

2006
MANAGEMENT'S
DISCUSSION AND ANALYSIS
FINANCIAL STATEMENTS



STRENGTH
IN LATIN AMERICA

SINCE ENTERING COLOMBIA IN 1996, PETROMINERALES HAS BECOME AN INCREASINGLY IMPORTANT PLAYER IN THE COUNTRY'S HYDROCARBON INDUSTRY. THE COLOMBIAN GOVERNMENT HAS STIMULATED OIL AND GAS ACTIVITY IN THE COUNTRY BY INTRODUCING COMPELLING NEW CONTRACTING AND FISCAL TERMS MAKING IT ONE OF THE MOST ATTRACTIVE PLACES IN THE WORLD TO EXPLORE. HEADQUARTERED IN BOGOTÁ, PETROMINERALES BEGAN PRODUCTION FROM TWO DEVELOPMENT FIELDS IN 2003, BOTH WITH HIGH-IMPACT GROWTH POTENTIAL. ON THE EXPLORATION FRONT, THE COMPANY HAS AMASSED 1.5 MILLION ACRES OF EXPLORATION LANDS IN TWO OF THE COUNTRY'S MOST PROLIFIC BASINS. ON JUNE 29, 2006, PETROMINERALES BEGAN TRADING ON THE TORONTO STOCK EXCHANGE UNDER THE SYMBOL PMG. PREVIOUSLY IT HAD OPERATED AS A WHOLLY-OWNED SUBSIDIARY OF CALGARY-BASED PETROBANK ENERGY AND RESOURCES LTD., WHICH TODAY OWNS 80.7 PERCENT OF THE OUTSTANDING COMMON SHARES.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Summary of Annual Results ⁽¹⁾

(All references to \$ are United States dollars unless otherwise noted)

	2006	2005	2004
Financial			
(\$000s, except where noted)			
Crude oil revenue	43,676	16,671	16,700
Funds flow from operations ⁽²⁾	28,789	8,020	9,260
Per share – basic and diluted (\$) ⁽³⁾	0.33	0.10	0.12
Net income	14,798	2,253	1,459
Per share – basic and diluted (\$) ⁽³⁾	0.17	0.03	0.02
Capital expenditures	73,365	32,206	10,754
Total assets	181,407	88,317	58,724
Cash and working capital (deficit)	11,469	(15,225)	(2,118)
Common shares outstanding, end of year (000s)			
Basic	95,000	79,000	79,000
Diluted	98,051	79,000	79,000
Operations			
Operating netback (\$/bbl)			
Crude oil revenue	54.54	44.30	33.58
Royalties	4.38	3.54	2.69
Production expenses	6.87	7.84	5.87
Operating netback	43.29	32.92	25.02
Average daily crude oil production (bbls)	2,194	1,031	1,359

(1) Amounts in the periods ending on or before June 30, 2006 have been translated and restated in United States dollars from the previously reported Canadian dollar amounts. See "Change in Accounting Policy" within Management's Discussion and Analysis ("MD&A").

(2) Calculated based on cash flow from operations before changes in other non-cash working capital.

(3) Assumed weighted average number of basic and diluted shares totalled 78,999,900 prior to incorporation on April 20, 2006. See "Formation of the Company" within MD&A.

The following MD&A is dated March 8, 2007 and should be read in conjunction with the consolidated financial statements and accompanying notes of Petrominerales Ltd. ("Petrominerales" or the "Company") as at and for the years ended December 31, 2006. Additional information for the Company, including the Annual Information Form ("AIF") can be found on SEDAR at www.sedar.com or at www.petrominerales.com. In addition to historical information, the MD&A contains forward-looking statements that are generally identifiable as any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions or future events of performance (often, but not always, through the use of words or phrases such as "will likely result," "expected," "is anticipated," "believes," "estimated," "intends," "plans," "projection" and "outlook") are not historical facts and may be forward-looking and may involve estimates, assumptions and uncertainties which could cause actual results or outcomes to differ materially from those expressed in such forward-looking statements. Actual results achieved during the forecast period will vary from the information provided herein as a result of numerous known and unknown risks and uncertainties and other factors. Such factors include, but are not limited to: general economic, market and business conditions; fluctuations in oil and gas prices; the results of exploration and development of drilling and related activities; fluctuation in foreign currency exchange rates; the uncertainty of reserve estimates; changes in environmental and other regulations; risks associated with oil and gas operations and other factors, many of which are beyond the control of the Company. Accordingly, there is no representation by Petrominerales that actual results achieved during the forecast period will be the same in whole or in part as those forecast. Further, any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events, except as required by applicable securities laws.

This report contains financial terms that are not considered measures under Canadian generally accepted accounting principles (“GAAP”), such as funds flow from operations, funds flow per share and operating netback. These measures are commonly utilized in the oil and gas industry and are considered informative for management and shareholders. Specifically, funds flow from operations and funds flow per share reflect cash generated from operating activities before changes in other non-cash working capital. Funds flow from operations should not be considered an alternative to, or more meaningful than cash flow from operating activities as determined under GAAP as an indicator of the Company’s performance. Management considers funds flow from operations and funds flow per share important as they help evaluate performance and demonstrate the Company’s ability to generate sufficient cash to fund future growth opportunities. Profitability relative to crude oil prices per barrel of production is demonstrated by an operating netback. All amounts are in United States dollars, unless otherwise stated.

Highlights

- On June 29, 2006, Petrominerales completed its initial public offering (the “IPO”) of common shares and its common shares commenced trading on the Toronto Stock Exchange under the symbol “PMG”;
- Production more than doubled, averaging 2,194 barrels per day (“bopd”) in 2006, mainly as a result of the completion of the Orito-117 and 118 wells late in the first quarter of 2006;
- Operating netbacks increased by 32 percent to \$43.29 per barrel in 2006 reflecting increases in world crude oil prices, operating efficiencies realized from production increases and Colombia’s compelling fiscal regime;
- Funds flow from operations increased by 259 percent to \$28.8 million;
- Net income increased by 557 percent to \$14.8 million.

Formation of the Company

Petrominerales is involved in the exploration, development and production of crude oil in the country of Colombia through its 100-percent-owned subsidiary Petrominerales Colombia Ltd. Petrominerales was incorporated in the Bahamas on April 20, 2006 for the purpose of acquiring all of the issued and outstanding shares of Petrominerales Colombia Ltd., an indirect wholly-owned subsidiary of Petrobank Energy and Resources Ltd. (“Petrobank”). On June 29, 2006, an initial public offering (the “IPO”) of Petrominerales’ common shares was completed on the Toronto Stock Exchange, reducing the percentage owned by Petrobank from 100 percent to 80.7 percent.

In conjunction with the completion of the IPO, Petrominerales acquired all of the issued and outstanding common shares of Petrominerales Colombia Ltd. The acquisition of Petrominerales Colombia Ltd. by the Company was a non-arms length transaction and as such has been recorded by the Company at carrying value. The Company’s financial statements presented for comparative purposes reflect the financial position, results of operations and cash flows as if Petrominerales had been combined with Petrominerales Colombia Ltd. since inception.

Revenue

Crude oil revenue increased by 162 percent to \$43.7 million in 2006 from \$16.7 million in 2005. Related oil production increased by 113 percent in 2006 to 2,194 bopd, while the average sales price increased by 23 percent in 2006 to \$54.54 per barrel.

Average Daily Crude Oil Production

Crude oil production increased by 113 percent to 2,194 bopd in 2006 from 1,031 bopd averaged in 2005. The significant increase was due mainly to production commencing from the Orito-117 and 118 wells late in the first quarter of 2006, and successful workovers in Orito and Neiva. The Company’s ongoing development programs at Orito and Neiva are expected to result in further production additions in 2007.

Average Benchmark Crude Oil Price

Years ended December 31,	2006	2005
WTI (\$/bbl)	66.25	56.70

Realized Prices

Oil sales prices in Colombia averaged \$54.54 per barrel in 2006, representing an \$11.71 per barrel discount to WTI (18 percent of WTI) compared to a discount of \$12.40 per barrel (22 percent of WTI) in 2005. The discounts to WTI decreased as an increased percentage of production is coming from higher quality Orito oil (1,875 bopd in 2006 compared to 685 bopd in 2005). In December the Company negotiated a new sales contract for Orito production resulting in an increase in realized prices relative to WTI. WTI averaged \$61.96 per barrel in December and the Company’s Orito production received \$54.92 per barrel representing a \$7.04 discount (11.4 percent) to WTI.

Royalties

Royalties are fixed at a rate of eight percent until the Company's net production per field exceeds 5,000 bopd. Accordingly, royalty expense increased in proportion with revenue to \$3.5 million in 2006 from \$1.3 million in 2005.

Production Expenses

Production expenses increased to \$5.5 million in 2006 compared to \$3.0 million in 2005. On a unit of production basis, production costs decreased by 12 percent to \$6.87 per barrel in 2006 from \$7.84 per barrel in 2005. Ecopetrol, the state oil company and the Company's partner, is responsible for primary production operations at Orito and Neiva at a cost (subject to annual inflation, currency, and other adjustments) of \$4.14 per barrel and \$2.25 per barrel, respectively. The Company's remaining production expenses are primarily fixed, which results in lower production costs per barrel as production increases.

General and Administrative Expenses

General and administrative expenses increased by 48 percent in 2006 to \$4.3 million from \$2.9 million in 2005. The increases were primarily due to management fees paid to Petrobank, and costs associated with operating a publicly-owned entity.

Stock-Based Compensation Expenses

Stock-based compensation expenses totalled \$0.5 million in 2006 relating to stock options granted. Before completion of the IPO, there were no stock options outstanding. The calculation of this non-cash expense is determined based on the fair value of stock options granted amortized over the vesting period of the option. The exercise price of each option is not less than the market price of the Company's stock on the date of the grant.

Depletion, Depreciation and Accretion

Depletion, depreciation and accretion expense increased to \$13.5 million (\$16.81 per barrel) in 2006 from \$5.8 million (\$15.32 per barrel) in 2005. The rate increased slightly over 2005, in spite of a 42 percent increase in gross working interest total proved reserves to 13.6 million barrels, due to higher capital expenditures totalling \$73.4 million and \$106.0 million of future development costs associated with proved undeveloped reserves.

Taxes

The Company recorded a \$1.9 million income tax expense in 2006 compared to \$1.3 million in 2005. Taxes consist primarily of presumptive income taxes in Colombia which are based on equity capitalization levels. Presumptive income taxes paid in excess of ordinary income taxes owing can be recovered against income taxes in future periods, and can be carried forward for five years. An external reserve evaluation effective December 31, 2006, anticipates an ordinary cash income tax liability commencing in 2008. Petrominerales estimates the tax liability to be delayed until at least 2009 due to additional exploration expenditures which are deductible for tax purposes and are not reflected in the external reserve evaluation.

Based on tax reforms made effective January 1, 2007, tax losses may be carried forward without limitations to offset to taxable income; the presumptive income rate was reduced from six percent to three percent on the prior tax year's net tax equity; the seven percent remittance tax was eliminated; a 1.2 percent equity tax was introduced, the income tax rate was reduced from 38.5 percent to 34 percent in 2007, and to 33 percent for subsequent years; and, the special deduction for the acquisition or construction of real fixed assets was increased to 40 percent from 30 percent.

Net Income

Net income in 2006 increased by 557 percent to \$14.8 million (\$0.17 per share, basic and diluted) compared to \$2.3 million (\$0.03 per share, basic and diluted) in 2005. The increase was due to substantially higher production and crude oil sales prices, partially offset by higher royalties, production expenses and depletion, depreciation and accretion expense.

Funds Flow From Operations

The Company's funds flow from operations increased by 259 percent to \$28.8 million in 2006 from \$8.0 million in 2005. On a basic and diluted per share basis, funds flow from operations increased by 230 percent to \$0.33 from \$0.10 in 2005. These increases were primarily a result of higher production and realized oil sales prices combined with lower per barrel operating and general and administrative costs.

Capital Expenditures

By Type (\$000s)	2006
Drilling and completions	37,966
Workovers	16,743
Seismic	6,285
Facilities, civil work, health safety and environment	4,997
Other	2,836
Capital expenditures before change in reporting currency	68,827
Effect of change in reporting currency	4,538
Total	73,365

Capital expenditures totalled \$73.4 million in 2006 compared to \$32.2 million in 2005. The expenditures in 2006 related to drilling, completions and workovers at Orito, recompletions and fracture stimulations at Neiva and initial work commitments on the Company's exploration blocks.

SUMMARY OF QUARTERLY RESULTS

	2006 ⁽¹⁾				2005 ⁽¹⁾			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Financial (\$000s except where noted)								
Crude oil revenue	11,038	12,818	13,581	6,239	3,932	4,953	3,921	3,865
Funds flow from operations ⁽²⁾	6,745	8,202	10,479	3,363	1,838	2,668	1,728	1,786
Per share – basic and diluted (\$) ⁽³⁾	0.07	0.09	0.13	0.04	0.02	0.03	0.02	0.02
Net income	2,677	4,252	6,462	1,407	257	1,182	386	428
Per share – basic and diluted (\$) ⁽³⁾	0.03	0.04	0.08	0.02	0.00	0.01	0.00	0.01
Capital expenditures	23,617	21,696	9,110	18,942	19,605	4,216	4,389	3,996
Operations								
Operating netback (\$/bbl)								
WTI benchmark price	60.17	70.54	70.72	63.48	60.05	63.19	53.17	49.84
Crude oil sales price	50.58	57.57	57.14	51.12	44.75	50.17	42.08	40.06
Royalties	4.05	4.60	4.61	4.09	3.59	4.01	3.37	3.21
Production expenses	7.35	6.97	5.59	8.36	8.59	7.84	8.11	6.89
Operating netback	39.18	46.00	46.94	38.67	32.57	38.32	30.60	29.96
Average daily crude oil production (bbls)	2,372	2,420	2,612	1,356	955	1,073	1,024	1,072

(1) Amounts in the periods ending on or before June 30, 2006 have been translated and restated in United States dollars from the previously reported Canadian dollar amounts. See "Change in Accounting Policy".

(2) Calculated based on cash flow from operations before changes in non-cash working capital.

(3) Assumed weighted average number of basic and diluted shares totalled 78,999,900 prior to incorporation on April 20, 2006. See "Formation of the Company".

Significant factors influencing quarterly results were:

- Completion of the Orito-117 and 118 wells late in the first quarter of 2006 resulting in a substantial increase in production;
- Significant decreases in per barrel operating and general and administrative costs in 2006 due to higher production;
- Historically high world crude oil prices over the past two years.

Commitments

The Company has committed to various work programs pursuant to its exploration contracts. These commitments are expected to total approximately \$25.9 million by June 30, 2008, and will be normal course exploration expenditures including acquiring and evaluating seismic data and drilling exploration wells. In addition, the Company has secured drilling rigs with contract terms extending until March 31, 2008. At year-end 2006, the remaining commitments on the drilling rigs totalled \$29.0 million, a significant portion of which will be used to satisfy commitments on the exploration contracts. Petrominerales plans to fund these commitments with existing cash balances, funds flow from operations, and available credit facilities. The Company has issued letters of credit totalling \$3.1 million outstanding in connection with the obligations on these exploration contracts.

The following is a summary of the estimated costs required to fulfill the Company's remaining contractual commitments as at December 31, 2006:

Type of Obligation (\$000s)	Total	< 1 Year	1-3 Years
Exploration contracts	25,900	16,400	9,500
Drilling rigs ⁽¹⁾	29,000	26,000	3,000
Total	54,900	42,400	12,500

(1) A significant portion of these contractual commitments will be used to satisfy work commitments on the Company's exploration contracts.

Liquidity and Capital Resources

During the year the Company completed the following share issuance:

Date Of Issue	Number Issued	Price Per Share	Gross Proceeds	Use Of Proceeds
June 29, 2006	16,000,000	Cdn\$3.75	\$53.8 million	Funded portion of 2006 capital program and continues to fund portion of 2007 capital program

The number of outstanding shares of Petrominerales of 95 million was unchanged at March 8, 2007 from December 31, 2006.

At December 31, 2006 the Company had no debt and net working capital of \$11.5 million, including cash and cash equivalents of \$28.6 million.

Possible sources of funds available to Petrominerales include the following:

- Funds flow from operations, which is expected to continue increasing with anticipated increases in production.
- The Company's Colombian operating line of credit, with a borrowing base of approximately \$3.1 million, is currently being used for letters of credit to guarantee work commitments under exploration blocks.
- The Company closed a \$50 million revolving credit facility with an initial \$25 million borrowing base on December 20, 2006 with an international bank. The facility bears interest at a rate equal to the LIBOR (London Interbank Offered Rate) plus three percent per annum. The borrowing base is reviewed semi-annually.
- The Company could raise funds through the issuance of additional common shares.
- Petrominerales may sell producing or non-producing assets to raise funds in the short term. Incremental cash resources generated as a result would be reduced by any resulting decreases in future cash flows and any required debt payments.
- An alternative financing vehicle is pre-export financing or a pre-sale of a portion of future crude oil production in Colombia. Petrominerales' contracts with Ecopetrol on the Orito and Neiva fields specifically permit the export of crude oil and there is no requirement for such proceeds to be remitted to Colombia.
- The Company expects to satisfy ongoing working capital requirements with funds flow from operations, cash and available credit facilities.

Petrominerales does not anticipate cash flows to exceed capital expenditures over the next 12 months. Currently, there are no legal restrictions on repatriating funds to the Bahamas or to shareholders once excess net cash flows are achieved.

Risks and Uncertainties

Petrominerales is exposed to a variety of risks, including but not limited to competitive, operational, political, environmental and financial.

The oil and gas industry is intensely competitive. Competition is particularly intense in the acquisition of prospective oil properties and oil and gas reserves. Petrominerales' competitive position depends on its geological, geophysical and engineering expertise, its financial resources, its ability to develop its properties and its ability to select, acquire and develop proved reserves. Petrominerales competes with a substantial number of other companies having larger technical staffs

and greater financial and operational resources. Many such companies not only engage in the acquisition, exploration, development and production of oil reserves, but also carry on refining operations and market refined products. Petrominerales also competes with major and independent oil companies and other industries supplying energy and fuel in the marketing and sale of oil to transporters, distributors and end users, including industrial, commercial and individual consumers. Petrominerales also competes with other oil companies in attempting to secure drilling rigs and other equipment necessary for drilling and completion of wells. Such equipment may be in short supply from time to time, and has been in particularly short supply recently due to the increase in the market price of oil. In addition, equipment and other materials necessary to construct production and transmission facilities may be in short supply from time to time. Finally, companies not previously investing in oil may choose to acquire reserves to establish a firm supply or simply as an investment. Such companies will also provide competition for Petrominerales.

Petrominerales is exposed to a number of operational risks inherent in the industry including accidents, well blowouts, uncontrolled flows and environmental risks. Operational risks are managed using prudent field operating procedures. The Company has a detailed emergency response plan to deal with potential incidents and maintains a comprehensive insurance program to reduce the risk of significant economic loss; however, not all risks can be eliminated. Losses resulting from the occurrence of these risks could have a material adverse impact on the Company's operations.

Petrominerales currently has operations in Colombia and from time to time may evaluate additional projects internationally. To help mitigate the risks associated with operating in foreign jurisdictions, the Company seeks to operate in regions where the petroleum industry is a key component of the economy. Petrominerales believes that management's experience operating both domestically and internationally helps reduce these risks. Some countries in which the Company may operate may be considered politically and economically unstable. In Colombia, the government has a long history of democracy and an established legal framework that, in Petrominerales' opinion, minimize political risks.

Colombia has a publicized history of security problems associated with certain narco-terrorist groups. The Company and its personnel are subject to these risks, but through effective security and social programs, Petrominerales believes these risks can be effectively managed. It is difficult to obtain insurance coverage to protect against terrorist incidents and as a result the Company's insurance program excludes this coverage. Consequently, incidents like this in the future could have a material adverse impact on the Company's operations.

The Company is subject to extensive governmental and environmental regulations in its operating jurisdictions. Changes to these regulations could increase the costs of conducting business in these jurisdictions. Environmental risks inherent in the oil and gas industry are subject to increasingly stringent legislation and regulation. The Company operates in accordance with all relevant environmental legislation and strives to minimize the environmental impact of its operations by providing for safety and environmental issues in all of its business plans.

The Company is exposed to normal financial risks inherent within the oil and gas industry, including commodity price risk, exchange rate risk, interest rate risk and credit risk. The Company conducts its operations in a manner intended to minimize exposure to these risks as described in Note 10 to the Company's 2006 consolidated financial statements.

Crude oil prices are the Company's most significant financial risk. Crude oil prices are influenced by global supply and demand, OPEC policy and worldwide political events. Fluctuations in crude oil prices not only affect the Company's cash flows, but may also result in changes to the borrowing capacity under the Company's credit facilities. Management believes it is neither appropriate nor possible to eliminate 100 percent of the Company's exposure to fluctuations in crude oil prices. The Company monitors market conditions and may selectively utilize derivative instruments to reduce exposure to crude oil price movements.

A portion of the Company's expenditures are denominated in Colombian pesos. To the extent revenues and expenditures denominated in or strongly linked to the United States dollar are not equivalent; the Company is exposed to exchange rate risk. The Company is exposed to the extent United States dollar revenues do not equal United States dollar expenditures. The Company is not currently using exchange rate derivatives to manage exchange rate risks.

Petrominerales is exposed to fluctuations in short-term interest rates on amounts drawn under its Colombian peso-based bank facility, as well as any future floating rate debt. The Company has not hedged these rates given the need to remain flexible in borrowing and repaying outstanding balances, if any. The Company does not currently have any debt outstanding.

Sensitivities

The Company's earnings and cash flow are sensitive to changes in the price of crude oil.

The following factors demonstrate the expected impact on annualized cash flow:

Change of:	(millions)
\$1.00/bbl WTI reference price (assuming 3,000 bopd)	\$1.0
100 bopd of production @ \$55/bbl WTI	\$1.4

Transactions with Related Parties

Petrominerales Colombia Ltd. maintains a Technical Services Agreement with the Company's indirect majority shareholder, Petrobank, for items such as geological, geophysical, and engineering services provided. All charges are based on cost plus an administrative fee, of no more than five percent. These costs totalled \$1.8 million for the year ended December 31, 2006 (2005 - \$1.3 million). Of these costs, \$1.3 million (2005 - \$0.6 million) was capitalized while the remainder was recorded as general and administrative expense.

The Company pays Petrobank a monthly fee of Cdn\$75,000 pursuant to a Management Services Agreement made effective May 1, 2006 providing for the services of the President and Chief Executive Officer and Chief Financial Officer and other services, including corporate, administrative, financial, treasury, accounting, information technology and human resources support. The fee is based on a negotiated value of services provided. Costs under this agreement totalled \$0.5 million for the year ended December 31, 2006 (2005 - \$nil) and were recorded as general and administrative expense.

On June 29, 2006, the Company repaid a loan outstanding to Petrobank using a portion of the proceeds from the IPO. The loan was only available from April 1, 2006 until the closing of the IPO and the outstanding balance ranged from \$nil to \$8.6 million. Interest expense was incurred at a rate equal to Petrobank's cost of nine percent and totalled \$0.1 million.

The Company has entered into three agreements, a Technology Use Agreement, Option Agreement and Joint Operating Agreement, with a wholly-owned subsidiary of Petrobank. Under the terms of the Technology Use Agreement, Petrominerales has the right to use the THAI™ technology, know how and any improvements or enhancements, in heavy oil opportunities in Colombia, subject to a licensing fee equal to 10 percent of gross production. Under the terms of the Option Agreement, Petrobank's subsidiary will have the right to acquire a working interest between 10 and 50 percent in any Petrominerales heavy oil project using the THAI™ technology. Upon acquiring a working interest in a project, Petrobank's subsidiary can also elect to be the operator of the project, which would then be governed by the Joint Operating Agreement, and would share the actual costs on a pro rata basis.

Critical Accounting Policies and Estimates

The Company's financial statements are prepared in accordance with Canadian GAAP, which require management to make judgments, estimates and assumptions, which may have a significant impact on the financial statements. A summary of the Company's significant accounting policies can be found in Note 2 to the Company's 2006 consolidated financial statements. The following is a discussion of those accounting policies and estimates that are considered critical in the determination of the Company's financial results.

Capital Assets — Full Cost Accounting

The Company follows the full cost method of accounting and alternatively, could follow the successful efforts method of accounting whereby all costs related to non-productive wells are expensed in the period in which they are incurred.

Under the full cost method of accounting, capitalized costs are subject to a country-by-country cost centre impairment test. Under the successful efforts method of accounting, the costs are aggregated on a property-by-property basis and the carrying value of each property is subject to an impairment test. These policies may result in a different carrying value for capital assets and a different net income. The full cost method is the method most commonly followed by Petrominerales' peer group of companies.

Under full cost accounting, a limit is placed on the carrying value of the net capitalized costs in each cost centre in order to test impairment. Impairment exists when the carrying value of developed properties of a cost centre exceeds the estimated undiscounted future net cash flows associated with the cost centre's proved reserves. Costs relating to undeveloped properties are subject to individual impairment assessments until it can be determined whether or not proved reserves exist. If impairment is determined to exist, the costs carried on the balance sheet in excess of the discounted future net cash flows associated with the cost centre's proved plus probable reserves are charged to income.

Reserve Estimates

Reserve estimates can have a significant impact on net income and the carrying value of capital assets. The process of estimating reserves requires significant judgment based on available geological, geophysical, engineering, and economic data, projected rates of production, estimated commodity price forecasts and the timing of future expenditures, all of which are subject to interpretation and uncertainty. Reserve estimates impact net income through depletion expense and the application of impairment tests. Revisions or changes in reserve estimates can have either a positive or a negative impact on net income and can impact the carrying amount of capital assets.

Creditors may also use reserve estimates to assess the allowable borrowing base under secured credit facilities. Changes to the reserve estimates can result in borrowing base increases or decreases, which could impact the Company's financial position.

Change in Accounting Policy

Change in Reporting Currency

On July 1, 2006, the Company changed its reporting currency from Canadian dollars (Cdn\$) to United States dollars (\$), as this currency is more appropriate for the Company's investors and other users of the financial statements. In making this change, the Company has followed recommendations of the Emerging Issues Committee ("EIC") of the Canadian Institute of Chartered Accountants ("CICA"), set out in EIC-130, "Translation Method When The Reporting Currency Differs From The Measurement Currency Or There Is A Change In The Reporting Currency."

Financial statements for all periods presented have been translated from Canadian dollars into United States dollars using the current rate method, based on EIC-130 recommendations. Using this method, all consolidated assets and liabilities have been translated using the exchange rate at the balance-sheet dates, while shareholders' equity has been translated using the historical rates of exchange in effect on the dates of the corresponding transactions. The consolidated statements of operations and deficit and consolidated statements of cash flow have been translated using the prevailing average exchange rates for the period, except for financing transactions which have been translated using the historical rates of exchange. Any resulting exchange rate differences due to this translation were included in shareholders' equity as cumulative translation adjustment. All comparative financial information being presented has been restated to reflect the Company's financial statements as if they have been historically reported in United States dollars and the effect on the consolidated financial statements resulted in a cumulative translation adjustment and corresponding increase in capital assets of \$16.0 million as at July 1, 2006. Prospectively, this balance is not expected to change.

New Accounting Pronouncements

In December 2006, the Canadian Accounting Standards Board ("AcSB") issued two new sections in relation to financial instruments: Section 3862, Financial Instruments - Disclosures, and Section 3863, Financial Instruments - Presentation. Both sections will become effective for annual and interim periods beginning on or after October 1, 2007 and will require increased disclosure of financial instruments.

In December 2006, the AcSB issued Section 1535, Capital Disclosures, requiring disclosure of information about an entity's capital and the objectives, policies, and processes of managing capital. The standard is effective for annual periods beginning on or after October 1, 2007.

Regulatory Policies

Certification of Disclosures in Annual and Interim Filings

In accordance with Multilateral Instrument 52-109 of the Canadian Securities Administrators, the Company annually issues a "Certification of Annual Filings" ("Certification"). The Certification requires certifying officers to state that they are responsible for establishing and maintaining disclosure controls and procedures, have designed such procedures and evaluated their effectiveness as of the end of the period covered by these annual filings. In addition, the Certification requires certifying officers to state that they have designed such internal control over financial reporting, or caused it to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements. The Company has continually had in place systems relating to internal control over financial reporting and will continue to monitor internal controls as the Company's business evolves.

The certifying officers have evaluated the effectiveness of the Company's disclosure controls and procedures and, based on such evaluation, believe that the disclosure controls and procedures provide a reasonable assurance that information required to be disclosed by the Company in these annual filings is recorded, processed, summarized and reported within the time periods specified and the controls and procedures ensure that the information required to be disclosed by the Company is accumulated and communicated to Petrominerales' management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Outlook

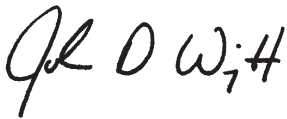
In addition to the plans discussed in this MD&A, please see the Company's 2007 Corporate Profile.

MANAGEMENT'S REPORT

Management is responsible for the integrity and objectivity of the information contained in this corporate profile and for the consistency between the consolidated financial statements and other financial and operating data contained elsewhere in this report. The accompanying consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada using estimates and careful judgement, particularly in those circumstances where transactions affecting a current period are dependent upon future events. The accompanying consolidated financial statements have been prepared using policies and procedures established by management and fairly reflect the Company's financial position, results of operations and changes in financial position, within Canadian generally accepted accounting principles. Management has established and maintains a system of internal controls that is designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and the financial information is reliable and accurate.

The Company's external auditors, Deloitte & Touche LLP, have examined the consolidated financial statements. Their examination provides an independent view as to management's discharge of its responsibilities insofar as they relate to the fairness of reported financial results and the financial condition of the Company.

The Audit Committee of the Board of Directors has reviewed in detail the consolidated financial statements with management and the external auditors. The Board of Directors on the recommendation of the Audit Committee has approved the consolidated financial statements.



John D. Wright
President & Chief Executive Officer
Calgary, Canada
February 23, 2007



Corey C. Ruttan
Vice-President Finance & Chief Financial Officer

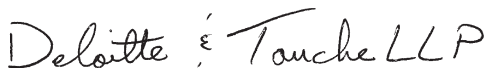
AUDITORS' REPORT

TO THE SHAREHOLDERS OF PETROMINERALES LTD.:

We have audited the consolidated balance sheets of Petrominerales Ltd. (the "Company") as at December 31, 2006 and 2005 and the consolidated statements of operations and retained earnings (deficit) and cash flow for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements presents fairly, in all material respects, the financial position of Petrominerales Ltd. as at December 31, 2006 and 2005 and the results of operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Deloitte & Touche LLP
Chartered Accountants
Calgary, Canada
February 23, 2007

CONSOLIDATED BALANCE SHEETS

(Thousands of United States dollars)

As at December 31,	2006	2005
		(Note 3)
Assets		
Current assets		
Cash and cash equivalents	\$ 28,634	\$ 113
Accounts receivable and other current assets	2,009	2,274
	30,643	2,387
Capital assets (Note 4)	150,764	85,930
	\$ 181,407	\$ 88,317
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 19,174	\$ 17,612
	19,174	17,612
Asset retirement obligations (Note 6)	930	539
Shareholders' equity		
Common shares (Note 5)	138,906	67,308
Contributed surplus (Note 5)	531	–
Cumulative translation adjustment (Note 3)	16,024	11,814
Retained earnings (deficit)	5,842	(8,956)
	161,303	70,166
	\$ 181,407	\$ 88,317

Commitments and contingencies (Note 12)

See accompanying notes to these consolidated financial statements.

Signed on behalf of the Board:



Jerald L. Oaks
Chairman



Kenneth R. McKinnon
Director

CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS (DEFICIT)

(Thousands of United States dollars, except per share amounts)

Years ended December 31,	2006	2005
	(Note 3)	(Note 3)
Revenues		
Oil	\$ 43,676	\$ 16,671
Interest income	520	–
Royalties	(3,503)	(1,334)
	40,693	15,337
Expenses		
Production	5,503	2,950
General and administrative (Note 9)	4,312	2,920
Stock-based compensation (Note 5)	531	–
Foreign exchange loss	202	163
Depletion, depreciation and accretion	13,460	5,767
	24,008	11,800
Income before taxes	16,685	3,537
Taxes (Note 7)	1,887	1,284
Net income	14,798	2,253
Deficit, beginning of year	(8,956)	(11,209)
Retained earnings (deficit), end of year	\$ 5,842	\$ (8,956)
Basic and diluted earnings per share (Note 5)	\$ 0.17	\$ 0.03

See accompanying notes to these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOW

(Thousands of United States dollars)

Years ended December 31,	2006	2005
	(Note 3)	(Note 3)
Operating Activities		
Net income	\$ 14,798	\$ 2,253
Depletion, depreciation and accretion	13,460	5,767
Stock-based compensation	531	–
	28,789	8,020
Changes in non-cash working capital (Note 11)	1,226	997
	30,015	9,017
Financing Activities		
Issuance of common shares (Note 5)	49,782	–
Equity contributed by majority of shareholder (Note 5)	21,816	11,185
	71,598	11,185
Investing Activities		
Expenditures on capital assets	(73,365)	(32,206)
Changes in other non-cash working capital (Note 11)	170	12,039
	(73,195)	(20,167)
Net effect of foreign exchange on cash denominated in foreign currencies	103	4
Net change in cash position	28,521	39
Cash and cash equivalents, beginning of year	113	74
Cash and cash equivalents, end of year	\$ 28,634	\$ 113
Cash and cash equivalents consist of:		
Cash	\$ 1,035	\$ 113
Cash equivalents	\$ 27,599	\$ –

See accompanying notes to these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the years ended December 31, 2006 and 2005

(All tabular amounts are expressed in thousands of United States dollars, except share amounts or as otherwise noted)

NOTE 1 - FORMATION OF THE COMPANY AND BASIS OF PRESENTATION

Petrominerales Ltd. ("Petrominerales" or the "Company") is involved in the exploration, development and production of crude oil in the country of Colombia through its 100-percent-owned subsidiary Petrominerales Colombia Ltd. Petrominerales was incorporated in the Bahamas on April 20, 2006 for the purpose of acquiring all of the issued and outstanding shares of Petrominerales Colombia Ltd., an indirect wholly-owned subsidiary of Petrobank Energy and Resources Ltd. ("Petrobank"). On June 29, 2006, an initial public offering (the "IPO") of Petrominerales' common shares was completed on the Toronto Stock Exchange, reducing the percentage owned by Petrobank from 100 percent to 80.7 percent.

In conjunction with the completion of the IPO, Petrominerales acquired all of the issued and outstanding common shares of Petrominerales Colombia Ltd. The acquisition of Petrominerales Colombia Ltd. by the Company was a non-arms length transaction and as such has been recorded by the Company at carrying value. The Company's financial statements presented for comparative purposes reflect the financial position, results of operations and cash flows as if Petrominerales had been combined with Petrominerales Colombia Ltd. since inception.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements are presented in accordance with Canadian generally accepted accounting principles ("GAAP") and include the accounts of the Company and its subsidiaries as at and for the years ended December 31, 2006 and 2005. Inter-company transactions and balances are eliminated upon consolidation.

Measurement Uncertainty

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the balance sheets as well as the reported amounts of revenues, expenses, and cash flows during the periods presented. Such estimates relate primarily to unsettled transactions and events as of the date of the financial statements. Actual results could differ materially from estimated amounts.

Amounts recorded for depletion, depreciation and accretion costs and amounts used for ceiling test calculations are based on estimates of crude oil reserves and future costs required to develop those reserves that are subject to measurement uncertainty. Stock-based compensation is based upon volatility and expected life estimates that are also subject to measurement uncertainty. Changes in these estimates could materially impact the financial statements of future periods.

Capital Assets

All costs related to the acquisition of crude oil properties are capitalized. Such costs include land and lease acquisition costs, annual charges on non-producing properties, geological and geophysical costs, and costs of drilling and equipping productive and non-productive wells.

Gains and losses are not recognized upon disposition of crude oil properties unless crediting the proceeds against accumulated costs would result in a change in the rate of depletion of more than 20 percent.

Capitalized costs are accumulated in cost centres on a country-by-country basis and are depleted and depreciated using the unit-of-production method based upon estimated proved reserves before royalties as determined by independent engineers. The Company has one cost centre, Colombia. Included in costs subject to depletion are estimated costs to develop proved reserves. Costs relating to undeveloped properties are excluded from the depletion base until it is determined whether or not proved reserves exist or if impairment of such costs has occurred. These properties are assessed at least annually to determine whether impairment has occurred.

Depreciation of corporate and other fixed assets is calculated using the straight-line method over the estimated life of the asset.

A limit is placed on the carrying value of the net capitalized costs in each cost centre in order to test impairment. The Company is required to perform this impairment test at least annually. An impairment loss exists when the carrying value of a cost centre exceeds the estimated undiscounted future net cash flows associated with the cost centre's proved reserves. If an impairment loss is determined to exist, the costs carried on the balance sheet in excess of the discounted future net cash flows associated with the cost centre's proved plus probable reserves are charged to income. Reserves are determined pursuant to the Canadian Securities Administrators' National Instrument 51-101 "Standards of Disclosure for Oil and Gas Activities".

The Company does not capitalize general and administrative overhead or interest costs.

Asset Retirement Obligations

The Company recognizes the estimated fair value of future retirement obligations associated with capital assets as a liability in the period in which they are incurred, normally when the asset is purchased or developed. The fair value is capitalized and amortized over the same period as the underlying asset. The Company estimates the liability based on the estimated costs to abandon and reclaim the wells and well sites that are either expected to be inactive upon expiration of the Incremental Production Contract's ("IPC's") on June 6, 2023, or are required to be abandoned under the terms of the exploration contracts. Only wells and well sites that the Company has constructed, drilled, completed workovers on, or performed enhancements to, are included in the estimate. This estimate is evaluated on a periodic basis and any adjustment to the estimate is applied prospectively. The change in net present value of the future retirement obligation due to the passage of time is expensed as accretion. Actual retirement obligations settled during the period reduce the asset retirement liability.

Joint Operations

The majority of the Company's crude oil operations are conducted jointly with others and accordingly these financial statements reflect only the Company's proportionate interest in such activities.

Revenue Recognition

Revenues from the sale of crude oil are recognized when title passes to the customer.

Foreign Currency Translation

The Company translates foreign currency denominated monetary assets and liabilities at the exchange rate in effect at the balance sheet date and non-monetary assets and liabilities are translated at historical exchange rates. Revenues and expenses are translated at transaction date exchange rates except depletion and depreciation expense, which is translated at the same historical exchange rates as the related assets. Exchange gains or losses are included in the determination of net income as foreign exchange loss.

Earnings Per Share

The Company computes basic earnings per share using net income divided by the weighted-average number of common shares outstanding. The Company computes diluted earnings per share in the same manner as basic, except that the weighted-average number of diluted common shares outstanding is used as the denominator. The Company uses the treasury stock method in computing the weighted-average number of diluted common shares outstanding. This method assumes that the proceeds on exercise of in-the-money stock options are used to repurchase the Company's common shares at the average market price during the relevant period.

Stock-Based Compensation

The Company accounts for stock-based compensation using the fair-value method of accounting for stock options and deferred common shares (collectively referred to as "Rights") granted to employees, officers and directors using the Black-Scholes option-pricing model. Stock-based compensation expense is recorded and reflected as stock-based compensation expense over the vesting period with a corresponding amount reflected in contributed surplus. Stock-based compensation expense is calculated as the estimated fair value for the related Rights at the time of grant, amortized over their expected life. When Rights are exercised, the associated amounts previously recorded as contributed surplus are reclassified to common share capital. The Company has not incorporated an estimated forfeiture rate for stock options that will not vest, rather, the Company accounts for actual forfeitures as they occur.

Income Taxes

The Company accounts for income taxes using the liability method. Under this method, the Company records a future income tax asset or liability to reflect any difference between the accounting and tax bases of assets and liabilities. The effect on future tax assets and liabilities of a change in tax rates is recognized in net income in the period in which the change occurs. Future income tax assets are only recognized to the extent it is more likely than not that sufficient future taxable income will be available to allow the future income tax asset to be realized.

Cash and Cash Equivalents

Cash and cash equivalents include investments and deposits with a maturity of three months or less when purchased.

NOTE 3 - CHANGE IN ACCOUNTING POLICY

Change in Reporting Currency

On July 1, 2006, the Company changed its reporting currency from Canadian dollars (Cdn\$) to United States dollars (\$), as this currency is more appropriate for the Company's investors and other users of the financial statements. In making this change, the Company has followed recommendations of the Emerging Issues Committee ("EIC") of the Canadian Institute of Chartered Accountants ("CICA"), set out in EIC-130, "Translation Method When The Reporting Currency Differs From The Measurement Currency Or There Is A Change In The Reporting Currency."

Financial statements for all periods presented have been translated from Canadian dollars into United States dollars using the current rate method, based on EIC-130 recommendations. Using this method, all consolidated assets and liabilities have been translated using the exchange rate at the balance-sheet dates, while shareholders' equity has been translated using the historical rates of exchange in effect on the dates of the corresponding transactions. The consolidated statements of operations and retained earnings and cash flow have been translated using the prevailing average exchange rates for the period, except for financing transactions which have been translated using the historical rates of exchange. Any resulting exchange rate differences due to this translation are included in shareholders' equity as cumulative translation adjustment. All comparative financial information being presented has been restated to reflect the Company's financial statements as if they have been historically reported in United States dollars and the effect on the consolidated financial statements resulted in a cumulative translation adjustment and corresponding increase in capital assets of \$16.0 million as at July 1, 2006.

NOTE 4 - CAPITAL ASSETS

December 31, 2006	Cost	Accumulated Depletion and Depreciation	Net Book Value
Crude oil properties	\$ 197,797	\$ 47,836	\$ 149,961
Corporate and other	2,090	1,287	803
	\$ 199,887	\$ 49,123	\$ 150,764

December 31, 2005	Cost	Accumulated Depletion and Depreciation	Net Book Value
Crude oil properties	\$ 119,106	\$ 33,244	\$ 85,862
Corporate and other	881	813	68
	\$ 119,987	\$ 34,057	\$ 85,930

At December 31, 2006, crude oil properties included \$14.4 million (December 31, 2005 - \$7.4 million) relating to unproved properties that have been excluded from the depletion calculation.

An impairment test calculation was performed for the Colombian cost centre at December 31, 2006 in which the estimated undiscounted future net cash flows associated with the proved reserves exceeded the carrying amounts. The benchmark prices used in the impairment tests at December 31, 2006 are outlined in the following table:

Year	WTI Crude Oil ⁽¹⁾ - \$/bbl
2007	65.73
2008	68.82
2009	62.42
2010	58.37
2011	55.20
Thereafter inflation % change	2%

(1) Actual prices used in the impairment tests were adjusted for price differentials specific to the Company's operations.

NOTE 5 - SHARE CAPITAL

Authorized

The Company has authorized capital of 200,000,000 common shares, with a par value of \$1.00 per common share.

Common Shares

Common Share Continuity	Number	Amount
December 31, 2005 ⁽¹⁾	78,999,900	\$ 67,308
Equity contributed by Petrobank	-	21,816
Incorporation on April 20, 2006	100	-
Issued pursuant to IPO	16,000,000	53,766
Share issue costs	-	(3,984)
Balance at December 31, 2006	95,000,000	\$ 138,906

(1) In connection with the IPO, the Company issued 78,999,900 common shares in exchange for all of the issued and outstanding common shares of Petrominerales Colombia Ltd. and includes common shares and contributed surplus of Petrominerales Colombia Ltd. representing the historical equity contributed indirectly by Petrobank as if the Company and Petrominerales Colombia Ltd. had been combined since inception.

Stock Options

The Company has established a stock option plan for directors, officers and employees. The plan allows for the issuance of up to 10 percent of the outstanding shares of the Company. The exercise price is no less than the market price of the Company's stock on the date of the grant. Stock option terms are determined by the Company's Board of Directors but typically, options vest evenly over a period of four years from the date of grant and expire between five and 10 years after the date of grant. The following is a continuity of stock options outstanding.

	Stock Options	Weighted-Average Exercise Price
Opening, December 31, 2005	-	Cdn \$ -
Granted	3,138,626	3.78
Cancelled	(87,500)	(3.75)
Closing, December 31, 2006	3,051,126	Cdn \$ 3.78

The following summarizes information about stock options outstanding as at December 31, 2006:

Range of Exercise Prices (Cdn\$)	Stock Options Outstanding			Stock Options Exercisable	
	Number	Weighted-Average Remaining Contractual Life (Years)	Weighted Average Exercise Price (Cdn\$)	Number	Weighted-Average Exercise Price (Cdn\$)
3.75- 4.40	3,051,126	6.7	3.78	153,750	3.75

Deferred Share Compensation Plan

The Company has established a deferred share compensation plan whereby the Company may grant deferred common shares to its directors, officers and employees. The plan allows holders to receive one common share upon payment of \$0.05 per share. The deferred common shares vest after three years and expire 10 years from the date of grant. Up to 0.5 million deferred common shares have been approved for issuance under this plan. Currently, no grants have been made under this plan.

Stock-Based Compensation

The fair value of stock options granted have been estimated on their respective grant dates using the Black-Scholes option-pricing model using the following assumptions:

Year ended December 31, 2006	
Risk free interest rate	4.5%
Dividend rate	0%
Expected life – options (years)	3.3
Expected volatility	30%

The average fair value per stock option granted during the year was Cdn\$1.04 (2005 – \$nil) as at the date of grant.

Stock-based compensation expense for the year ended December 31, 2006 totalled \$0.5 million (2005 – \$nil).

Earnings Per Share

Basic and diluted earnings per share have been calculated based on net income divided by the weighted average number of common shares outstanding for the year ended December 31, 2006 of 87,153,395 (2005 – 78,999,900). The diluted calculations include nil additional shares for the potential impact of stock options, as the impact is anti-dilutive.

NOTE 6 – ASSET RETIREMENT OBLIGATIONS

The total future asset retirement obligations were estimated by management based on the estimated costs to reclaim and abandon the wells and well sites where the Company has drilled, completed workovers on, or performed enhancements to that are expected to be unproductive prior to the expiration of the IPC's on June 6, 2023 or the end of an exploration block work phase, and the estimated timing of the costs to be incurred in future periods.

Changes to asset retirement obligations were as follows:

	2006	2005
Asset retirement obligations, beginning of year	\$ 539	\$ 351
Obligations incurred	341	139
Accretion expense	50	34
Changes in foreign exchange rates	–	15
Asset retirement obligations, end of year	\$ 930	\$ 539

The obligations have been calculated using an inflation rate of 3.5 percent and discounted using a credit-adjusted risk free rate of 9.5 percent per annum. The majority of these obligations are expected to be paid before the end of the related IPC, approximately 15 years in the future, and are expected to be funded from the Company's general resources available at the time of settlement. The total undiscounted amount of estimated cash flows required to settle the obligations is \$3.1 million (2005 – \$2.1 million).

NOTE 7 – TAXES

The provision for income taxes differs from the amount that would have been expected by applying expected statutory corporate income tax rates to income before taxes. The Company does not pay tax in the Bahamas. The principal reasons for this difference are as follows:

Years ended December 31,	2006	2005
Income before taxes	\$ 16,685	\$ 3,537
Statutory income tax rate	38.5%	38.5%
Expected tax expense	\$ 6,424	\$ 1,362
Increase (decrease) in income tax provision resulting from:		
Non-deductible expenses	240	166
Enhanced tax allowances	(6,975)	(5,511)
Changes in tax rates	834	–
Future tax asset not recognized (recognized) & others	(523)	3,983
Future income tax provision	–	–
Presumptive income and equity taxes	1,887	1,284
Tax provision	\$ 1,887	\$ 1,284

Presumptive income and equity taxes are based on equity levels in Colombia and can be recovered against income taxes in future periods, and can be carried forward for five years.

The components of the Company's future income tax assets and liabilities arising from temporary differences are as follows:

As at December 31,	2006		2005	
	Future Income Tax Assets	Future Income Tax Liabilities	Future Income Tax Assets	Future Income Tax Liabilities
Loss carry forwards	\$ 7,822	\$ –	\$ 9,925	\$ –
Excess presumptive tax	3,748	–	2,077	–
Capital assets	2,373	–	2,971	–
Asset retirement obligations	307	–	189	–
	14,250	–	15,162	–
Valuation allowance	(14,250)	–	(15,162)	–
	\$ –	\$ –	\$ –	\$ –

As at December 31, 2006 non-capital losses totalled \$23.7 million and expire between 2008 and 2011, and excess presumptive taxes paid totalled \$11.3 million and expire in 2008 through 2010.

Based on tax reforms made effective January 1, 2007, tax losses may be carried forward without limitations to offset to taxable income; the presumptive income rate was reduced from six percent to three percent on the prior tax year's net tax equity; the seven percent remittance tax was eliminated; a 1.2 percent equity tax was introduced, the income tax rate was reduced from 38.5 percent to 34 percent in 2007, and to 33 percent for subsequent years; and, the special deduction for the acquisition or construction of real fixed assets was increased to 40 percent from 30 percent.

NOTE 8 - BANK DEBT

The Company closed a credit facility with an international bank on December 20, 2006 for a \$50 million revolving credit facility with an initial \$25 million borrowing base and three-year term. The facility bears interest at a rate equal to the LIBOR (London Interbank Offered Rate) plus three percent per annum. The facility is secured by a pledge over all property of the Company.

The Company has a \$3.1 million operating line of credit under which the Company can borrow at the fixed term deposit rate set by the Central Bank of Colombia plus six percent. Advances under the facility are collateralized by a promissory note provided by the Company.

NOTE 9 - RELATED PARTY TRANSACTIONS

Petrominerales Colombia Ltd. maintains a Technical Services Agreement with the Company's indirect majority shareholder, Petrobank, for items such as geological, geophysical, and engineering services provided. All charges are based on cost plus an administrative fee, of no more than five percent. These costs totalled \$1.8 million for the year ended December 31, 2006 (2005 - \$1.3 million). Of these costs, \$1.3 million (2005 - \$0.6 million) was capitalized while the remainder was recorded as general and administrative expense.

The Company also pays Petrobank a monthly fee of Cdn\$75,000 pursuant to a Management Services Agreement made effective May 1, 2006. The fee is based on a negotiated value of services provided. Costs under this agreement totalled \$0.5 million for the year ended December 31, 2006 (2005 - \$nil) and were recorded as general and administrative expense.

On June 29, 2006, the Company repaid a loan outstanding to Petrobank using a portion of the proceeds from the IPO (see Notes 1 and 5). The loan was only available from April 1, 2006 until the closing of the IPO and the outstanding balance ranged from \$nil to \$8.6 million. Interest expense was incurred at a rate equal to Petrobank's cost of nine percent and totalled \$0.1 million.

The Company has entered into three agreements, a Technology Use Agreement, Option Agreement and Joint Operating Agreement, with a wholly-owned subsidiary of Petrobank. Under the terms of the Technology Use Agreement, Petrominerales has the right to use the THAI™ technology, know how and any improvements or enhancements, in heavy oil opportunities in Colombia, subject to a licensing fee equal to 10 percent of gross production. Under the terms of the Option Agreement, Petrobank's subsidiary will have the right to acquire a working interest between 10 and 50 percent in any Petrominerales heavy oil project using the THAI™ technology. Upon acquiring a working interest in a project, Petrobank's subsidiary can also elect to be the operator of the project, which would then be governed by the Joint Operating Agreement, and would share the actual costs on a pro rata basis.

NOTE 10 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The nature of the crude oil operations exposes the Company to risks associated with fluctuations in commodity prices and foreign currency exchange rates. To date, the Company has not utilized derivative instruments to manage these risks.

Credit Risk

A substantial portion of the Company's accounts receivable are with customers and joint-venture participants in the oil industry and are subject to normal industry credit risks. Crude oil production is sold, as determined by market based prices adjusted for quality differentials, to two counterparties, the Colombian state oil company, Ecopetrol, and a large international oil company. Revenue is received in Bermuda and is denominated in United States dollars. Typically, the Company's maximum credit exposure to customers is revenue from two months' sales.

Foreign Currency Exchange Risk

The Company is exposed to foreign currency fluctuations as certain expenditures are incurred in Colombian pesos.

Fair Value of Financial Instruments

The Company's financial instruments are comprised of cash and cash equivalents, accounts receivable and other current assets, accounts payable and accrued liabilities. The fair value of these financial instruments approximates their carrying value due to short-term nature of the instruments.

NOTE 11 - CHANGES IN NON-CASH WORKING CAPITAL

Years ended December 31,	2006	2005
Change in:		
Accounts receivable and other current assets	\$ 265	\$ (560)
Accounts payable and accrued liabilities	1,562	13,706
Reporting currency (Note 3)	(431)	(110)
	\$ 1,396	\$ 13,036
Changes relating to:		
Attributable to operating activities	\$ 1,226	\$ 997
Attributable to investing activities	\$ 170	\$ 12,039
Other cash flow information:		
Cash taxes paid	\$ 1,589	\$ 544
Cash interest paid	\$ 115	\$ -
Cash interest received	\$ 635	\$ -

NOTE 12 - COMMITMENTS AND CONTINGENCIES

The Company has committed to various work programs pursuant to its exploration contracts totalling \$25.9 million and are required to be completed by June 30, 2008. The work commitments represent normal course exploration expenditures including acquiring and evaluating seismic data and drilling exploration wells. In addition, the Company has secured drilling rigs with contract terms extending until March 31, 2008. At year-end 2006, the remaining drilling rig commitments totalled \$29.0 million, a significant portion which will be used to satisfy commitments on the exploration contracts. Petrominerales plans to fund these commitments with existing cash balances, funds flow from operations, and available credit facilities (see Note 8). The Company has issued letters of credit totalling \$3.1 million outstanding in connection with the obligations on these exploration contracts.

ABBREVIATIONS

ANH	National Hydrocarbon Agency (Colombia)
bbl(s)	barrel(s)
bopd	barrels of oil per day
bpd	barrels per day
IPC	Incremental Production Contract
IPO	initial public offering
km	kilometres
m	metres
mbbl	thousand barrels
NPV	net present value
P+P	proved + probable
TEA	Technical Evaluation Area
WI	working interest
WTI	West Texas Intermediate

Information requests and other investor relations inquiries can be directed to ir@petrominerales.com or by telephone at +57 1 629.2701 or 403 750.4400

Additional corporate information can be obtained through Petrominerales Ltd.'s website at www.petrominerales.com

HEAD OFFICE

Petrominerales Ltd.

Teleport Business Centre - Torre B
Calle 113 No. 7-45, Piso 15
Bogotá D.C., Colombia

TEL: +57 1 629.2701

FAX: +57 1 629.4723

WEBSITE: www.petrominerales.com

E-MAIL: ir@petrominerales.com

REGISTRAR AND TRANSFER AGENTS

Computershare Investor Services

Calgary, Alberta, Canada

LEGAL COUNSEL

McCarthy Tétrault LLP

Calgary, Alberta, Canada

DIRECTORS

Alastair MacDonald⁽¹⁾

Pembroke, Bermuda
Director

Kenneth R. McKinnon⁽¹⁾⁽²⁾

Calgary, Alberta, Canada
Director

Jerald L. Oaks⁽²⁾

Denver, Colorado, U.S.A.
Chairman

Ernesto Sarpi⁽³⁾

Naples, Italy
Director

Enrique Umaña Valenzuela⁽¹⁾

Bogotá D.C., Colombia
Director

John D. Wright⁽³⁾

Calgary, Alberta, Canada
President, Chief Executive Officer
and Director

Geir Ytreland⁽²⁾⁽³⁾

Droebak, Norway
Director

(1) Member of the Audit Committee

(2) Member of the Compensation Committee

(3) Member of the Reserves Committee

Forward Looking Statements

This corporate profile contains forward-looking statements that are generally identifiable by terms such as anticipate, believe, budget, intend, estimate, expect, outlook, plan or other similar words, and include future capital investment plans. The reader is cautioned that assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be incorrect. Actual results achieved during the forecast period will vary from the information provided herein as a result of numerous known and unknown risks and uncertainties and other factors. Such factors include, but are not limited to: general economic, market and business conditions; fluctuations in oil and gas prices; the results of exploration and development of drilling and related activities; fluctuation in foreign currency exchange rates; the uncertainty of reserve estimates; changes in environmental and other regulations; risks associated with oil and gas operations; the ability to economically test, develop and utilize the Company's patented technologies, the feasibility of the technologies; and other factors, many of which are beyond the control of the Company. There is no representation by Petrominerales that actual results achieved during the forecast period will be the same in whole or in part as those forecast.

BANKERS

Standard Bank

New York, New York, U.S.A.

AUDITORS

Deloitte & Touche LLP

Calgary, Alberta, Canada &
Bogotá D.C., Colombia

RESERVE ENGINEERS

DeGoyler and MacNaughton

Dallas, Texas, U.S.A.

EXCHANGE LISTINGS

The Toronto Stock Exchange

SYMBOL: **PMG**

Pink Sheets

SYMBOL: **PMGLF**

SECURITIES FILINGS

www.sedar.com

OFFICERS

John D. Wright

President, Chief Executive Officer
and Director

Steven J. Benedetti

Senior Vice President and
Colombian Country Manager

Mark R. Holliday

Vice President Operations

A. Paul Kroshko

Vice President Exploration

Alastair MacDonald

Corporate Secretary and Director

Tannya E. Morales

Corporate Controller

Corey C. Ruttan

Vice President Finance and Chief
Financial Officer



Petrominerales Ltd.

Teleport Business Centre - Torre B
Calle 113 No. 7-45, Piso 15
Bogotá D.C., Colombia

TEL: +57 1 629.2701 or 403 750.4400

FAX: +57 1 629.4723

www.petrominerales.com

TSX: PMG