


**FINANCIAL & OPERATING HIGHLIGHTS**

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

	Three months ended September 30,		% Change	Nine months ended September 30,		% Change
	2007	2006		2007	2006	
<b>Financial</b>						
(US\$000s, except where noted)						
Crude oil revenue	<b>29,058</b>	12,818	127	<b>53,202</b>	32,638	63
Funds flow from operations <sup>(1)</sup>	<b>20,201</b>	8,202	146	<b>34,105</b>	22,044	55
Per share – basic (\$)	<b>0.21</b>	0.09	133	<b>0.36</b>	0.26	38
Per share – diluted (\$)	<b>0.20</b>	0.09	122	<b>0.35</b>	0.26	35
Net income	<b>10,242</b>	4,252	141	<b>24,060</b>	12,121	98
Per share – basic (\$)	<b>0.11</b>	0.04	175	<b>0.25</b>	0.14	79
Per share – diluted (\$)	<b>0.10</b>	0.04	150	<b>0.25</b>	0.14	79
Capital expenditures	<b>39,895</b>	21,696	84	<b>105,806</b>	49,748	113
Total assets	<b>291,408</b>	178,570	63	<b>291,408</b>	178,570	63
Net debt (working capital) <sup>(2)</sup>	<b>4,581</b>	(28,341)		<b>4,581</b>	(28,341)	
Common shares outstanding, end of period (000s)						
Basic	<b>100,212</b>	95,000	5	<b>100,212</b>	95,000	5
Diluted	<b>105,096</b>	98,090	7	<b>105,096</b>	98,090	7
<b>Operations</b>						
Operating netback (\$/bbl) <sup>(3)</sup>						
Crude oil revenue	<b>69.85</b>	57.57	21	<b>61.95</b>	56.05	11
Royalties	<b>6.07</b>	4.60	32	<b>5.20</b>	4.50	16
Production expenses	<b>7.16</b>	6.97	3	<b>6.83</b>	6.70	2
Operating netback	<b>56.62</b>	46.00	23	<b>49.92</b>	44.85	11
Average daily crude oil production (bbls)	<b>4,522</b>	2,420	87	<b>3,146</b>	2,133	47

(1) Non-GAAP measure calculated based on cash flow from operations before changes in non-cash working capital. See “Funds flow from operations” section within MD&A.

(2) Non-GAAP measure includes bank debt plus accounts payable and accrued liabilities less current assets.

(3) Non-GAAP measure demonstrating Company’s revenue less royalties and production expenses per barrel of oil produced.

**HIGHLIGHTS:**

- Crude oil production increased by 87 percent, averaging 4,522 bopd compared to 2,420 bopd in the third quarter of 2006.
- Production increased a further 80 percent to average 8,130 bopd in early November 2007 (excluding Corcel-2).
- Preliminary 24-hour Corcel-2 test reached rates of 3,100 bopd on natural flow.
- Funds flow from operations increased by 146 percent to \$20.2 million.
- Net income increased by 141 percent to \$10.2 million.
- Issued 5.1 million common shares for gross proceeds of Cdn\$61.0 million.

## **OPERATIONAL UPDATE**

Third quarter 2007 production averaged 4,522 bopd compared to 2,848 bopd in the second quarter of 2007. The increase is mainly due to the Corcel-1 discovery well that was placed on an extended six-month production test, initially at 4,000 bopd increasing to current rates of over 4,500 bopd. Production has averaged 8,130 bopd to-date in November 2007 excluding test results from the Corcel-2 well. Significant further production additions are expected as a result of the recently drilled Corcel-2 well and our ongoing drilling programs at Corcel and Orito.

### **DEVELOPMENT BLOCKS**

#### **Orito**

Petrominerales drilled one well at Orito in the third quarter and completed a further two wells. We also recently cased the Conga-1 exploration well on the Las Aguilas Block adjacent to Orito as a potential oil well. The Orito program for the remainder of the year includes drilling two more wells, completing four wells, and performing workovers and pump changes on three additional wells. We originally planned to have two drilling rigs working in the Putumayo Basin for most of 2007, but, based on our Corcel discovery, one of these rigs has remained on the Corcel Block to drill additional delineation and exploration wells and to assist with our Llanos Basin dry season exploration drilling program in early 2008. This re-configures our Orito development drilling program to a single rig schedule, which can be expanded based on equipment availability. In addition to our ongoing development drilling program, a 3D seismic program is planned for Orito in 2008 which will help delineate the southern extension and eastern flanks of the main Orito field. This is expected to add further to our large inventory of development drilling locations.

#### **Neiva**

At Neiva, production has increased as a result of well optimizations and the initial success of our pilot waterflood program. Due to the results from the well optimization program and an earlier than expected waterflood response, we will continue the well optimization program and we plan to expand the waterflood. In addition, we have an inventory of approximately 31 infill locations and 25 fracture stimulation candidates.

### **EXPLORATION PROGRAM**

Petrominerales has completed drilling all five wells planned for the 2007 exploration program. Four of these wells were drilled in the Llanos Basin, two of which were completed as new pool discoveries (Joropo and Corcel). The final 2007 exploration well, Conga-1, has now been drilled and will be completed as a potential oil well on the Las Aguilas Block adjacent to Orito, in the Putumayo Basin. Petrominerales holds over 1.5 million acres of land in Colombia, on which we have acquired 357 square kilometres of 3D seismic and reprocessed all available 2D seismic data. Currently we have an additional 18 leads and prospects on these lands. In 2008, we plan to drill eight further exploration wells focused primarily in the Llanos Basin. We continue to acquire additional 2D and 3D seismic, which should result in an expanded exploration drilling programs beyond 2008.

#### **Corcel Block**

The Corcel-1 exploration well, located in the southern Llanos Basin, was drilled to a total depth of 12,000 feet. Logs indicated that the target reservoir sands in the Tertiary Mirador and Cretaceous Guadalupe formations were primarily oil bearing with total potential net pay of approximately 140 feet of high quality sand. The Guadalupe and Mirador intervals were completed and commingled for an initial six-day test that was conducted at rates increasing to 2,500 bopd. A six-month extended production test

then commenced on September 7, 2007 at initial rates of 4,000 bopd. We have been slowly ramping up production rates and the well is now producing in excess of 4,500 bopd.

We recently completed drilling our first Corcel delineation well, Corcel-2. The well spudded on August 25, 2007 and reached a total depth of 12,140 feet on October 17, 2007. Logs indicate total potential net pay of approximately 125 feet of high quality reservoir sands in the Mirador and Guadalupe formations. We have initially completed four intervals, with a total of 45 feet of sand, in the Upper and Lower Mirador formations of the Corcel-2 well. These intervals were tested over a 24-hour period at rates increasing to 3,100 bopd on natural flow. The well is now shut in for pressure build up and will then be placed on an extended production test with an electric submersible pump. The pump will be capable of handling up to 6,000 barrels of total fluid production per day.

This initial Mirador completion is being executed with the drilling rig. The rig will then move to drill the third well from the same platform, Corcel-3, to further delineate our first Corcel discovery. After drilling Corcel-3 we expect to use the drilling rig to drill at least one of our Llanos Basin dry-season-only exploration wells, after which we plan to resume our Corcel drilling program starting with the Corcel-C exploration well. The rig is then expected to remain at Corcel for the rest of 2008 to continue drilling additional exploration and delineation wells.

The Corcel Block is situated in a drier region of the Llanos Basin and we have an all-weather road to the location which will accommodate year round production. Production is currently being processed through temporary facilities and trucked. We are designing permanent production facilities and a pipeline and applying for required governmental approvals.

The ultimate size of the Corcel discovery will be defined through our long-term production testing and delineation drilling program. Petrominerales has identified five additional Corcel prospects, and at least four contingent delineation wells. These locations have been defined from our 47 square kilometre 3D seismic survey, which covers approximately 15 percent of the 79,815-acre Block. A 2008 3D seismic program is planned for our 26,341-acre Guatiquia Block, which adjoins the Corcel Block to the south. At that time we also plan to further expand the 3D seismic coverage over our Corcel Block.

### **Joropo Block**

Our Ojo de Tigre-2 well on the Joropo Block in the Llanos Basin was completed and initial production testing commenced, but was suspended with the onset of the rainy season earlier in 2007. Initial test rates reached 450 barrels of fluid per day with a water cut of 20 percent and a gravity of 29 degrees API. The test interpretation indicated very high skin damage which was likely caused by the gravel pack completion. We will be returning to remediate the skin damage and conduct further testing of the well after the end of the rainy season in late 2007 or early 2008. The ultimate size of the prospect will be determined through long-term production testing and follow-up drilling. A second Joropo exploration well is planned for the first quarter of 2008. Successful development of the Joropo Block will require upgraded surface access to support year-round production.

This initial result at Joropo is very encouraging as we have only evaluated a very small part of the 72,257 acre Joropo Block to-date, and we have now acquired two adjoining Blocks, Jabali and Jaguar, totalling an additional 69,122 acres.

### **Las Aguilas Block**

Our Conga-1 exploration well was recently drilled, logged and cased as a potential oil well on our Las Aguilas Block, offsetting the Orito field in the Putumayo Basin. Completion and testing operations will commence later in November.

## **2008 Exploration Program**

We plan to drill eight exploration wells during our 2008 exploration program, which will be focused once again on the Llanos Basin, where we plan to test seven new prospects. Six of these wells are scheduled to be drilled during the upcoming dry season (December 2007 through April 2008) with two wells to be drilled at Mapache, one at Joropo, one at Castor, one at Casanare Este, and one at Casimena. Our next Corcel exploration well is expected to be drilled in the second quarter of 2008 and our second Las Aguilas exploration well, in the Putumayo Basin, is expected to be drilled in the second half of 2008. We also plan to shoot additional 3D seismic at Joropo and Corcel, to further delineate prospects on these Blocks. This program will also include seismic on our adjoining blocks to satisfy our first phase work commitments.

## **Heavy Oil**

Petrominerales has three large blocks in the southern Llanos Basin heavy oil belt, Chiguiro Oeste, Chiguiro Este and Rio Ariari. Our heavy oil blocks offset the Caño Sur Block, which is being developed by a recently announced partnership between Shell and Ecopetrol, reflecting the increasing interest in the heavy oil potential of this area.

In 2008, we plan to shoot 576 kilometres of reconnaissance 2D seismic on our Chiguiro Oeste and Rio Ariari Blocks and a combination of 2D and 3D seismic over our Chiguiro Este Block where we are targeting large heavy oil accumulations.

In addition, Petrominerales intends to participate in the upcoming Heavy Oil Bid Round, expected to be announced early next year. Petrobank's proprietary THAI™ technology, which Petrominerales has licensed, represents a paradigm shift in heavy oil recovery technology. THAI™ is well suited to the Colombian heavy oil environment and should give us a competitive advantage to efficiently develop Colombian heavy oil opportunities in an environmentally and socially responsible fashion.

THAI™ is being field-proven by Petrobank in the Canadian oil sands and provides the opportunity to create a step change in the development of heavy oil resources globally. During the process, a high temperature combustion front is created underground where part of the oil in the reservoir is burned, generating heat, which reduces the viscosity of the remaining oil allowing it to flow by gravity to a horizontal production well. The combustion front sweeps the oil from the toe to the heel of the horizontal producing well, recovering up to an estimated 80 percent of the original-oil-in-place while partially upgrading the heavy crude oil in-situ.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

*The following Management's Discussion and Analysis ("MD&A") is dated November 6, 2007 and should be read in conjunction with the unaudited consolidated financial statements and accompanying notes of Petrominerales Ltd. ("Petrominerales" or the "Company") as at and for the three and nine month periods ended September 30, 2007, MD&A for the year ended December 31, 2006, and the audited consolidated financial statements as at and for the year ended December 31, 2006. Additional information for the Company, including the Annual Information Form ("AIF") can be found on SEDAR at [www.sedar.com](http://www.sedar.com) or at [www.petrominerales.com](http://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. All subsequent forward-looking statements, whether written or oral, attributable to Petrominerales or persons acting on the Company's behalf, are qualified in their entirety by these cautionary statements.*

*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, net debt 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 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 and repay debt. Net debt is used to evaluate the Company's financial leverage. 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.*

### **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 in 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. On September 13, 2007, an issuance of 5.1 million common shares was completed on the Toronto Stock Exchange, further reducing the percentage owned by Petrobank to 76.6 percent.

## Revenue

Crude oil revenue increased by 127 percent to \$29.1 million in the third quarter of 2007 from \$12.8 million in the third quarter of 2006. Related oil production increased by 87 percent in the third quarter of 2007 to 4,522 barrels per day (“bopd”), while the average sales price increased by 21 percent in the third quarter of 2007 to \$69.85 per barrel. On a year to date basis, revenue increased by 63 percent to \$53.2 million in 2007 from \$32.6 million in the same period in 2006. Related production in the first nine months of 2007 increased by 47 percent to 3,146 bopd compared to 2,133 bopd in the first nine months of 2006 while the average sales price increased by 11 percent to \$61.95 per barrel from the \$56.05 per barrel received in the first nine months of 2006.

## Average Daily Crude Oil Production

Crude oil production increased by 87 percent to 4,522 bopd in the third quarter of 2007 from 2,420 bopd in the third quarter of 2006. Production in the first nine months of 2007 increased by 47 percent to 3,146 bopd compared to 2,133 bopd in the same period of 2006. The increases were mainly due to the Corcel-1 well that began production late in third quarter of 2007, adding 1,092 bopd during this quarter, and the Orito-122 and 125 wells which began production late in the first quarter of 2007. The Company commenced an extended six month test of Corcel-1 well on September 7, 2007; the well is now producing in excess of 4,500 bopd. Production has averaged 8,130 bopd to-date in November 2007 excluding test results from the Corcel-2 well. Significant further production additions are expected as a result of the recently drilled Corcel-2 well and our ongoing drilling programs at Corcel and Orito.

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Orito	2,963	2,085	2,404	1,802
Neiva	467	335	372	331
Corcel	1,092	-	370	-
Total	4,522	2,420	3,146	2,133

## Average Benchmark Crude Oil Price

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
WTI (\$/bbl)	75.15	70.54	66.22	68.26

## Realized Prices

Oil sales prices in Colombia averaged \$69.85 per barrel in the third quarter of 2007, representing a \$5.30 per barrel discount to WTI (seven percent of WTI) compared to a discount of \$12.97 per barrel (18 percent of WTI) in the third quarter of 2006. Oil sales prices averaged \$61.95 per barrel during first nine months of 2007, representing a \$4.27 per barrel discount (six percent of WTI) compared to a discount of \$12.21 per barrel (18 percent of WTI) during first nine months of 2006. In December 2006, the Company negotiated a new sales contract for Orito production resulting in an increase in realized prices relative to WTI. The discount to WTI also decreased as relatively more production is coming from higher quality Orito and Corcel oil.

## Commodity Price Risk Management

The Company had the following risk management contracts outstanding at September 30, 2007:

Term	Volume (Bopd)	Price (\$/bbl)	Benchmark
Jan. 1, 2008 – Dec. 31, 2008	500	65.00 floor / 80.00 ceiling	WTI
Jan. 1, 2008 – Dec. 31, 2008	500	75.25 fixed	WTI

For the three and nine month periods ended September 30, 2007, the Company recorded an unrealized loss of \$0.6 million (2006 – \$nil) related to these risk management contracts.

## Royalties

Colombian government royalties are fixed at a rate of eight percent until the Company's net production per pool exceeds 5,000 bopd. In addition, the Company pays a three percent overriding royalty on Corcel production. Royalty expense increased to \$2.5 million (nine percent) in the third quarter of 2007 from \$1.0 million (eight percent) in the third quarter of 2006, and to \$4.5 million (eight percent) in the first nine months of 2007 from \$2.6 million (eight percent) in the first nine months of 2006.

## Production Expenses

Production expenses increased to \$3.0 million in the third quarter of 2007 compared to \$1.6 million in the third quarter of 2006, and increased to \$5.9 million in the first nine months of 2007 compared to \$3.9 million in the first nine months of 2006. These increases are mainly due to higher production, including production from the Corcel-1 well. Costs also increased due to the appreciation of the Colombian Peso relative to the U.S. dollar. On a unit of production basis, production costs increased by three percent to \$7.16 per barrel in the third quarter of 2007 from \$6.97 per barrel in the third quarter of 2006, and increased to \$6.83 per barrel in the first nine months of 2007 compared to \$6.70 per barrel in the first nine months of 2006. The increases are mainly due to the costs associated with Corcel production added in the third quarter which is being produced at a higher cost through temporary production facilities. Ecopetrol is responsible for primary production operations at Orito and Neiva at a cost (subject to annual inflation, currency, and other adjustments) of \$4.39 per barrel and \$2.39 per barrel, respectively.

## General and Administrative Expenses

General and administrative expenses increased by 27 percent in the third quarter of 2007 to \$1.5 million from \$1.2 million in the third quarter of 2006, and increased by 45 percent in the first nine months of 2007 to \$4.3 million from \$3.0 million in the first nine months of 2006. The increases were primarily due to additional personnel, management fees paid to Petrobank, and the impact of the appreciation of the Colombian peso relative to the U.S. dollar.

## Interest Expense

At June 30, 2007, the Company had drawn \$25.0 million on its secured credit facility. Bank debt subsequently increased to \$40.0 million and following completion of the common share offering in September 2007, was reduced to \$10.0 million. Bank charges including fees on letters of credit, interest expense and amortization of deferred financing costs expenses increased to \$1.1 million in the third quarter of 2007 (2006 – \$nil) and increased to \$1.6 million in the first nine months of 2007 compared to \$0.1 million in the first nine months of 2006.

## Stock-Based Compensation

Stock-based compensation expenses increased to \$0.5 million in the third quarter of 2007 compared to \$0.2 million in the third quarter of 2006, and increased to \$1.0 million in the first nine months of 2007 compared to \$0.3 million in the first nine months of 2006. Before completion of the IPO in June 2006, there were no stock options or deferred common shares outstanding. The calculation of this non-cash expense is determined based on the fair value of stock options amortized over their vesting period and the fair value of deferred common shares upon their date of grant.

## Depletion, Depreciation and Accretion

Depletion, depreciation and accretion expense increased to \$6.7 million (\$16.06 per barrel) in the third quarter of 2007 from \$3.8 million (\$16.85 per barrel) in the third quarter of 2006, and increased to \$14.5 million (\$16.86 per barrel) in the first nine months of 2007 from \$9.6 million (\$16.46 per barrel) in the first nine months of 2006.

## Taxes

The Company recorded equity and presumptive income taxes of \$0.9 million in the third quarter of 2007 compared to \$0.5 million in the third quarter of 2006, and a \$2.6 million expense in the first nine months of 2007 compared to \$1.5 million in the first nine months of 2006. The increase was primarily due to the increase in the Company's equity base. Presumptive income and equity taxes in Colombia are based on equity capitalization levels. Presumptive income in excess of ordinary income owing can be recovered against income taxes in future periods, and can be carried forward for five years.

Additionally, the Company recorded a \$2.2 million future income tax expense in the third quarter of 2007 and a \$6.1 million future income tax recovery in the first nine months of 2007 as the Company recognized previously unrecognized future income tax assets.

## Net Income

Net income increased by 141 percent to \$10.2 million in the third quarter of 2007 compared to \$4.3 million in the third quarter of 2006. On a diluted per share basis, net income increased 150 percent to \$0.10 in the third quarter of 2007 from \$0.04 in the third quarter of 2006. Net income increased by 98 percent to \$24.1 million in the first nine months of 2007 from \$12.1 million in the first nine months of 2006. On a diluted per share basis, net income increased by 79 percent to \$0.25 from \$0.14 in the first nine months of 2006. These increases were primarily due to higher production, which included production from the Corcel-1 well and the future income tax recovery, offset by higher production expenses, general and administrative expenses, stock-based compensation costs, interest expense and equity taxes.

## Funds Flow From Operations

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2007	2006	2007	2006
Net income	\$ 10,242	\$ 4,252	\$ 24,060	\$ 12,121
Depletion, depreciation and accretion	6,683	3,752	14,481	9,586
Amortization of deferred financing costs	59	-	149	-
Stock-based compensation	492	198	968	337
Unrealized loss on risk management contracts	555	-	555	-
Future income taxes	2,170	-	(6,108)	-
Funds flow from operations	\$ 20,201	\$ 8,202	\$ 34,105	\$ 22,044

The Company's funds flow from operations increased by 146 percent to \$20.2 million in the third quarter of 2007 from \$8.2 million in the third quarter of 2006. On a diluted per share basis, funds flow from operations increased by 122 percent to \$0.20 in the third quarter of 2007 from \$0.09 in the third quarter of 2006. Funds flow from operations increased by 55 percent in the first nine months of 2007 to \$34.1 million from \$22.0 million in the first nine months of 2006. On a diluted per share basis, funds flow from operations increased by 35 percent to \$0.35 in the first nine months of 2007 from \$0.26 in the first nine months of 2006. These increases were primarily due to higher sales revenues, offset by higher production expenses, general and administrative expenses, interest expense, and equity taxes.

## Capital Expenditures

Capital expenditures totalled \$39.9 million in the third quarter of 2007 compared to \$21.7 million in the third quarter of 2006. On a year to date basis, capital expenditures totalled \$105.8 million in the first nine months of 2007 compared to \$49.7 million in the first nine months of 2006. The expenditures in the first nine months of 2007 related to drilling, completions and workovers at Orito totalling \$49.5 million and work commitments on the Company's exploration blocks totalling \$51.1 million. Year to date activity includes five new wells drilled, seven completions and 12 workovers at Orito. On the exploration blocks, four exploration wells were drilled; two were completed as successful oil wells (Joropo and Corcel), and two wells were abandoned (Casimena and Casanare Este). The Corcel-2 and Conga-1 wells also commenced drilling in August and September 2007, respectively. In addition, the Company acquired 91 square kilometres of 3D seismic during the first nine months of 2007.

## Summary of Quarterly Results

	2007			2006				2005
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
<b>Financial</b> (\$000s except where noted)								
Crude oil revenue	29,058	14,977	9,167	11,038	12,818	13,581	6,239	3,932
Funds flow from operations <sup>(1)</sup>	20,201	8,708	5,196	6,745	8,202	10,479	3,363	1,838
Per share – basic (\$)	0.21	0.09	0.05	0.07	0.09	0.13	0.04	0.02
Per share – diluted (\$)	0.20	0.09	0.05	0.07	0.09	0.13	0.04	0.02
Net income	10,242	12,143	1,675	2,677	4,252	6,462	1,407	257
Per share – basic (\$)	0.11	0.13	0.02	0.03	0.04	0.08	0.02	0.00
Per share – diluted (\$)	0.10	0.13	0.02	0.03	0.04	0.08	0.02	0.00
Capital expenditures	39,895	38,342	27,569	23,617	21,696	9,110	18,942	19,605
<b>Operations</b>								
Operating netback (\$/bbl) <sup>(2)</sup>								
WTI benchmark price	75.15	65.02	58.23	60.17	70.54	70.72	63.48	60.05
Crude oil sales price	69.85	57.79	49.88	50.58	57.57	57.14	51.12	44.75
Royalties	6.07	4.64	3.99	4.05	4.60	4.61	4.09	3.59
Production expenses	7.16	6.15	7.04	7.35	6.97	5.59	8.36	8.59
Operating netback	56.62	47.00	38.85	39.18	46.00	46.94	38.67	32.57
Average daily crude oil production (bbls)	4,522	2,848	2,042	2,372	2,420	2,612	1,356	955

(1) Non-GAAP measure calculated based on cash flow from operations before changes in non-cash working capital.

(2) Non-GAAP measure demonstrating Company's revenue less royalties and production expenses per barrel of oil produced.

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.
- Production declined in the first quarter of 2007 from the fourth quarter of 2006 mainly as a result of certain wells being shut in during the period for workovers, delays in bringing new production on-line and also due to natural declines. Of particular note, the Orito-118 well was offline for 38 days in the quarter while the field operator, Ecopetrol performed a pump replacement operation.
- Completion of the Orito-122 and 125 wells late in the first quarter of 2007 increased production in the second quarter of 2007.
- Appreciation of the Colombian peso during the first nine months of 2007 which impacted production expenses and general and administrative expenses.
- Future income tax recovery of \$8.3 million was recognized in the second quarter of 2007.
- The Corcel-1 discovery well commenced production in the third quarter of 2007 resulting in a substantial increase in 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 totalling \$35.9 million, which are required to be completed by March 31, 2009. 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 and completion rigs with contract terms extending until September 30, 2008. At September 30, 2007, the remaining rig commitments totalled \$21.3 million, a significant portion of which will be used to satisfy commitments on the exploration contracts. Petrominerales plans to fund these commitments mainly with funds flow from operations and credit facilities. The Company has issued letters of credit totalling \$5.1 million outstanding in support of the obligations on the exploration contracts.

The following is a summary of the estimated costs required to fulfill the Company's remaining contractual commitments as at September 30, 2007:

<b>Type of Obligation (\$000s)</b>	<b>Total</b>	<b>&lt; 1 Year</b>	<b>1-3 Years</b>
Bank debt	<b>10,000</b>	-	10,000
Exploration contracts	<b>35,900</b>	24,800	11,100
Drilling rigs <sup>(1)</sup>	<b>21,300</b>	21,300	-
<b>Total</b>	<b>67,200</b>	46,100	21,100

<sup>(1)</sup> 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 third quarter of 2007 the Company completed the following share issuance:

Date Of Issue	# Issued	Price Per Share	Gross Proceeds	Use Of Proceeds
September 13, 2007	5,060,000	Cdn\$12.05	\$58.1 million	\$30 million was used to temporarily reduce bank debt and the remainder continues to accelerate exploration and delineation drilling on the Corcel Block.

At June 30, 2007, the Company had drawn \$25.0 million on its secured credit facility. Bank debt subsequently increased to \$40.0 million and following completion of the common share offering in September 2007, was reduced to \$10.0 million (\$9.5 million – net of financing costs). Net debt totalled \$4.6 million at September 30, 2007. In June 2007, the Company's credit facility was increased to \$100.0 million with a \$50.0 million borrowing base.

The Company has used \$5.1 million of its Colombian operating lines of credit, with a combined borrowing base of approximately \$7.2 million, for letters of credit to guarantee work commitments under exploration blocks.

## Outstanding Share Data

The number of outstanding shares of Petrominerales of 100,212,050 was unchanged to the date of this MD&A from September 30, 2007.

## Transactions with Related Parties

The Company pays Petrobank a monthly fee of Cdn\$75,000 pursuant to a Management Services Agreement. The fee is based on a negotiated value of services provided. Costs under this agreement totalled \$0.2 million for the three month period and \$0.6 million for the nine month period ended September 30, 2007 (2006 – \$0.2 million and \$0.3 million, respectively) and were recorded as general and administrative expense.

## Risks and Uncertainties

The Company's risks and uncertainties have not changed significantly from those identified in the MD&A for the year ended December 31, 2006.

## Critical Accounting Policies and Estimates

The Company's financial statements have been 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. Certain accounting policies require management to make decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. The Company's management review their estimates frequently; however, the emergence of new information and changed circumstances may result in actual results or changes to estimated amounts that differ materially from current estimates. Petrominerales attempts to mitigate this risk by employing individuals with the appropriate skill set and knowledge to make reasonable estimates; developing internal reporting systems; and comparing past estimates to actual results.

The Company's financial and operating results include estimates of the following:

- Depletion, depreciation and accretion based on estimates of oil reserves;

- Estimated revenues, operating expenses and royalties for which actual revenues and costs have not been received;
- Estimated capital expenditures on projects that are in progress;
- Estimated fair value of derivative contracts; and
- Estimated amount of the asset retirement obligations including estimates of future costs and the timing of the costs.

### **Changes in Accounting Policies**

Effective January 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants (“CICA”) Section 1506, “Accounting Changes,” Section 1530, “Comprehensive Income,” Section 3251, “Equity,” Section 3855, “Financial Instruments – Recognition and Measurement,” Section 3861, “Financial Instruments – Disclosure and Presentation” and Section 3865, “Hedges.” The Company was required to adopt these standards for the fiscal years beginning on or after October 1, 2006. These standards have been adopted prospectively and as such comparative amounts have not been restated, except for amounts related to cumulative translation adjustments as a result of the Company’s change in reporting currency.

The Company’s financial statements will include other comprehensive income as a result of Section 1530, which includes the change in fair value of the effective portion of the derivatives used as hedging items in a cash flow hedge, the change in fair value of any available for sale financial instruments and foreign exchange gains and losses arising from the translation of self-sustaining foreign operations. Accumulated other comprehensive income is a new equity category comprised of the cumulative amounts of other comprehensive income. The Company has restated prior periods to include the cumulative translation adjustment as a result of its change in reporting currency as accumulated other comprehensive income. As a result of Section 3861 the Company’s financial statements will include incremental disclosures about the Company’s financial instruments. These new policies are not expected to impact the Company’s operations.

### **Disclosure Controls and Procedures**

Disclosure controls and procedures have been designed to ensure that information required to be disclosed by Petrominerales is accumulated and communicated to the Company’s management as appropriate to allow timely decisions regarding required disclosures. The Company’s Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of the end of the period covered by the interim filings, that the Company’s disclosure controls and procedures are effective to provide reasonable assurance that material information related to the issuer, is made known to them by others within the Company. It should be noted that while the Company’s Chief Executive Officer and Chief Financial Officer believe that the Company’s disclosure controls and procedures provide a reasonable level of assurance that they are effective, they do not expect that the disclosure controls and procedures or internal control over financial reporting will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

### **Outlook**

In addition to the plans discussed in this MD&A, please see the third quarter 2007 Operational Update.

## CONSOLIDATED BALANCE SHEETS

(Unaudited, thousands of United States dollars)

As at	September 30, 2007	December 31, 2006
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 25,458	\$ 28,634
Accounts receivable and other current assets	17,362	2,009
	<b>42,820</b>	30,643
Capital assets		
Future income tax asset (Note 4)	242,480	150,764
	<b>6,108</b>	-
<b>Total assets</b>	<b>\$ 291,408</b>	<b>\$ 181,407</b>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 37,941	\$ 19,174
Risk management liability (Notes 2 and 7)	555	-
	<b>38,496</b>	19,174
Bank debt (Notes 2 and 3)	9,460	-
Asset retirement obligations	1,321	930
	<b>49,277</b>	20,104
Shareholders' equity		
Common shares (Note 5)	194,848	138,906
Contributed surplus (Note 5)	1,357	531
Accumulated other comprehensive income (Note 5)	16,024	16,024
Retained earnings	29,902	5,842
	<b>242,131</b>	161,303
<b>Total liabilities and shareholders' equity</b>	<b>\$ 291,408</b>	<b>\$ 181,407</b>

Commitments and contingencies (Note 8)

See accompanying notes to these consolidated financial statements.

## CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS (DEFICIT)

(Unaudited, thousands of United States dollars, except per share amounts)

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
<b>Revenues</b>				
Oil	\$ 29,058	\$ 12,818	\$ 53,202	\$ 32,638
Interest income	29	312	92	312
Royalties	(2,526)	(1,025)	(4,462)	(2,620)
Unrealized loss on risk management contracts (Note 7)	(555)	-	(555)	-
	<b>26,006</b>	12,105	<b>48,277</b>	30,330
<b>Expenses</b>				
Production	2,976	1,551	5,863	3,899
General and administrative	1,540	1,210	4,298	2,968
Stock-based compensation	492	198	968	337
Interest	1,116	-	1,593	115
Foreign exchange loss (gain)	(67)	614	476	(155)
Depletion, depreciation and accretion	6,683	3,752	14,481	9,586
	<b>12,740</b>	7,325	<b>27,679</b>	16,750
<b>Income before taxes</b>	<b>13,266</b>	4,780	<b>20,598</b>	13,580
Tax expense (recovery) (Note 4)	3,024	528	(3,462)	1,459
<b>Net income</b>	<b>10,242</b>	4,252	<b>24,060</b>	12,121
<b>Retained earnings (deficit), beginning of period</b>	<b>19,660</b>	(1,087)	<b>5,842</b>	(8,956)
<b>Retained earnings (deficit), end of period</b>	<b>\$ 29,902</b>	\$ 3,165	<b>\$ 29,902</b>	\$ 3,165
<b>Basic earnings per share (Note 5)</b>	<b>\$ 0.11</b>	\$ 0.04	<b>\$ 0.25</b>	\$ 0.14
<b>Diluted earnings per share (Note 5)</b>	<b>\$ 0.10</b>	\$ 0.04	<b>\$ 0.25</b>	\$ 0.14

See accompanying notes to these consolidated financial statements.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited, thousands of United States dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
<b>Net income</b>	<b>\$ 10,242</b>	\$ 4,252	<b>\$ 24,060</b>	\$ 12,121
Other comprehensive income	-	-	-	-
<b>Comprehensive income</b>	<b>\$ 10,242</b>	\$ 4,252	<b>\$ 24,060</b>	\$ 12,121

See accompanying notes to these consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CASH FLOW

(Unaudited, thousands of United States dollars)

	Three months ended September 30, 2007		2006		Nine months ended September 30, 2007		2006	
<b>Operating Activities</b>								
Net income	\$ 10,242	\$ 4,252	\$ 24,060	\$ 12,121				
Depletion, depreciation and accretion	6,683	3,752	14,481	9,586				
Amortization of deferred financing costs	59	-	149	-				
Stock-based compensation	492	198	968	337				
Unrealized loss on risk management contracts	555	-	555	-				
Future income taxes (recovery) (Note 4)	2,170	-	(6,108)	-				
	20,201	8,202	34,105	22,044				
Changes in non-cash working capital	(1,843)	(59)	(11,995)	(6,398)				
	18,358	8,143	22,110	15,646				
<b>Financing Activities</b>								
Issuance (repayment) of bank debt	(15,000)	-	10,000	-				
Financing costs	-	-	(689)	-				
Issuance of common shares – net of issuance costs (Note 5)	55,782	(199)	55,800	49,782				
Equity contributed by majority shareholder	-	-	-	21,816				
	40,782	(199)	65,111	71,598				
<b>Investing Activities</b>								
Expenditures on capital assets	(39,895)	(21,696)	(105,806)	(49,748)				
Changes in non-cash working capital	3,363	9,059	15,409	967				
	(36,532)	(12,637)	(90,397)	(48,781)				
Net effect of foreign exchange on cash denominated in foreign currencies	-	-	-	103				
<b>Net change in cash and cash equivalents</b>	<b>22,608</b>	<b>(4,693)</b>	<b>(3,176)</b>	<b>38,566</b>				
<b>Cash and cash equivalents, beginning of period</b>	<b>2,850</b>	<b>43,372</b>	<b>28,634</b>	<b>113</b>				
<b>Cash and cash equivalents, end of period</b>	<b>\$ 25,458</b>	<b>\$ 38,679</b>	<b>\$ 25,458</b>	<b>\$ 38,679</b>				
Cash and cash equivalents consist of:								
Cash	\$ 17,980	\$ 892	\$ 17,980	\$ 892				
Cash equivalents	\$ 7,478	\$ 37,787	\$ 7,478	\$ 37,787				
Other cash flow information:								
Cash taxes paid	\$ 70	\$ 464	\$ 1,284	\$ 1,125				
Cash interest paid	\$ 644	\$ 115	\$ 656	\$ 115				
Cash interest received	\$ 24	\$ 365	\$ 87	\$ 370				

See accompanying notes to these consolidated financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and nine month periods ended September 30, 2007 and 2006

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

### **Note 1 – Significant Accounting Policies**

The interim consolidated financial statements for Petrominerales Ltd. (“Petrominerales” or the “Company”) as at and for the three and nine month periods ended September 30, 2007 should be read in conjunction with the audited consolidated financial statements as at and for the year ended December 31, 2006. The notes to these interim consolidated financial statements do not conform in all respects to the note disclosure requirements of generally accepted accounting policies (“GAAP”) for annual financial statements. These interim consolidated financial statements are prepared using the same accounting policies and methods of computation as disclosed in the consolidated financial statements as at and for the year ended December 31, 2006, except for those disclosed in Note 2. The disclosures provided within are incremental to those included with the annual financial statements. Certain prior year amounts have been reclassified to conform with current presentation.

### **Note 2 – Changes in Accounting Policies**

Effective January 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants (“CICA”) Section 1530, “Comprehensive Income,” Section 3855, “Financial Instruments – Recognition and Measurement,” Section 3861, “Financial Instruments – Disclosure and Presentation” and Section 3865, “Hedges.” The Company has adopted these standards prospectively and the comparative interim consolidated financial statements have not been restated, except for cumulative translation adjustment which was reclassified as accumulated other comprehensive income.

Upon adoption of Section 3855, all financial instruments are classified into one of the following five categories: held-for-trading, loans and receivables, held-to-maturity investments, available-for-sale financial assets or other financial liabilities. Subsequent measurement of the financial instruments is based on their initial classification. Held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired. All risk management contracts are recorded in the balance sheet at fair value unless they qualify for the normal sale and normal purchase exemption. All changes in their fair value are recorded in net income unless cash flow hedge accounting is used, in which case changes in fair value are recorded in other comprehensive income until the underlying hedged transaction is recognized in net income. Any hedge ineffectiveness is immediately recognized in net income. The company has elected not to use cash flow hedge accounting on its risk management contracts with financial counterparties resulting in all changes in fair value being recorded in net income. The other categories of financial instruments are recognized at amortized cost using the effective interest rate method.

Upon adoption of these standards, the Company classified its cash and cash equivalents as held-for-trading, which are measured at fair value which equals the carrying value. Accounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and bank debt are classified as other financial liabilities, which are measured at amortized cost.

For financial assets and financial liabilities that are not classified as held-for-trading, the transaction costs that are directly attributable to the acquisition or issue of a financial asset or financial liability are adjusted to the fair value initially recognized for that financial instrument. These costs are expensed using the effective interest rate method and are recorded within interest expense.

Section 1530 establishes standards for reporting and presenting comprehensive income which is defined as the change in equity from transactions and other events from nonowner sources. Other comprehensive income refers to items recognized in comprehensive income but that are excluded from net income

calculated in accordance with GAAP. Other comprehensive income includes any change in fair value of the effective portion of the risk management contracts used as hedging items in a cash flow hedge, the change in fair value of any available for sale financial instruments and foreign exchange gains and losses arising from the translation of self-sustaining foreign operations. Upon adoption of Section 1530, amounts previously recognized on the balance sheet as cumulative translation adjustment have been reclassified as accumulated other comprehensive income.

The adoption of these new standards had no impact on the Company's retained earnings as at January 1, 2007.

The Company also adopted Section 3251, "Equity" and Section 1506, "Accounting Changes." Section 3251 replaces Section 3250, "Surplus," and describes standards for the presentation of equity and changes in equity for reporting period as a result of the application of Section 1530, "Comprehensive Income." The only impact of Section 1506, "Accounting Changes," is to provide disclosure of when an entity has not applied a new source of GAAP that has been issued but is not yet effective. This is the case with Section 3862, "Financial Instruments Disclosures" and Section 3863, "Financial Instruments Presentations" which are required to be adopted for fiscal years beginning on or after October 1, 2007. The Company will adopt these standards on January 1, 2008 and it is expected the only effect on the Company will be additional disclosures regarding the significance of financial instruments for the entity's financial position and performance; and the nature, extent and management of risks arising from financial instruments to which the entity is exposed.

Section 1535, "Capital Disclosures" is effective for annual periods beginning on or after October 1, 2007 and establishes standards for disclosing information about the Company's capital and how it is managed. It requires disclosures of the Company's objectives, policies and processes for managing capital, the quantitative data about what the Company regards as capital, whether the Company has complied with any capital requirements and if it has not complied, the consequences of such non-compliance. The Company is currently evaluating the impact of the adoption of this section on the consolidated financial statements.

### **Note 3 – Bank Debt**

At September 30, 2007, the Company had drawn \$10.0 million on its secured credit facilities (\$9.5 million – net of financing costs). Late in 2006, the Company finalized a \$50.0 million three-year secured credit facility, which included an initial \$25.0 million borrowing base. In June 2007, the facility was increased to \$100.0 million with a \$50.0 million borrowing base. The facility bears interest at a rate equal to LIBOR (London Interbank Offered Rate) plus three percent per annum. The facility is secured by a pledge over all property of the Company. The borrowing base is reviewed semi-annually.

The Company has a \$7.2 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. The Company has used \$5.1 million of its Colombian operating lines of credit, for letters of credit to guarantee work commitments under exploration blocks.

#### Note 4 – 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:

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Income before taxes	\$ 13,266	\$ 4,780	\$ 20,598	\$ 13,580
Statutory income tax rate	34.0%	38.5%	34.0%	38.5%
Expected tax expense	\$ 4,510	\$ 1,840	\$ 7,003	\$ 5,228
Increase (decrease) in income tax provision resulting from:				
Non-deductible expenses	257	51	315	156
Enhanced tax allowances	-	(1,744)	-	(5,232)
Changes in tax rates	-	209	-	625
Stock-based compensation	167	54	329	54
Future tax asset recognized & others	(2,764)	(410)	(13,755)	(831)
Future income tax expense (recovery)	2,170	-	(6,108)	-
Presumptive income and equity taxes	854	528	2,646	1,459
Tax expense (recovery)	\$ 3,024	\$ 528	\$ (3,462)	\$ 1,459

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	September 30, 2007		December 31, 2006	
	Future Income Tax Assets	Future Income Tax Liabilities	Future Income Tax Assets	Future Income Tax Liabilities
Loss carry forwards	\$ 11,728	\$ -	\$ 7,822	\$ -
Excess presumptive tax	2,509	-	3,748	-
Capital assets	3,493	-	2,373	-
Asset retirement obligations	436	-	307	-
	18,166	-	14,250	-
Valuation allowance	(12,058)	-	(14,250)	-
	\$ 6,108	\$ -	\$ -	\$ -

As at September 30, 2007 non-capital losses totalled \$35.5 million and expire between 2008 and 2011.

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 5 – Share Capital

At September 30, 2007, the Company had 100,212,050 common shares outstanding, 4,846,913 stock options and 37,500 deferred common shares.

### *Common Shares*

Common share Continuity	Number		Amount
Balance at December 31, 2006	95,000,000	\$	138,906
Issued <sup>(1)</sup>	5,060,000		58,137
Share issue costs	-		(2,903)
Exercise of stock options	152,050		566
Transfer from contributed surplus related to stock options exercised	-		142
<b>Balance at September 30, 2007</b>	<b>100,212,050</b>	<b>\$</b>	<b>194,848</b>

(1) In September 2007, the Company issued 5,060,000 common shares at a price of Cdn\$12.05 per common share for gross proceeds of Cdn\$61.0 million (\$58.1 million).

### *Contributed Surplus*

Changes in Contributed Surplus		Amount
Balance at December 31, 2006	\$	531
Stock-based compensation		968
Transfer from contributed surplus related to stock options exercised		(142)
<b>Balance at September 30, 2007</b>	<b>\$</b>	<b>1,357</b>

### *Accumulated Other Comprehensive Income*

Changes in Accumulated Other Comprehensive Income		Amount
Balance at December 31, 2006	\$	16,024
Other comprehensive income		-
<b>Balance at September 30, 2007</b>	<b>\$</b>	<b>16,024</b>

### *Stock Option Continuity*

	Stock Options	Weighted-Average Exercise Price
Balance at December 31, 2006	3,051,126	Cdn\$ 3.78
Granted	2,191,587	5.63
Exercised	(152,050)	3.77
Cancelled	(243,750)	3.78
<b>Balance at September 30, 2007</b>	<b>4,846,913</b>	<b>Cdn\$ 4.61</b>

### *Deferred Common Shares*

At September 30, 2007, there were 37,500 deferred common shares outstanding under the Company's deferred share compensation plan, which allows holders to receive one common share upon payment of Cdn\$0.05 per share. The deferred common shares vest after three years or immediately upon resignation or retirement, 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.

### *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 three month period ended September 30, 2007 of 95,968,114 (2006 – 95,000,000) and for the nine month period ended September 30, 2007 of 95,326,269 (2006 – 84,509,118). The diluted calculations include additional shares for the three month period ended September 30, 2007 of 2,584,579 (2006 – nil) and for the nine month period ended September 30, 2007 of 870,994 (2006 – nil) for the potential impact of stock options and deferred common shares.

### *Stock-Based Compensation*

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

Three and nine months ended September 30, 2007

Risk free interest rate	4.5%
Dividend rate	0%
Expected life – options (years)	3.3
Expected life – deferred common shares (years)	8
Expected volatility	30 to 35%

The average fair value per stock option granted during the three and nine month periods ended September 30, 2007 was \$4.02 (2006 – \$1.19) and \$1.50 (2006 – \$1.04) respectively, as at the date of grant. The average fair value per deferred common share granted during the three month period ended September 30, 2007 was \$nil (2006 – \$nil) as no deferred common shares were granted during the period. The average fair value per deferred common share granted during the nine month period ended September 30, 2007 was \$3.58 (2006 – \$nil) as at the date of grant.

Stock-based compensation expense for the three and nine month periods ended September 30, 2007 totalled \$0.5 million (2006 – \$0.2 million) and \$1.0 million (2006 – \$0.3 million) respectively.

### **Note 6 – Related Party Transactions**

The Company pays Petrobank a monthly fee of Cdn\$75,000 pursuant to a Management Services Agreement. The fee is based on a negotiated value of services provided. Costs under this agreement totalled \$0.2 million for the three month period and \$0.6 million for the nine month period ended September 30, 2007 (2006 – \$0.2 million and \$0.3 million, respectively) and were recorded as general and administrative expense.

### **Note 7 – Financial Instruments and Financial Risk Management**

The nature of the crude oil operations and the issuance of debt expose the Company to fluctuations in commodity prices, foreign currency exchange rates and interest rates. The Company manages these risks through periodic use of derivative instruments. The Board of Directors periodically reviews the results of all risk management activities and all outstanding positions.

### **Credit Risk**

A substantial portion of the Company's accounts receivable are with customers in the oil industry and are subject to normal industry credit risks. The carrying amount of accounts receivable reflects management's assessment of the credit risk associated with these customers. 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. Typically, the Company's maximum credit exposure to customers is revenue from two months' sales. While counterparties to risk management contracts expose the Company to losses in the event of non-performance, the Company currently deals

with one large credit-worthy institution, who is also the Company's senior lender, and does not anticipate non-performance by this counterparty.

### **Interest Rate Risk**

The Company is exposed to interest rate cash flow risk on floating interest rate bank debt due to fluctuations in market interest rates. The remainder of the Company's financial assets and liabilities are not exposed to interest rate risk.

### **Foreign Currency Exchange Risk**

The Company is exposed to foreign currency fluctuations as certain expenditures are denominated in Colombian pesos and Canadian dollars.

### **Fair Value of Financial Instruments**

The Company's financial instruments are classified as cash and cash equivalents, accounts receivable and other current assets, accounts payable and accrued liabilities, risk management liabilities, and bank debt on the balance sheet. The carrying value and fair value of these financial instruments at September 30, 2007 is disclosed below by financial instrument category, as well as any related loss and interest expense for the nine months ended September 30, 2007:

<b>Financial Instrument</b>	<b>Carrying Value</b>	<b>Fair Value</b>	<b>Loss</b>	<b>Interest Expense</b>
<b>Assets Held For Trading</b>				
Cash and cash equivalents	25,458	25,458	-	-
<b>Loans and Receivables</b>				
Accounts receivable and other current assets	17,362	17,362	-	-
<b>Liabilities Held For Trading</b>				
Risk management contracts	555	555	555 <sup>(1)</sup>	-
<b>Other Liabilities</b>				
Accounts payable and accrued liabilities	37,941	37,941	-	-
Bank debt	9,460	10,000	-	1,593 <sup>(2)</sup>

<sup>(1)</sup> Included in risk management contracts – unrealized loss on the statement of operations and retained earnings (deficit), statement of comprehensive income and statement of cash flow.

<sup>(2)</sup> Included in interest expense on the statement of operations and retained earnings (deficit) and statement of comprehensive income. The amortization of deferred financing costs of \$0.1 million in relation to the Company's bank debt is included on the statement of cash flow.

The risk management contracts are recorded at their fair value based on quoted market prices on the balance sheet date; accordingly, there is no difference between fair value and carrying value. Bank debt is recorded on the balance sheet net of deferred financing costs which results in a difference between carrying value and the fair value. Due to the short term nature of cash and cash equivalents, accounts receivable and other current assets, accounts payable and accrued liabilities, their carrying values approximate their fair values.

## Commodity Price Risk Management

The Company had the following risk management contracts outstanding at September 30, 2007:

Term	Volume (Bopd)	Price (\$/bbl)	Benchmark
Jan. 1, 2008 – Dec. 31, 2008	500	65.00 floor / 80.00 ceiling	WTI
Jan. 1, 2008 – Dec. 31, 2008	500	75.25 fixed	WTI

For the three and nine month periods ended September 30, 2007, the unrealized loss recognized in net income was \$0.6 million (2006 – \$nil), which represents the carrying amount and fair value of these risk management liabilities at September 30, 2007.

### Note 8 – Commitments and Contingencies

The Company has committed to various work programs pursuant to its exploration contracts totalling \$35.9 million, which are required to be completed by March 31, 2009. 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 and completion rigs with contract terms extending until September 30, 2008. At September 30, 2007, the remaining rig commitments totalled \$21.3 million, a significant portion of which will be used to satisfy commitments on the exploration contracts. Petrominerales plans to fund these commitments mainly with cash flow from operating activities and credit facilities. The Company has issued letters of credit totalling \$5.1 million outstanding in support of the obligations on the exploration contracts.



Torre B: Calle 113 No. 7 – 45, Bogotá, Colombia  
Investor Relations: 1-403-750-4400  
Website: [www.petrominerales.com](http://www.petrominerales.com)  
TSX: PMG