATERIAL CONTRACTS

The Company did not enter into any material contracts during the most recently completed financial year, and has not entered into any material contract since January 1, 2012 and before the most recently completed financial year that is still in effect, other than material contracts entered into in the ordinary course of business that are not required to be filed under National Instrument 51-102 – *Continuous Disclosure Obligations* and the contracts set forth below:

1. Arrangement Agreement between the Company and Prospero Hydrocarbons Inc. dated June 27, 2009;
2. Letter of Intent between Alange, Corp. and Prospero Hydrocarbons Inc. dated June 29, 2009;
3. Amended Letter of Intent between Alange, Corp. and Prospero Hydrocarbons Inc. dated July 15, 2009;
4. Second Amending Agreement dated September 9, 2009 between the Company, 1434858 Alberta Ltd. and Prospero Hydrocarbons Inc.;
5. Transaction Agreement between Delavaco and the Company dated September 30, 2009; and
6. Amalgamation Agreement between the Company, Alange Ontario Corp. and Delavaco dated October 22, 2009.
7. Warrant Indenture between the Company and Equity Financial Trust Company dated February 22, 2011 in connection with the issuance of Warrants under the February 2011 Offering.
8. First Supplemental Indenture to Warrant Indenture dated as of May 5, 2011.
9. Note Indenture between the Company and Equity Financial Trust Company dated May 5, 2011 in respect of the issuance of the Senior Secured Notes under the May 2011 Offering.
10. Shareholder Rights Plan Agreement between the Company and Equity Financial Trust Company (as Rights Agent) dated as of May 13, 2011.

INTERESTS OF EXPERTS

The auditors of the Company are PricewaterhouseCoopers LLP, Chartered Accountants, Toronto, Ontario. PricewaterhouseCoopers LLP have prepared an independent auditor's report dated April 5, 2012 in respect of the Company's consolidated financial statements as at December 31, 2011 and 2010 and for the years ended December 31, 2011 and 2010. PricewaterhouseCoopers LLP has advised that they are independent with respect to the Company within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario.

As of the date hereof, neither the independent petroleum expert, Petrotech nor its designated professional, John Yu, directly or indirectly owned any of the outstanding Common Shares or other securities of the Company. No director, officer or employee of Petrotech is to be or has been elected, appointed or employed by the Company.

ADDITIONAL INFORMATION

Additional information about the Company, including, but not limited to, directors' and officers' remuneration and indebtedness, principal holders of the Company's securities and securities authorized for issuance under the Company's stock option plan is contained in the management information circular of the Company dated May 11, 2011. Additional financial information is provided in the audited annual financial statements and management's discussion and analysis and the unaudited interim financial statements. This information and other pertinent information regarding the Company can be found on SEDAR at www.sedar.com.