

Q2

2010

SECOND QUARTER REPORT



PETROMINERALES

A PETROBANK COMPANY

Petrominerales reported another quarter of record results highlighted by a 105 percent increase in production to 44,203 barrels of oil per day (“bopd”), funds flow from operations of US\$176.0 million (US\$1.68 per diluted share) and net income of US\$81.2 million (US\$0.78 per diluted share) for the second quarter of 2010. We realized operating netbacks of US\$50.93 per barrel, a 38% increase over 2009. Our balance sheet remains strong with a US\$67.3 million net working capital surplus and access to additional debt if needed. This financial flexibility gives us the strength to execute our largest capital program to-date in 2010.

### FINANCIAL & OPERATING HIGHLIGHTS

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

	Three months ended June 30,			Six months ended June 30,		
	2010	2009	% change	2010	2009	% change
<b>Financial</b>						
(\$000s, except where noted)						
Crude oil revenue	318,776	104,823	204	566,622	181,175	213
Funds flow from operations <sup>(1)</sup>	175,989	64,098	175	316,075	105,944	198
Per share						
– basic (\$)	1.77	0.65	172	3.19	1.07	198
– diluted (\$)	1.68	0.63	167	3.02	1.05	188
Net income	81,218	15,323	430	154,594	22,711	581
Per share						
– basic (\$)	0.82	0.16	413	1.56	0.23	578
– diluted (\$)	0.78	0.15	420	1.50	0.23	552
Capital expenditures	112,697	79,527	42	224,489	144,898	55
Total assets	1,052,284	633,237	66	1,052,284	633,237	66
Net working capital surplus (deficit) <sup>(1)</sup>	67,277	(7,503)	997	67,277	(7,503)	997
Common shares, end of period (000s)						
Basic	99,363	97,930	1	99,363	97,930	1
Diluted <sup>(2)</sup>	110,778	104,383	6	110,778	104,383	6
<b>Operations</b>						
Operating netback (\$/bbl) <sup>(1)</sup>						
WTI benchmark price	78.06	59.79	31	78.47	51.68	52
Crude oil revenue <sup>(3)</sup>	63.53	47.96	32	64.95	40.90	59
Royalties	6.35	4.30	48	6.81	3.98	71
Production expenses	6.25	6.76	(8)	6.46	6.34	2
Operating netback	50.93	36.90	38	51.68	30.58	69
Crude oil production (bopd) <sup>(4)</sup>	44,203	21,548	105	41,218	21,659	90

<sup>(1)</sup> Non-GAAP measure. See “Non-GAAP Measures” section within MD&A.

<sup>(2)</sup> Consists of common shares, stock options, deferred common shares, incentive shares and convertible debentures outstanding as at the period-end date.

<sup>(3)</sup> Net of transportation and excludes revenue from purchased oil.

<sup>(4)</sup> Actual production sold for the three and six months ended June 30, 2010 was 49,466 bopd and 43,995 bopd respectively (2009 – 21,390 bopd and 21,399 bopd).

## HIGHLIGHTS

(comparisons are second quarter 2010 compared to the second quarter of 2009, except where noted)

- We increased crude oil production to 44,203 bopd, a 105 percent gain over the prior year and a 16 percent gain over the first quarter of 2010.
- We generated solid operating netback of \$50.93 per barrel in the quarter, a 38% increase.
- We recorded funds flow from operations of \$176.0 million (\$1.68 per diluted share) and net income of \$81.2 million (\$0.78 per diluted share).
- We drilled two new oil discoveries on our Central Llanos Basin acreage in Colombia, Yenac-1 and Capybara-1.
- We completed the acquisition of PanAndean Resources plc on April 14, 2010. PanAndean assets include four exploration contracts in Peru and one in Colombia totalling 6.7 million gross (2.6 million net) acres.

## OPERATIONAL REVIEW

### COLOMBIA

#### Guatiquia

Production from the Candelilla structure averaged 27,779 bopd during the second quarter of 2010, an increase of 6,807 bopd, or 32 percent on a quarter-over-quarter basis. Production is being handled through early production facilities built on the Block, now capable of handling up to 55,000 barrels of fluid per day. Once the required regulatory approvals have been obtained, we plan to tie-in the Candelilla production to our Corcel central processing facility, which is expected to be completed by the end of the year. During the quarter, we shut-in the Candelilla-1 well for ten days in April to optimize oil production. In late July, we turned on the electric submersible pumps in the Candelilla wells to further optimize production. July monthly average production was 19,346 bopd and is currently over 21,000 bopd.

On July, 25, 2010, we began drilling operations on the Candelilla-4 exploration well, targeting previously identified pay in the Guadalupe and Mirador formations. Well results are expected by the end of August. In addition, we plan to drill an additional two exploration wells on the Guatiquia Block, Yatay-1 and Azalea-1, and to acquire 3D seismic over the entire Block.

#### Corcel

Corcel production during the second quarter 2010 averaged 8,220 bopd and 7,915 bopd during the month of July. Production has decreased from 2009 as no additional wells had been drilled on the block from the time the A2 sidetrack well was put on production September 28, 2009 until the C2 well came on production May 31, 2010. Second quarter Corcel production was also affected by certain wells being restricted or shut-in due to temporary limitations in our water disposal capacity in May and June. We expect to complete our installation of additional water disposal facilities in early August.

We resumed the Corcel drilling program on April 13, 2010 when we commenced drilling operations on the Corcel-C2 development well, reaching total measured depth of 13,750 feet on May 13, 2010. Well logs indicated 21 feet of potential net oil pay in the Lower Sand 1 formation and 14 feet of pay in the

Guadalupe formation. On May 31, 2010, the well was placed on production at over 3,000 bopd of 21 degree API oil.

In the northeast area of Corcel, we have drilled our first exploration well, Amarillo-1. The well began drilling operations on June 10, 2010 and reached total measured depth of 13,457 feet on July 27, 2010. Well logs indicated a total of 46 feet of potential net oil pay in the Guadalupe formation. The Lower Sand 1 zone indicated an anomalous well log response and compelling hydrocarbon indications during drilling. The well is being cased and the drilling rig will be mobilized to the Arion-1 location to spud this well by mid-August. Amarillo-1 will be tested with the completion rig, starting with the Lower Sand 1 formation. Initial test results are expected in August.

We plan to drill up to three additional exploration wells in the northeast area of Corcel by the end of 2010 and continue drilling in the area in 2011 to complete the remainder of our initial ten-well northeast exploration program. The Boa-2 development well is also expected to commence drilling in September.

On April 23, 2010, we completed the acquisition of 354 square kilometres of 3D seismic comprised of 205 square kilometres on the Corcel Block and 150 square kilometres on the adjacent Block 31. We now have 3D seismic coverage over the entire Corcel Block.

### **Block 31**

We began the interpretation of the 150 square kilometre 3D seismic program we recently acquired on the southern portion of Block 31, contiguous with the Corcel Block. This program satisfies our seismic work commitment on the Block. An initial review of the data indicates the potential to add to our prospect inventory. Following the seismic interpretation, we plan to drill our first exploration wells on the Block in 2011.

### **Central Llanos (Casimena, Castor, Casanare Este, Mapache)**

In January, we initiated a 13-well exploration program in the Central Llanos Basin starting with the Yenac-1 well on the Casimena Block that was placed on an extended test on April 13, 2010. The well commenced production at over 1,800 bopd at 16 degree API oil and has produced 173,000 barrels through the end of July.

The second well of our Central Llanos exploration program, Capybara-1 on our Castor Block, was cased as a potential oil well based on well logs that indicated 18 feet of potential net oil pay in two separate sands within the Carbonera C7 formation. Following testing, which indicated Capybara-1 is capable of producing 660 bopd of 29 degree API oil, the well was suspended and we are evaluating potential up-dip locations and developing a water handling strategy.

The third well of the program, Cerillo-1 on our Casanare Este Block, reached total measured depth of 9,580 feet on April 19, 2010. We swab tested five intervals in the Gacheta and Carbonera C7 formations. Four of the intervals were wet, while the fifth C7 interval tested non-commercial amounts of 31 degree API oil. The well has been suspended and we are assessing the up-dip potential of the Cerillo structure.

The fourth well of the program, Mapana-1 on our Mapache Block, reached total measured depth of 8,220 feet on May 27, 2010. We completed three of four prospective intervals in the Guadalupe, Mirador and

Carbonera C7 formations which tested wet. A fourth interval in the Carbonera C7 remains to be tested, but the interval would require remedial cement work. The well was suspended and the rig moved to the Manzanillo-1 well.

Manzanillo-1, the fifth well of our program, reached total measured depth of 8,101 feet on June 24, 2010 and was cased as a potential oil well based on indications of hydrocarbons encountered during drilling operations. Initial swab test results from the first interval tested in the Guadalupe formation recovered 35 degree API light oil. We are planning to swab test a number of additional intervals in the well before placing the Guadalupe formation on long-term production test.

We plan to recommence our Central Llanos drilling program in September starting with two follow-up wells at our Yenac discovery and then we plan to continue drilling our Mapache multi-well exploration program, drilling through the rest of 2010 and into 2011.

### **Neiva**

Neiva production averaged 3,415 bopd in the second quarter, a 45 percent increase from 2009, and has increased to average 3,924 bopd during the month of July. In 2010, we drilled and completed sixteen wells and performed eight workovers. In 2010, we started drilling wells targeting the Monserrate formation, which have demonstrated similar productive capacity as Doima-Chicoral wells. We currently have an additional 38 development locations to be drilled and we plan to keep actively drilling on the block through the remainder of 2010 and into 2011, focusing on Doima-Chicoral and Monserrate locations.

### **Orito and Las Aguilas**

In response to declining world oil prices in 2009, we discontinued drilling at Orito and commenced a formal sale process for our Orito asset and the adjoining Las Aguilas exploration block. Following the conclusion of this process we determined not to sell the Orito asset at this time and in response to higher oil prices, we are planning a multi-well drilling program in the area that is expected to commence in December and continue into 2011. The program is expected to include two exploration wells on the Las Aguilas Block and an initial four-well development program at Orito. In addition, we plan to acquire 48 square kilometres of 3D seismic over the Orito and adjoined Las Aguilas acreage.

### **Heavy Oil (Rio Ariari, Chiguiro Oeste, Chiguiro Este, Antorcha)**

In July, we mobilized a drilling rig onto our Llanos Basin heavy oil acreage and commenced drilling operations July 30, 2010 on the Avellana-1 exploration well on our Chiguiro Oeste Block. Results are expected by mid-September. Following Avellana-1, we plan to conduct a multi-well exploration drilling program of up to nine wells on our Rio Ariari Block to follow-up on our Rio Ariari discovery and target new exploration prospects and play-types on the Block. We expect to run this program continuously for the remainder of 2010 and into 2011.

We acquired the 87,383 acre Antorcha Block from our acquisition of PanAndean on April 14, 2010. This Block provides Petrominerales with another heavy oil exploration opportunity in an area close to infrastructure in the Middle Magdalena Basin. We commenced drilling the Antorcha-1 well on July 25,

2010 and reached total measured depth of 1,320 feet on August 2, 2010. Well logs indicated no pay, however some oil shows were seen in the core. We plan to release the rig, incorporate the well results into our geological model and plan future exploration work in 2011.

### **Colombia 2010 Bid Round**

In June's 2010 Bid Round, we were awarded Block 59 and Block 15, both in the Llanos Basin of Colombia.

Block 59 is located just north of the Apiay and Castilla oil fields. The Block covers 131,286 acres and our first phase work commitments will include spending \$24.2 million over three years to acquire 300 square kilometres of 3D seismic and drilling four exploration wells. The Block has over 500 kilometres of existing 2D seismic from which we have already identified several leads.

Block 15 is located northeast of the Cusiana-Cupiagua oil fields. The Block covers 63,188 acres and our first phase work commitments will include spending \$10.0 million over three years to acquire 100 square kilometres of 3D seismic and drilling two exploration wells. The Block currently has over 90 kilometres of existing 2D seismic from which we have identified several fault trends. The Block is located 12 kilometres southeast of the Huron discovery on the Niscota Block.

Both of these blocks will be subject to a new Colombia National Hydrocarbon Agency ("ANH") contract (8% initial royalty) plus a further state participation of 1% of gross production, payable to the ANH. In addition, the 2010 ANH hydrocarbon contracts include a high price participation payment when the cumulative production from the block exceeds five million barrels. The Block 15 and 59 contracts are subject to the final approval of the Directive Council of the ANH and resolution of our previously announced contractual dispute with the ANH.

### **PERU**

On April 14, 2010 we completed our previously announced acquisition of PanAndean. The acquisition was completed by way of scheme of arrangement (the "Scheme") in accordance with the United Kingdom Companies Act 2006. The Scheme resulted in Petrominerales acquiring PanAndean's Colombian and Peruvian assets, consisting of four exploration blocks in Peru totaling 6.7 million gross acres (2.6 net acres) and the Antorcha Block in Colombia.

Combining the PanAndean acquisition with our existing 55 percent working interest in Block 126, we have the exploration rights to a significant concentration of land in the highly under-explored Ucayali Basin of Peru. On Block 126, we completed a 150 square kilometre 3D seismic program earlier this year and we are in the final stages of evaluating the data and establishing drilling locations. Lease construction and infrastructure improvements are anticipated to begin on Block 126 in the third quarter of 2010 and an initial drilling program of up to three wells is expected to commence in early 2011. Additionally, we plan to reprocess approximately 1,000 kilometres of existing 2D seismic data. Pending interpretation of the reprocessed seismic data, we intend to initiate further environmental impact assessments in these new areas, with a view to expanding our drilling program on the Block.

Our recently acquired PanAndean acreage in Peru consists of two operated Blocks and two non-operated Blocks. On Block 161 in the Ucayali Basin, we plan to complete the reprocessing 150 kilometres of 2D

seismic during the third quarter of 2010. On Block 141 in the Titicaca Basin, we plan to complete a 300 kilometre 2D seismic program in 2011. On Blocks 114 and 131, we are carried by the operator on current phase seismic activity, the first exploration wells, and 50% of the second exploration wells drilled on each block. On Block 131, the operator has initiated a 300 km 2D seismic program and the first well could be drilled in 2012. On Block 114, the first well is expected to be drilled in late 2011.

#### **COLOMBIA STOCK EXCHANGE LISTING**

We are in the process of preparing necessary information to list Petrominerales' shares on the Colombian stock exchange, Bolsa de Valores de Colombia ("BVC"). Subject to customary regulatory approvals, we expect to have our shares trading on the BVC by the end of 2010. We have engaged Citivalores S.A. Colombia, a Citibank company, to act as our advisors in this process.

#### **QUARTER RESULTS CONFERENCE CALL**

Management of Petrominerales will be holding a conference call for investors, financial analysts, media and any interested persons on **Thursday, August 5, 2010 at 9:00 am (Mountain time)** (11:00 a.m. Eastern Time) to discuss our second quarter financial and operating results. The investor conference call details are as follows:

Live call dial-in numbers: **416-695-6622 / 800-446-4472**

Replay dial-in numbers: **416-695-5800 / 800-408-3053**

Replay pass code: **5803441**

The live audio webcast link is: <http://events.digitalmedia.telus.com/petrominerales/080510/index.php> and is also available on our website at: <http://www.petrominerales.com/investors/>.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

*The following Management's Discussion and Analysis ("MD&A") is dated August 4, 2010 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 six months ended June 30, 2010, MD&A for the year ended December 31, 2009, and the audited consolidated financial statements as at and for the year ended December 31, 2009. 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). All amounts are in United States dollars, unless otherwise stated and all tabular amounts are in thousands of United States dollars, except share amounts or as otherwise noted.*

**Forward-Looking Statements.** *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"). These statements 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 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 timing and outcome of resolving our dispute with the ANH, listing our shares on the BVC 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 forecasted. Except to the extent required by law, Petrominerales assumes no obligation to publicly update or revise any forward-looking statements made in this MD&A or otherwise, whether as a result of new information, future events or otherwise. 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.*

**Non-GAAP Measures.** *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 working capital surplus 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. 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 working capital surplus includes current assets less accounts payable, accrued liabilities and income taxes payable, and is used to evaluate the Company's financial leverage. Operating netback is determined by dividing oil sales less royalties, transportation and other and operating expenses by sales volume of produced oil. Management considers operating netback important as it is a measure of profitability per barrel sold and reflects the quality of production. Funds flow from operations, funds flow per share, net working capital surplus and operating netbacks may not be comparable to those reported by other companies nor should they be viewed as an alternative to cash flow from operations, net income or other measures of financial performance calculated in accordance with GAAP.*

Petrominerales Ltd. (“Petrominerales” or the “Company”), is a public company listed on the Toronto Stock Exchange. Petrominerales is involved in the exploration, development and production of crude oil in Colombia and Peru. Petrominerales is owned 66 percent by Petrobank Energy and Resources Ltd. (“Petrobank”) (TSX:PBG).

## FINANCIAL REVIEW

(comparisons are second quarter 2010 compared to the second quarter of 2009 unless otherwise noted)

Average Daily Crude Oil Production <sup>(1)</sup>	Three months ended June 30,			Six months ended June 30,		
	2010	2009	Change	2010	2009	Change
Guatiquia	27,779	-	-	24,394	-	-
Corcel	8,220	13,801	(40%)	9,728	15,525	(37%)
Neiva	3,415	2,358	45%	3,020	1,745	73%
Orito	2,950	3,695	(20%)	3,007	3,189	(6%)
Others	1,839	1,694	9%	1,069	1,200	(11%)
<b>Total (bopd)</b>	<b>44,203</b>	<b>21,548</b>	<b>105%</b>	<b>41,218</b>	<b>21,659</b>	<b>90%</b>

<sup>(1)</sup> Represents crude oil produced in the period. Sales volumes are different due to crude oil in transit at the period-end date and volumes sold on behalf of third parties. Sales volumes were 49,466 bopd in the second quarter of 2010 (2009 - 21,390 bopd) and 43,995 for the six month period ended June 30, 2010 (2009 – 21,399), as detailed in the Sales Volumes Reconciliation table below.

Production for the three month period ended June 30, 2010 increased 105 percent to 44,203 bopd. This increase is primarily due to drilling success at Neiva and Guatiquia, offset by natural production declines at Corcel and Orito. On a quarter-over-quarter basis, 2010 second quarter production increased 16 percent over the first quarter 2010.

Guatiquia production relates to the Candelilla discovery made at the end of 2009. The Candelilla-1 well was placed on production December 31, 2009, and the Candelilla-2 and 3 wells were placed on production February 15 and March 29, 2010, respectively. Guatiquia production increased in the second quarter of 2010 due to having all three Candelilla wells on production for the three month period. In Corcel, production decreased forty percent as no additional wells were drilled on the block from the time the A2 sidetrack well was put on production September 28, 2009 until the C2 well came on production May 31, 2010. In addition, second quarter Corcel production was negatively affected from certain Corcel wells being restricted or shut-in due to temporary limitations in our water handling capacity in May and June. In Neiva, production increased 45 and 73 percent for the three and six month periods ended June 30, 2010 due to results of Petrominerales’ on-going development drilling program. In 2010, fourteen wells have been drilled and placed on production in Neiva. On April 13, 2010, the Yenac-1 exploration well on the Casimena Block was brought on production.

Sales Volumes Reconciliation (bopd)	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Period production	44,203	21,548	41,218	21,659
Inventory changes and other	357	(158)	(338)	(260)
Sales volumes of produced oil	44,560	21,390	40,880	21,399
Purchased oil	4,906	-	3,115	-
<b>Sales volumes</b>	<b>49,466</b>	<b>21,390</b>	<b>43,995</b>	<b>21,399</b>

The purchased oil relates to oil purchased from and marketed on behalf of third parties.

**Average Benchmark and Realized Prices<sup>(1)</sup>**

	Three months ended June 30,			Six months ended June 30,		
	2010	2009	Change	2010	2009	Change
WTI (\$/bbl)	<b>78.06</b>	59.79	31%	<b>78.47</b>	51.68	52%
Sales price	<b>71.05</b>	53.85	32%	<b>71.21</b>	46.78	52%
Transportation costs	<b>7.52</b>	5.89	28%	<b>6.26</b>	5.88	6%
Realized oil price, net of transportation (\$/bbl)	<b>63.53</b>	47.96	32%	<b>64.95</b>	40.90	59%
Discount as a percentage of WTI	<b>19%</b>	20%	(5%)	<b>17%</b>	21%	(19%)

<sup>(1)</sup> Excludes revenues associated with purchased oil of \$30.1 million and \$39.7 million, respectively, for the three and six month periods ended June 30, 2010.

The majority of the Company's production is priced in relation to the Colombian Vasconia and Caño Limon oil streams. The Company's 2010 realized oil prices increased 32 and 59 percent for the three and six month periods ended, respectively, mainly due to similar increases in the benchmark WTI price.

All production, excluding Orito and Neiva which are connected to pipelines, is trucked to various offloading stations for sale. Transportation costs increased to \$7.52 per barrel or 28 percent in the second quarter of 2010 mainly due to trucking a larger portion of volumes to more distant stations due to higher overall production and restricted capacity at certain offloading stations and pipeline segments in the Llanos Basin.

The discount as a percentage of WTI has decreased in 2010 primarily due to a narrowing of the differential between WTI and the Vasconia oil stream, offset by higher transportation costs.

**Oil Revenue**

Crude oil revenue increased 204 percent in the second quarter due to a 32 percent increase in realized oil prices together with 108 percent higher sales volumes. The following reconciliation table shows the increases in revenue for the three and six month periods ending June 30, 2010 compared to the comparable 2009 periods.

	Three months ended June 30,	Six months ended June 30,
Oil revenue, June 30, 2009	104,823	181,175
Sales volume variance	113,537	164,909
Price variance	69,749	180,829
Oil revenue from third party oil purchases	30,667	39,709
<b>Oil revenue, June 30, 2010</b>	<b>318,776</b>	<b>566,622</b>
\$ change in revenue	213,953	385,447
% change in revenue	204%	213%

**Royalties**

	Three months ended June 30,			Six months ended June 30,		
	2010	2009	Change	2010	2009	Change
Royalties	<b>25,753</b>	8,355	208%	<b>50,416</b>	15,443	226%
\$ per bbl	<b>6.35</b>	4.30	48%	<b>6.81</b>	3.98	71%
Royalties as a percent of realized oil price	<b>10%</b>	9%	11%	<b>10%</b>	10%	-

Colombian government royalties are fixed at a rate of eight percent until the Company's net production per field exceeds 5,000 bopd and then increase by one percent for each incremental 10,000 bopd of production per field. In addition, a high price participation payment is applied under certain Colombian

exploration contracts when the cumulative production in an exploitation area within a block exceeds five million barrels. The high price participation payment is payable to the ANH and is calculated as a percentage of the difference between the realized oil price and a threshold oil price set by the ANH, multiplied by a contractual rate. The contractual rate is generally 30% but varies among exploration contracts.

Production from the Corcel Block is also subject to an eight percent net profits interest (“NPI”). The NPI account is a cumulative balance that includes the deduction of capital investments such that when negative, no amount is payable.

In the second quarter of 2010, royalties increased 208 percent due to higher production combined with higher crude oil prices. Royalties on a per barrel basis increased 48 percent, consistent with a 32 percent increase in the realized oil price. Royalties as a percentage of realized oil prices increased to 10% mainly due to a higher royalty rate charged on Candelilla production due to the field exceeding 5,000 bopd.

Petrominerales currently has a dispute with the Colombian Agencia Nacional de Hidrocarburos (National Hydrocarbon Agency) (“ANH”) related to the interpretation of the Corcel Block exploration contract (“Corcel Contract”) entered into between Petrominerales and the ANH on June 2, 2005.

The Corcel Contract requires a high price participation payment (“Additional Contribution”) to be paid by Petrominerales to the ANH once an exploitation area has cumulatively produced more than five million barrels of oil, determined before the deduction of royalties. The Additional Contribution is paid at 30 percent of the price received above certain threshold prices, based on the oil quality produced.

The ANH has indicated their view that exploitation areas under the Corcel Contract should be combined for the purposes of determining when the Additional Contribution is payable. As combined production from the Corcel-A, Corcel-C and Corcel-D exploitation areas has exceeded five million barrels of oil, the ANH asserts that Petrominerales is required to pay an Additional Contribution with respect to production from Corcel-A, Corcel-C and Corcel-D from January 2010 onwards and on a go-forward basis for all of Petrominerales’ exploitation areas combined in the Corcel Block. Based on their view, the ANH has issued invoices to Petrominerales aggregating \$21.7 million to June 30, 2010. As at June 30, 2010, the Corcel-A, Corcel-C and Corcel-D exploitation areas have individually produced 4.5, 3.2 and 2.2 million barrels, respectively. Individually, none of Petrominerales’ exploitation areas on the Corcel Block have cumulatively produced more than five million barrels of oil.

Petrominerales disagrees with the ANH interpretation and views the Corcel Contract as providing that payment of the Additional Contribution is required once each exploitation area has cumulatively produced more than five million barrels of oil.

The dispute is currently in a conflict resolution process as provided for in the Corcel Contract. Petrominerales believes that the resolution of this dispute will be in favour of the Company, and accordingly, no additional royalty provision has been made in these financial statements.

<b>Production Expenses</b>	Three months ended June 30,			Six months ended June 30,		
	<b>2010</b>	2009	Change	<b>2010</b>	2009	Change
Production expenses	<b>25,349</b>	13,164	93%	<b>47,774</b>	24,580	94%
\$ per bbl	<b>6.25</b>	6.76	(8%)	<b>6.46</b>	6.34	2%

In 2010, production expenses increased 93 and 94 percent primarily due to higher production levels during the three and six month periods ended June 30, 2010. On a per barrel basis, production expenses were comparable with prior periods.

The Colombian national oil company, Ecopetrol, is responsible for primary production operations at Orito and Neiva at a cost (subject to annual inflation, currency, and other adjustments) of \$5.68 per barrel and \$3.11 per barrel, respectively, in 2010.

<b>General and Administrative Expenses</b>	Three months ended June 30,			Six months ended June 30,		
	<b>2010</b>	2009	Change	<b>2010</b>	2009	Change
General and administrative expenses	<b>5,073</b>	2,732	86%	<b>10,103</b>	5,483	84%
\$ per bbl	<b>1.25</b>	1.40	(11%)	<b>1.37</b>	1.42	(4%)

The increase in general and administrative expenses in 2010 was primarily due to higher personnel costs as a result of expanding operations. On a per barrel basis, these costs have decreased mainly due to higher production volumes.

<b>Stock-Based Compensation Expenses</b>	Three months ended June 30,			Six months ended June 30,		
	<b>2010</b>	2009	Change	<b>2010</b>	2009	Change
Stock-based compensation expenses	<b>2,381</b>	1,232	93%	<b>4,926</b>	2,368	108%

Stock-based compensation expenses is a non-cash expense that is based on the fair value of stock options, deferred common shares and incentive shares granted, amortized over the vesting period of the option or incentive share, or immediately upon grant of the deferred common shares. The 2010 expense increased over 2009 mainly due to higher grants in the quarter, combined with an increase in the fair value per grant as a result of higher Petrominerales' stock price.

<b>Interest Expense</b>	Three months ended June 30,			Six months ended June 30,		
	<b>2010</b>	2009	Change	<b>2010</b>	2009	Change
Cash interest and standby charges	<b>2,004</b>	999	101%	<b>3,879</b>	2,194	77%
Accretion on convertible debentures	<b>1,291</b>	1,090	18%	<b>2,535</b>	2,142	18%
Amortization of deferred financing costs	<b>332</b>	129	157%	<b>662</b>	258	157%
Interest expense	<b>3,627</b>	2,218	64%	<b>7,076</b>	4,594	54%

Interest expense was higher in 2010 mainly due to higher standby fees associated with the Company's expanded \$150 million secured bank facility that closed on December 30, 2009.

<b>Foreign Exchange Loss (Gain)</b>	Three months ended June 30,			Six months ended June 30,		
	<b>2010</b>	2009	Change	<b>2010</b>	2009	Change
Foreign exchange loss (gain)	<b>1,210</b>	6,124	(80%)	<b>5,473</b>	3,315	65%

The Colombian peso appreciated one percent relative to the U.S. dollar in the second quarter of 2010 and resulted in a \$1.2 million dollar foreign exchange loss. The exchange rate changed from 1,929 at March 31, 2010 to 1,916 at June 30, 2010. For the six months ended June 30, 2010, the Colombian peso appreciated 6% and resulted in a \$5.5 million loss. Changes in this exchange rate impact the Company's U.S. dollar denominated expenses and expenditures as approximately 60 percent of the Company's expenditures are incurred in Colombian pesos.

<b>Depletion, Depreciation and Accretion ("DD&amp;A") Expenses</b>	Three months ended June 30,			Six months ended June 30,		
	<b>2010</b>	2009	Change	<b>2010</b>	2009	Change
DD&A expenses	<b>79,583</b>	39,423	102%	<b>139,810</b>	80,556	74%
\$ per bbl	<b>19.63</b>	20.25	(3%)	<b>18.90</b>	20.80	(9%)

Depletion, depreciation and accretion expense in the second quarter of 2010 increased 102 percent over 2009 due to a 105 percent production increase offset by a three percent lower per barrel depletion rate. For the six months ended June 30, 2010, DD&A expenses increase 74 percent due to 90 percent increase in production offset by a 9 percent decrease in the depletion rate. The decrease in depletion rate per barrel was mainly due to lower 2009 finding and development costs, associated with a 43 percent increase in gross total proved reserves to 36.0 million barrels at December 31, 2009.

<b>Tax Expense</b>	Three months ended June 30,			Six months ended June 30,		
	<b>2010</b>	2009	Change	<b>2010</b>	2009	Change
Current income tax	<b>23,364</b>	717	-	<b>51,413</b>	1,498	-
Equity tax	<b>517</b>	460	12%	<b>1,034</b>	861	20%
Future income tax (recovery)	<b>9,556</b>	3,775	153%	<b>8,836</b>	(2,697)	-
Taxes (recovery)	<b>33,437</b>	4,952	575%	<b>61,283</b>	(338)	-

The Company's pre-tax income is subject to the Colombian statutory income tax rate of 33 percent. Equity tax is based on equity capitalization levels in Colombia.

The Company recorded significantly higher current income tax in 2010 mainly due to higher sales volumes and taxable income. Petrominerales had effective tax rates of 29 and 28 percent, respectively, for the three and six month periods ended June 30, 2010. The 2010 effective tax rates are lower than the Colombian statutory income tax rate of 33 percent largely as a result of the enhanced tax deductions for the acquisition of certain capital assets.

## Net Income

The increase in net income between the three and the six month periods ended June 30, 2009 and 2010 is primarily due to higher commodity prices and higher sales volumes from our exploration successes at Guatiquia. The following table summarizes the changes in net income and net income per share.

Reconciliation of Changes in Net Income	Three months ended June 30,		Six months ended June 30,	
	(000's)	Per share, diluted	(000's)	Per share, diluted
Net income, June 30, 2009	15,323	0.15	22,711	0.23
Increase (decrease) due to:				
Sales volumes	113,537	1.08	164,909	1.59
Realized oil prices	69,749	0.66	180,829	1.76
Oil revenue from third party purchases	30,667	0.29	39,709	0.38
Royalties	(17,398)	(0.17)	(34,973)	(0.34)
Operating expenses	(12,185)	(0.12)	(23,194)	(0.23)
Transportation expenses	(19,040)	(0.19)	(23,600)	(0.23)
Oil purchases	(29,614)	(0.29)	(37,868)	(0.37)
General and administrative expenses	(2,341)	(0.02)	(4,620)	(0.05)
Acquisition expenses	(1,076)	(0.01)	(1,076)	(0.01)
DD&A	(40,160)	(0.39)	(59,254)	(0.58)
Taxes	(28,485)	(0.27)	(61,621)	(0.60)
Other <sup>(1)</sup>	2,241	0.06	(7,358)	(0.05)
<b>Net income, June 30, 2010</b>	<b>81,218</b>	<b>0.78</b>	<b>154,594</b>	<b>1.50</b>

<sup>(1)</sup> Other includes interest income, stock-based compensation expenses, interest expense and foreign exchange (gain) loss.

## Funds Flow from Operations

The increase in funds flow from operations between the three and the six month periods ended June 30, 2009 and 2010 is primarily due to higher commodity prices and higher sales volumes from our exploration successes at Guatiquia. The following table summarizes the changes in funds flow from operations.

### Reconciliation of Changes in Funds Flow from Operations

	Three months ended June 30,		Six months ended June 30,	
	(000's)	Per share, diluted	(000's)	Per share, diluted
Funds flow from operations, June 30, 2009	64,098	0.62	105,944	1.03
Increase (decrease) due to:				
Sales volumes	113,537	1.08	164,909	1.59
Realized oil prices	69,749	0.66	180,829	1.76
Oil revenue from third party purchases	30,667	0.29	39,709	0.38
Royalties	(17,398)	(0.17)	(34,973)	(0.34)
Operating expenses	(12,185)	(0.12)	(23,194)	(0.23)
Transportation expenses	(19,040)	(0.19)	(23,600)	(0.23)
Oil purchases	(29,614)	(0.29)	(37,868)	(0.37)
General and administrative expenses	(2,341)	(0.02)	(4,620)	(0.05)
Acquisition expenses	(1,076)	(0.01)	(1,076)	(0.01)
Foreign exchange	2,266	0.02	(541)	(0.01)
Interest	30	(0.00)	644	(0.01)
Taxes	(22,704)	(0.22)	(50,088)	(0.48)
<b>Funds flow from operations, June 30, 2010</b>	<b>175,989</b>	<b>1.68</b>	<b>316,075</b>	<b>3.02</b>

The following table shows the reconciliation of funds flow from operations to cash flow from operating activities for the periods noted:

	Three months ended June 30,			Six months ended June 30,		
	2010	2009	Change	2010	2009	Change
Funds flow from operations: Non-GAAP	175,989	64,098	175%	316,075	105,944	198%
Changes in non-cash working capital	81,597	1,190	6,756%	(19,790)	(42,267)	(53%)
Cash flow from operating activities: GAAP	257,586	65,288	295%	296,285	63,677	365%

## Capital Expenditures

Three months ended June 30, 2010	Drilling and completions	Facilities and infrastructure	Seismic	HSEC	Total
Corcel	16,109	18,415	1,033	908	36,465
Exploration	9,941	7,947	2,614	479	20,981
Mapache	7,159	10,526	78	335	18,098
Neiva	15,417	1,575	167	334	17,493
Guatiquia	3,424	10,033	70	345	13,872
Heavy oil	1,142	2,415	180	300	4,037
Peru	-	-	89	-	89
Orito	1,390	175	1	96	1,662
<b>Total</b>	<b>54,582</b>	<b>51,086</b>	<b>4,232</b>	<b>2,797</b>	<b>112,697</b>

Second quarter capital expenditures at Corcel included facilities costs at the Corcel central processing facility to increase fluid handling capacity and other improvements, drilling and completion costs for the C2 oil well, completion costs for the F1 water injector well, seismic costs related to the 2010 3D seismic acquisition program and civil construction and drilling costs related to the remaining 2010 drilling program. Exploration activity included civil construction costs associated with 2010 Central Llanos exploration program, drilling and completion costs associated with the Capybara-1 well, initial drilling costs associated with the Cerillo-1 well and seismic costs related to the 3D program acquired on Block 31. Mapache expenditures related mainly to drilling costs associated with the Mapana-1 and Manzanillo-1 exploration wells and civil construction for the remaining exploration drilling program. Neiva expenditures included drilling nine and completing eight oil wells and performing eight well optimizations. Guatiquia expenditures included final completion costs associated with Candelilla-3 exploration well and facilities costs for the installation of flow lines and early production facilities. Heavy oil block expenditures relate to initial civil works for the 2010 exploration drilling program.

<b>Six months ended June 30, 2010</b>	Drilling and completions	Facilities and infrastructure	Seismic	HSEC	Total
Corcel	20,480	32,328	8,957	2,010	63,775
Guatiquia	21,587	16,781	154	445	38,967
Exploration	16,680	12,912	5,685	1,341	36,618
Neiva	29,376	3,222	355	440	33,393
Mapache	7,785	23,383	112	1,306	32,586
Heavy Oil	5,377	4,483	348	483	10,691
Peru	-	-	5,542	-	5,542
Orito	1,488	1,310	2	117	2,917
<b>Total</b>	<b>102,773</b>	<b>94,419</b>	<b>21,155</b>	<b>6,142</b>	<b>224,489</b>

The six month period capital expenditures at Corcel included facilities costs at the Corcel central processing facility to increase fluid handling capacity and other improvements, drilling and completion costs for the C2 oil well, completion costs for the F1 water injector well, seismic costs related to the 2010 3D seismic acquisition program and civil construction and drilling costs related to the remaining 2010 drilling program. Guatiquia included drilling and completing the Candelilla-2 and 3 exploration wells and facilities costs for the installation of flow lines and early production facilities. Exploration activity included civil construction costs associated with 2010 Central Llanos exploration program and drilling and initial completion costs associated with three exploration wells; Yenac-1, Capybara-1 and Cerillo-1, seismic costs related to the 3D acquisition program on Block 31. Neiva expenditures included drilling fourteen and completing sixteen oil wells and performing eleven well optimizations. Mapache expenditures related mainly to drilling costs associated with the Mapana-1 and Manzanillo-1 exploration wells and civil construction for the remaining exploration drilling program. Heavy oil block expenditures related to drilling, completion and testing of the Rio Ariari-2 well and initial civil works for the 2010 exploration drilling program. Orito expenditures related primarily to a water flood pilot project.

## SUMMARY OF QUARTERLY RESULTS

	2010	2009					2008	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
<b>Financial (\$000s except where noted)</b>								
Crude oil revenue	<b>318,776</b>	<b>247,846</b>	160,646	119,485	104,823	76,352	70,610	125,065
Funds flow from operations <sup>(1)</sup>	<b>175,989</b>	<b>140,086</b>	106,171	71,709	64,098	41,846	57,813	78,343
Per share – basic (\$)	<b>1.77</b>	<b>1.42</b>	1.08	0.73	0.65	0.42	0.58	0.78
– diluted (\$)	<b>1.68</b>	<b>1.33</b>	1.03	0.71	0.63	0.42	0.56	0.75
Net income	<b>81,218</b>	<b>73,376</b>	51,211	26,224	15,323	7,388	20,278	57,951
Per share – basic (\$)	<b>0.82</b>	<b>0.74</b>	0.52	0.27	0.16	0.07	0.20	0.58
– diluted (\$)	<b>0.78</b>	<b>0.71</b>	0.51	0.26	0.15	0.07	0.20	0.57
Capital expenditures	<b>112,697</b>	<b>111,792</b>	81,983	53,998	79,527	65,371	46,861	73,080
<b>Operations</b>								
Operating netback (\$/bbl) <sup>(1)</sup>								
WTI benchmark price	<b>78.06</b>	<b>79.08</b>	76.19	68.19	59.79	43.08	59.08	118.22
Crude oil sales price <sup>(2)</sup>	<b>63.53</b>	<b>66.68</b>	61.75	56.29	47.96	33.79	45.57	105.90
Royalties	<b>6.35</b>	<b>7.37</b>	6.76	5.52	4.30	3.67	3.90	11.22
Production expenses	<b>6.25</b>	<b>6.71</b>	7.62	8.02	6.76	5.92	6.45	8.02
Operating netback	<b>50.93</b>	<b>52.60</b>	47.37	42.74	36.90	24.20	35.22	86.66
Crude oil production (bopd)	<b>44,203</b>	<b>38,199</b>	24,555	21,546	21,548	21,771	15,344	12,485

<sup>(1)</sup> Non-GAAP measure. See “Non-GAAP Measures” section.

<sup>(2)</sup> Net of transportation costs and excludes revenue from purchased oil.

Significant factors influencing quarterly results were:

- Since third quarter 2008, production has grown from 12,485 bopd to 44,203 bopd in Q2 2010, mainly due to drilling successes on the Corcel, Guatiquia and Neiva blocks.
- Between the end of the third quarter of 2008 and the third quarter of 2009, crude oil prices declined significantly, negatively affecting crude oil revenues, funds flow from operations and net income for those periods.
- Fourth quarter 2009 production increased mainly due to the Corcel-A2 side-track well.
- First quarter 2010 production increased mainly due to three Candelilla wells drilled on the Guatiquia Block.

## LIQUIDITY AND CAPITAL RESOURCES

Petrominerales’ capital program for the first half of 2010 was funded internally from operating cash flows. The remainder of the 2010 capital program is expected to be funded through a combination of existing cash balances, operating cash flows, and prudent use of credit facilities. At June 30, 2010, Petrominerales had a net working capital surplus of \$67.2 million and no outstanding bank debt. The Company believes it is well positioned financially with significant available credit capacity and assets that are providing strong production growth, operating netbacks and cash flows.

Petrominerales has a revolving reserve-based credit facility with a \$150 million borrowing base that is undrawn. The borrowing base is reviewed with the lender semi-annually. The Company also has \$81.7 million of convertible debentures outstanding that mature on December 6, 2010. The market price of Petrominerales’ shares is currently greater than the exercise price of the debentures, which are convertible into common shares of the Company at the option of the holder at a conversion price of \$27.3485 per share, subject to adjustment for dividends. If the convertible debentures are not converted to equity before maturity, Petrominerales has an option to force conversion of the

debentures at the prevailing conversion price should the price of the Company's common shares exceed 130 percent of the prevailing conversion price of the debentures for 20 trading days within a period of 30 consecutive trading days. Petrominerales also maintains local Colombian operating lines of credit of \$32.9 million that are primarily used to issue letters of credit to support exploration contracts. At June 30, 2010, letters of credit issued against the Colombian operating lines of credit totalled \$20.0 million.

The Company is in compliance with the covenants contained in its credit facility and convertible debenture agreements. The credit facility contains financial covenants to maintain a ratio of bank debt to trailing twelve month earnings before interest, tax, depletion, depreciation and amortization under 3.0 times and to maintain a current ratio greater than 1.0 times (current assets divided by current liabilities less unused bank debt and the liability portion of convertible debentures). The convertible debentures have financial covenants to maintain a ratio of book value of equity to total assets of at least 30 percent and to limit the amount of security and encumbrances the Company has on the book value of total assets to 27.5 percent.

Petrominerales' assets provide significant funds flow from operations and are the Company's largest source of liquidity. The Company has a history of generating positive funds flow from operations, and recorded funds flow from operations of \$176.0 million in the second quarter of 2010.

Petrominerales initiated a quarterly dividend payment of Cdn \$0.125 per share, effective for the second quarter of 2010. Petrominerales' strategy is to provide a reasonable dividend yield to shareholders while executing an accretive growth-oriented, exploration focused business plan.

## Commitments

The following is a summary of the Company's contractual commitments as at June 30, 2010:

Type of Obligation (\$000)	Total	< 1 Year	1-3 Years	Thereafter
Exploration contracts <sup>(1)</sup> <sup>(2)</sup>	69,400	45,700	23,700	-
Transportation contract	2,001	2,001	-	-
Office lease	8,500	1,900	3,800	2,800
<b>Total</b>	<b>79,901</b>	<b>49,601</b>	<b>27,500</b>	<b>2,800</b>

<sup>(1)</sup> Pursuant to exploration contracts, the Company has work commitments totaling \$69.4 million to be completed during the next three years. The work commitments are normal course of business exploration activities that include property costs, acquisition and processing of seismic data and drilling exploration wells. The Company has issued letters of credit totaling \$21.4 million and pledged \$1.4 million in restricted cash to guarantee the obligations under these exploration contracts.

<sup>(2)</sup> Following the Colombian Open Bid Round June 2010, Petrominerales was awarded Block 59 and Block 15. Our first phase work commitments on Block 59 will include spending \$24.2 million over three years to acquire 300 square kilometers of 3D seismic and drilling four exploration wells. Our first phase work commitments on Block 15 will include spending \$10.0 million over three years to acquire 100 square kilometers of 3D seismic and drilling two exploration wells. These commitments will be included once the contracts are signed.

## Outstanding Share Data

The aggregate number of Petrominerales common shares, stock options, deferred common shares and incentive shares outstanding at August 4, 2010 was 107,790,439 (common shares – 99,535,204, stock options – 7,364,395, deferred common shares – 157,015, incentive shares – 733,825).

## TRANSACTIONS WITH RELATED PARTIES

The Company is party to a Management Services Agreement with Petrobank providing for certain executive functions as well as other services, including corporate, administration, financial, treasury, accounting, information technology, human resources support and office space for Petrominerales employees located in Calgary, Alberta. The monthly fee is based on a negotiated value for services provided and currently is Cdn\$130,000. Amounts paid to Petrobank under this agreement totalled \$0.8 million for the three months ended June 30, 2010 (2009 – \$0.5 million) and were recorded as general and administrative expense.

## RISKS AND UNCERTAINTIES

There have been no significant changes in the three months ended June 30, 2010 to the risks and uncertainties identified in the MD&A for the year ended December 31, 2009.

### 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 before tax cash flow:

Change of:		(millions)
<b>WTI</b>	\$1.00/bbl WTI reference price (assuming 40,000 bopd)	<b>\$12.7</b>
<b>Crude oil</b>	1,000 bopd of production @ \$75/bbl WTI	<b>\$18.7</b>

## 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 2009 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 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.

#### *Future Income Taxes*

The Company recognizes a future income tax liability based on estimates of temporary differences between the book and tax value of its assets. An estimate is also used for both the timing and tax rate upon reversal of the temporary differences. Actual differences and the timing of reversals may differ from estimates, impacting the future income tax balance and net income.

#### *Contingencies*

In the normal course of operations, Petrominerales has disputes with industry participants for which the Company currently cannot determine the ultimate result. Petrominerales records costs as they are incurred or become determinable. Management believes the resolution of these matters would not have a material adverse effect on the Company's consolidated financial position or results from operations.

### **CHANGES IN ACCOUNTING POLICIES**

#### **International Financial Reporting Standards**

In February 2008, the AcSB confirmed the convergence of Canadian GAAP with International Financial Reporting Standards ("IFRS") will be required for interim and annual financial statements effective for fiscal years beginning on or after January 1, 2011, including comparatives for 2010 and an opening balance sheet at January 1, 2010 showing the changes from Canadian GAAP to IFRS.

IFRS uses a conceptual framework similar to Canadian GAAP, but prescribes certain differences for recognition, measurement and disclosure principles which are outlined below under "*Potential Impacts of IFRS Adoption*".

Petrominerales commenced its IFRS Conversion Project in late 2008 by completing an initial scoping phase, and has established a project plan and project team, which includes key finance staff, management, external advisors and audit committee.

The Company's project plan broken out by accounting policies and procedures, financial statement preparation, training and communication, business impacts, IT systems and control environment is as follows:

Key Activity	Milestones	Status
<b>Accounting policies and procedures:</b>		
<ul style="list-style-type: none"> <li>Identify differences between Canadian GAAP and IFRS</li> <li>Revise and finalize accounting policies under IFRS</li> <li>Identify potential adjustments to initial and subsequent IFRS financial statements</li> <li>Develop IFRS-compliant financial statements, including transition period disclosures</li> </ul>	<ul style="list-style-type: none"> <li>Approval of IFRS policies and opening balance sheet by senior management</li> <li>Senior management approval and audit committee review of policy decisions</li> <li>Revised accounting policy and procedures manuals in place by changeover date</li> </ul>	<ul style="list-style-type: none"> <li>Accounting policy alternatives have been analyzed key accounting policy decisions are currently being reviewed by management</li> <li>Analysis to support finalization of opening balance sheet adjustments underway</li> </ul>
<b>Financial statement preparation:</b>		
<ul style="list-style-type: none"> <li>Prepare first-time adoption reconciliation required under IFRS 1</li> <li>Prepare financial statements and note disclosures in compliance with IFRS</li> <li>Quantify the effects of converting to IFRS</li> </ul>	<ul style="list-style-type: none"> <li>Senior management approval and audit committee review of pro forma financial statements</li> </ul>	<ul style="list-style-type: none"> <li>Draft opening balance sheet and transition note disclosure in progress</li> <li>The Company is in the process of determining transition year impacts of IFRS</li> <li>IFRS compliant financial statements and notes are in progress</li> </ul>
<b>Training and communication:</b>		
<ul style="list-style-type: none"> <li>Develop and deliver targeted IFRS training to employees and management</li> <li>Ensure internal and external stakeholders receive ongoing appropriate communications</li> <li>Provide Company-specific training on revised policies and procedures to affected personnel</li> </ul>	<ul style="list-style-type: none"> <li>Training to be provided to relevant employees prior to changeover date</li> <li>Impacts of converting to IFRS communicated prior to changeover</li> </ul>	<ul style="list-style-type: none"> <li>Key employees involved with implementation have completed sufficient and ongoing training throughout the year</li> <li>Quarterly disclosure of project status in MD&amp;A</li> </ul>
<b>Business Impacts:</b>		
<ul style="list-style-type: none"> <li>Identify impacts of conversion on contracts including financial covenants and compensation arrangements</li> <li>Identify impacts of conversion on taxation</li> </ul>	<ul style="list-style-type: none"> <li>Impacts of contracts identified</li> <li>Taxation impacts identified</li> </ul>	<ul style="list-style-type: none"> <li>Adoption of IFRS is not expected to have a significant impact on current material contracts</li> <li>Analysis of taxation impacts is currently underway</li> </ul>

<b>IT Systems:</b>		
<ul style="list-style-type: none"> <li>Identify changes required to IT systems and implement solutions</li> <li>Implement as solution for capturing financial information under Canadian GAAP and IFRS during the year of transition to IFRS</li> </ul>	<ul style="list-style-type: none"> <li>Necessary changes to IT systems implemented by changeover date</li> <li>Solution for capturing financial information under multiple sets of accounting principles implemented</li> </ul>	<ul style="list-style-type: none"> <li>Required changes to IT systems are identified and tracked as IFRS work progresses</li> <li>Consultants have been engaged to assist in transitioning current system to accommodate IFRS</li> </ul>
<b>Control Environment:</b>		
<ul style="list-style-type: none"> <li>For all changes to policies and procedures identified, assess effectiveness of internal controls over financial reporting (“ICFR”) and disclosure controls and procedures (“DC&amp;P”) and implement any necessary changes</li> <li>Design and implement internal controls over the IFRS changeover process</li> </ul>	<ul style="list-style-type: none"> <li>Internal controls over IFRS changeover process in place and tested prior to changeover</li> </ul>	<ul style="list-style-type: none"> <li>Relevant internal controls are being assessed as work progresses</li> <li>Specific controls have been established in relation to the IFRS changeover process</li> </ul>

Significant differences that have been identified between Canadian GAAP and IFRS that will impact Petrominerales are: property, plant and equipment, exploration and evaluation assets, depletion and depreciation, impairment testing, share based payments and decommissioning liabilities as well as increased disclosure requirements. The majority of adjustments required on transition to IFRS will be made retrospectively against opening retained earnings at the date of transition. Certain IFRS standards may be modified, and as a result, the impact may be different than Petrominerales’ current expectations. The project team is currently determining the financial statement impact of these standards. The impact on the consolidated financial statements is not reasonably determinable at this time.

### **First-time Adoption of IFRSs (“IFRS 1”)**

The transition to IFRS requires the Company to apply IFRS 1, which prescribes requirements for preparing IFRS-compliant financial statements in the first reporting period after the changeover date (January 1, 2010). IFRS 1 includes a requirement for retrospective application of each IFRS as if they were always in effect. IFRS 1 also mandates certain exemptions for retrospective application and provides optional exemptions from retrospective application to ease the transition to IFRS in the transition year. The most significant IFRS 1 exemptions that are expected to apply to the Company upon adoption are summarized in the following table:

<b>Area of IFRSs</b>	<b>Summary of Exemption Available</b>
Property, Plant and Equipment	<ul style="list-style-type: none"> <li>The Company may elect to report items of property, plant and equipment, in its opening balance sheet on transition date at deemed cost instead of the actual cost that would be determined under IFRS. The deemed cost of an item may be either its fair value at the date of transition to IFRS or an amount determined by a previous revaluation under Canadian GAAP (as long as that amount was close to either its fair value, cost or adjusted cost). The exemption can be applied on an asset-by-asset basis. Oil and gas assets that were part of the full cost pool and determined to be development or producing assets are able to be allocated to Cash Generating Units (CGU’s) on date of transition pro rata using reserve values or volumes, subject to an impairment test on date of transition</li> <li>Impact is currently under review by management and in the process of being quantified</li> </ul>

Share-Based Payments	<ul style="list-style-type: none"> <li>• The Company may elect to not apply IFRS 2, “Share-Based Payments”, to equity instruments which vested before the Company’s date of transition to IFRS. The Company may also elect not to apply IFRS 2 to liabilities arising from share-based payment transactions which settled before the date of transition to IFRS.</li> <li>• It is expected that the Company will not apply IFRS 2 to equity instruments granted which vested before the Company’s date of transition to IFRS. The Company will also elect to not apply IFRS 2 to liabilities arising from share-based payment transactions which settled before the date of transition to IFRS</li> <li>• Impact is currently in the process of being quantified</li> </ul>
Decommissioning Liabilities	<ul style="list-style-type: none"> <li>• In accounting for changes in obligations to dismantle, remove and restore items of property, plant and equipment, the guidance in IFRSs requires changes in such obligations to be added to or deducted from the cost of the asset to which it relates. The adjusted depreciable amount of the asset is then depreciated prospectively over its remaining useful life. Rather than recalculating the effect of all such changes throughout the life of the obligation, the Company may elect to measure the liability and the related depreciation effects at the date of transition to IFRS</li> <li>• The Company intends to elect to measure any decommissioning liabilities and the related depreciation effects at the date of transition to IFRS</li> <li>• Impact has not yet been quantified</li> </ul>

### Expected Areas of Significance

The key areas where we expect accounting policies may differ and where accounting policy decisions are necessary that may impact the Company’s consolidated financial statements are set out in the following table. Note that this does not include impact of transition policy choices made under IFRS 1, described above.

Accounting Policy Area	Impact of Policy Adoption
Impairment of Assets (“IAS 36”)	<ul style="list-style-type: none"> <li>• IFRS uses the concept of cash generating units to accumulate asset carrying costs to test and measure impairment. IFRS will require impairment testing to be performed at the cash generating unit level, which is lower than the current cost center level. In addition, IAS 36 uses a one-step approach for testing and measuring asset impairments, with asset carrying values being compared to the higher of: value-in-use and fair value less costs to sell. Value in use is defined as the amount equal to the present value of future cash flows expected to be derived from the asset. In the absence of an active market, fair value less costs to sell may also be determined using discounted cash flows. The use of discounted cash flows under IFRS to test and measure asset impairment differs from Canadian GAAP, which uses undiscounted cash flows to test and measure impairment. This may result in more frequent write-downs in the carrying amounts of assets under IFRS because the asset carrying amounts previously supported under Canadian GAAP were based on undiscounted cash flows. However, under IAS 36, impairment losses that were previously recognized may be reversed where circumstances change such that the impairment is reduced. This differs from Canadian GAAP, which prohibits the reversal of previously recognized impairment losses</li> <li>• Petrominerales is currently evaluating the impact of these policies under IFRS.</li> </ul>
Exploration and Evaluation Expenditures (“IFRS 6”)	<ul style="list-style-type: none"> <li>• Oil and gas companies are required to account for exploration and evaluation expenditures in accordance with IFRS 6, which permits a number of accounting policy choices. For example, this standard addresses the recognition, measurement, presentation and disclosure requirements for costs incurred in the exploration phase. Unlike Canadian GAAP, IFRS requires the identification and presentation of exploration and evaluation expenditures to be separated from developed and producing assets. In addition, Petrominerales will be required to perform an impairment test on exploration and evaluation expenditures when there is a determination that the expenditures have resulted in a technically feasible and commercially viable project. At that time, the expenditures would be tested for impairment, and then transferred to the developed and producing assets</li> </ul>

	<p>category</p> <ul style="list-style-type: none"> <li>• Petrominerales is currently evaluating its policy options and applicable impact of these policies under IFRS. Impact is in the process of being quantified</li> </ul>
Property, Plant, and Equipment (“IAS 16”)	<ul style="list-style-type: none"> <li>• IFRS and Canadian GAAP contain the same basic principles of accounting for property, plant and equipment. However IAS 16 requires costs recognized as property plant and equipment to be allocated to the significant parts of the asset and to amortize each significant component separately. This is a departure from Canadian GAAP for full cost oil and gas companies, and may increase the number of components to be amortized separately, and could impact the amount of amortization expense. Under IAS 16, companies have the choice to account for property, plant and equipment under the cost model, or the revaluation model.</li> <li>• It is expected that Petrominerales will choose and apply the cost model to account for its property, plant and equipment after transition to IFRS.</li> </ul>
Borrowing Costs	<ul style="list-style-type: none"> <li>• IFRS requires the capitalization of borrowing costs that are associated with the construction and development of certain assets. Under Canadian GAAP, Petrominerales expenses all borrowing costs. Analysis of this standard is currently underway to determine a methodology and quantify the amount of borrowing costs that will be capitalized under IFRS. Under IFRS certain borrowing costs may be capitalized to the balance sheet and not expensed as currently reported by Petrominerales</li> <li>• No impact expected on transition</li> </ul>

## REGULATORY POLICIES

### *Certification of Disclosures in Interim Filings*

In accordance with Multilateral Instrument 52-109 of the Canadian Securities Administrators, the Company quarterly issues a “Certification of Interim Filings” (“Certification”). The Certification requires certifying officers to state that they are responsible for establishing and maintaining disclosure controls and procedures (“DC&P”) and internal control over financial reporting (“ICFR”).

The Certification requires certifying officers to state that they designed DC&P, or caused it to be designed under their supervision, to provide reasonable assurance that: (i) material information relating to Petrominerales is made known to the certifying officers by others; (ii) information required to be disclosed by Petrominerales in reports filed with, or submitted to, securities regulatory authorities is recorded, processed, summarized and reported within the time periods specified under Canadian securities legislation. In addition, the Certification requires certifying officers to state that they have designed ICFR, 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 for external purposes.

During the quarter ended June 30, 2010, there has been no change in the Company’s ICFR that has materially affected, or is reasonably likely to materially affect, the Company’s ICFR. The Company has continually had in place systems relating to DC&P and ICFR and will continue to monitor such procedures as the Company’s business evolves.

## OUTLOOK

In addition to the plans discussed in this MD&A, please see the Company’s second quarter 2010 Operational Update and the 2009 Annual Report.

## CONSOLIDATED BALANCE SHEETS

(Unaudited, thousands of United States dollars)

As at	June 30, 2010	December 31, 2009
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 160,935	\$ 61,600
Restricted cash (Note 3)	1,453	1,375
Accounts receivable (Note 9)	164,548	47,530
Income taxes receivable	-	8,462
Crude oil inventory	3,676	1,376
	<b>330,612</b>	120,343
Other assets (Note 4)	25,908	26,594
Capital assets	690,749	573,179
Goodwill (Note 5)	5,015	-
<b>Total assets</b>	<b>\$ 1,052,284</b>	<b>\$ 720,116</b>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 236,958	\$ 106,834
Income taxes payable	26,377	-
Convertible debentures	79,364	76,829
	<b>342,699</b>	183,663
Future income tax liabilities	54,155	34,724
Asset retirement obligations	8,519	6,748
	<b>405,373</b>	225,135
Commitments and contingencies (Note 12)		
Shareholders' equity		
Convertible debentures	10,407	10,407
Common shares (Note 6)	202,811	197,709
Contributed surplus (Note 6)	11,253	7,328
Accumulated other comprehensive income (Note 6)	16,024	16,024
Retained earnings	406,416	263,513
	<b>646,911</b>	494,981
<b>Total liabilities and shareholders' equity</b>	<b>\$ 1,052,284</b>	<b>\$ 720,116</b>

See accompanying notes to these consolidated financial statements.

## CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

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

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
<b>Revenues</b>				
Oil	\$ 318,776	\$ 104,823	\$ 566,622	\$ 181,175
Royalties	(25,753)	(8,355)	(50,416)	(15,443)
Interest income	57	172	92	252
	<b>293,080</b>	<b>96,640</b>	<b>516,298</b>	<b>165,984</b>
<b>Expenses</b>				
Production	25,349	13,164	47,774	24,580
Transportation	30,512	11,472	46,315	22,715
Purchased oil	29,614	-	37,868	-
General and administrative	5,073	2,732	10,103	5,483
Acquisition costs (Note 5)	1,076	-	1,076	-
Foreign exchange loss	1,210	6,124	5,473	3,315
Interest (Note 7)	3,627	2,218	7,076	4,594
Stock-based compensation (Note 6)	2,381	1,232	4,926	2,368
Depletion, depreciation and accretion	79,583	39,423	139,810	80,556
	<b>178,425</b>	<b>76,365</b>	<b>300,421</b>	<b>143,611</b>
<b>Income before taxes</b>	<b>114,655</b>	<b>20,275</b>	<b>215,877</b>	<b>22,373</b>
Equity and current income taxes	23,881	1,177	52,447	2,359
Future income taxes (recovery)	9,556	3,775	8,836	(2,697)
<b>Net income</b>	<b>81,218</b>	<b>15,323</b>	<b>154,594</b>	<b>22,711</b>
<b>Retained earnings, beginning of period</b>	<b>336,889</b>	<b>180,226</b>	<b>263,513</b>	<b>177,800</b>
Repurchase of common shares (Note 6)	-	(8,348)	-	(13,310)
Declared dividends (Note 6)	(11,691)	-	(11,691)	-
<b>Retained earnings, end of period</b>	<b>\$ 406,416</b>	<b>\$ 187,201</b>	<b>\$ 406,416</b>	<b>\$ 187,201</b>
<b>Basic earnings per share (Note 6)</b>	<b>\$ 0.82</b>	<b>\$ 0.16</b>	<b>\$ 1.56</b>	<b>\$ 0.23</b>
<b>Diluted earnings per share (Note 6)</b>	<b>\$ 0.78</b>	<b>\$ 0.15</b>	<b>\$ 1.50</b>	<b>\$ 0.23</b>

See accompanying notes to these consolidated financial statements.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited, thousands of United States dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
<b>Net income</b>	<b>\$ 81,218</b>	<b>\$ 15,323</b>	<b>\$ 154,594</b>	<b>\$ 22,711</b>
Other comprehensive income	-	-	-	-
<b>Comprehensive income</b>	<b>\$ 81,218</b>	<b>\$ 15,323</b>	<b>\$ 154,594</b>	<b>\$ 22,711</b>

See accompanying notes to these consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CASH FLOW

(Unaudited, thousands of United States dollars)

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
<b>Operating Activities</b>				
Net income	\$ 81,218	\$ 15,323	\$ 154,594	\$ 22,711
Depletion, depreciation and accretion	79,583	39,423	139,810	80,556
Stock-based compensation	2,381	1,232	4,926	2,368
Unrealized foreign exchange loss (gain)	478	3,126	2,223	606
Amortization of other assets	1,482	129	3,151	258
Accretion on convertible debentures	1,291	1,090	2,535	2,142
Future income taxes (recovery)	9,556	3,775	8,836	(2,697)
	175,989	64,098	316,075	105,944
Changes in non-cash working capital (Note 10)	81,597	1,190	(19,790)	(42,267)
	257,586	65,288	296,285	63,677
<b>Financing Activities</b>				
Dividends	(11,691)	-	(11,691)	-
Repurchase of common shares (Note 6)	-	(10,446)	-	(16,972)
Issuance of common shares (Note 6)	2,178	1,201	4,101	1,446
Financing costs	(14)	(22)	(14)	(210)
Issuance of bank debt	-	10,000	-	10,000
Changes in non-cash working capital (Note 10)	11,691	-	11,691	-
	2,164	733	4,087	(5,736)
<b>Investing Activities</b>				
Expenditures on capital assets	(112,697)	(79,527)	(224,489)	(144,898)
Expenditures on other assets	(1,475)	(9,200)	(2,467)	(12,521)
Changes in restricted cash	(78)	(284)	(78)	1,009
Acquisition of PanAndean (Note 5)	(28,796)	-	(28,796)	-
Changes in non-cash working capital (Note 10)	30,369	12,817	54,793	32,460
	(112,677)	(76,194)	(201,037)	(123,950)
<b>Net change in cash and cash equivalents</b>	<b>147,073</b>	<b>(10,173)</b>	<b>99,335</b>	<b>(66,009)</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>13,862</b>	<b>26,338</b>	<b>61,600</b>	<b>82,174</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 160,935</b>	<b>\$ 16,165</b>	<b>\$ 160,935</b>	<b>\$ 16,165</b>
Cash and cash equivalents consist of:				
Cash	\$ 3,599	\$ 312	\$ 3,599	\$ 312
Cash equivalents	\$ 157,336	\$ 15,853	\$ 157,336	\$ 15,853
Other cash flow information:				
Cash taxes paid	\$ 1,035	\$ 904	\$ 1,035	\$ 904
Cash interest paid	\$ 2,534	\$ 1,923	\$ 3,638	\$ 2,332
Cash interest received	\$ 44	\$ 173	\$ 79	\$ 252

See accompanying notes to these consolidated financial statements.

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

As at and for the three and six months ended June 30, 2010 and 2009

(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 six months ended June 30, 2010 should be read in conjunction with the audited consolidated financial statements as at and for the year ended December 31, 2009. 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 consolidated financial statements. These interim consolidated financial statements are prepared using the same accounting policies and methods of computation as disclosed in the annual consolidated financial statements as at and for the year ended December 31, 2009. The disclosures provided within are incremental to those included with the annual financial statements.

### **NOTE 2 – CHANGES IN ACCOUNTING POLICIES**

#### *Recent and Pending Accounting Pronouncements*

The Accounting Standards Board has confirmed the convergence of Canadian GAAP with International Financial Reporting Standards (“IFRS”) will be effective January 1, 2011. The Company has developed a project plan in order to ensure successful implementation within the required timeframe. The impact on the Company’s consolidated financial statements is not reasonably determinable at this time. Key information will be disclosed as it becomes available during the transition period.

### **NOTE 3 – BANK DEBT AND RESTRICTED CASH**

At June 30, 2010, the Company had an undrawn \$150 million secured credit facility. The facility is secured against all assets of the Company, is reviewed semi-annually with the lender and matures on December 30, 2013.

The Company also has lines of credit available in Colombia totalling \$32.8 million. Advances under the facility are collateralized by a promissory note provided by the Company.

At June 30, 2010, the Company had letters of credit totalling \$21.4 million outstanding to guarantee work commitments under exploration blocks. Letters of credit issued against the Colombian operating line of credit, totalling \$20.0 million at June 30, 2010, reduce the amounts available under the facility. The Company had restricted cash of \$1.4 million (2009 – \$1.4 million) relating to cash deposited as collateral for a letter of credit.

**NOTE 4 – OTHER ASSETS**

	<b>Prepaid Pipeline Tariffs</b>	<b>Deferred Charges</b>	<b>Total Other Assets</b>
Balance at December 31, 2010	\$ 21,174	\$ 5,420	\$ 26,594
Additions	2,451	14	2,465
Less: amortization	(2,489)	(662)	(3,151)
<b>Balance at June 30, 2010</b>	<b>\$ 21,136</b>	<b>\$ 4,772</b>	<b>\$ 25,908</b>

Prepaid pipeline tariffs consist of costs incurred on the construction of the Monterrey crude oil offloading facility. The costs incurred are being amortized using the unit-of-production method based on the barrels of oil delivered to the facility.

**Note 5 – Acquisition of PanAndean**

On April 14, 2010, Petrominerales acquired 100 percent of the issued and outstanding common shares of PanAndean Resources plc (“PanAndean”) for \$29.6 million in cash by way of Scheme of Arrangement under U.K. Law. At the acquisition date, PanAndean was a public company listed on the AIM exchange with exploration stage properties in Colombia and Peru. This acquisition was completed to facilitate Petrominerales’ strategy to increase its presence in Peru and build on existing acreage in the Ucayali Basin. As such, goodwill consists largely of the strategic benefit that increased presence in the Ucayali Basin of Peru will bring to the Company. None of the goodwill recognized is expected to be deductible for income tax purposes. The consolidated statement of operations includes PanAndean’s the results of operations since April 14, 2010, these amounts have not been disclosed separately as it is impracticable to do so. Petrominerales incurred \$1.1 million of costs related to the acquisition that have been expensed in the statement of operations.

This transaction has been accounted for using the purchase method whereby the assets acquired and the liabilities assumed are recorded at fair values. The following table summarizes the recognizable assets acquired and consideration transferred pursuant to the acquisition:

<b>Consideration paid net of cash acquired</b>	<b>Amount</b>
Cash paid	\$ 29,554
Cash acquired	(758)
<b>Total consideration paid net of cash acquired</b>	<b>\$ 28,796</b>

<b>Assets acquired and liabilities assumed</b>	<b>Amount</b>
Financial assets	\$ 516
Property, plant and equipment	31,957
Goodwill	5,015
Financial liabilities	(318)
Future income tax liability	(8,374)
<b>Total net assets acquired</b>	<b>\$ 28,796</b>

The above amounts are estimates made by management based on information available at the time these interim financial statements were prepared. Amendments may be made to these amounts as values subject to estimates are finalized.

## NOTE 6 – SHARE CAPITAL

### *Common Shares*

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

<b>Changes in Common Shares Outstanding</b>	<b>Number</b>	<b>Amount</b>
Balance at December 31, 2009	98,610,917	\$ 197,709
Exercise of stock options	751,631	4,101
Transfer from contributed surplus related to stock options exercised	-	1,001
<b>Balance at June 30, 2010</b>	<b>99,362,548</b>	<b>\$ 202,811</b>

### *Dividends*

On June 10, 2010, the Company initiated a quarterly dividend of Cdn\$0.125 per common share. The dividend relating to the second quarter of 2010 was paid on July 15, 2010.

### *Normal Course Issuer Bid*

Between August 17, 2008 and August 17, 2009, the Company repurchased 3,317,000 common shares under a Normal Course Issuer Bid (“NCIB”) at an average cost of \$9.03 (Cdn\$ 10.52) per share, for a total cost of \$30.0 million. All common shares acquired under the NCIB were cancelled. Of the amount paid to repurchase the shares during the six months ended June 30, 2009, share capital was reduced by \$3.7 million and the remaining \$13.3 million was recorded as a reduction of retained earnings.

### *Contributed Surplus*

<b>Changes in Contributed Surplus</b>	<b>Amount</b>
Balance at December 31, 2009	\$ 7,328
Stock-based compensation	4,926
Transfer to common shares related to stock options exercised	(1,001)
<b>Balance at June 30, 2010</b>	<b>\$ 11,253</b>

### *Accumulated Other Comprehensive Income*

There has been no change to accumulated other comprehensive income as at and for the three and six months ended June 30, 2010 and 2009.

### *Stock Options*

The Company has established a stock option plan for directors, officers, employees and consultants. The plan allows for the issuance of up to 10 percent of the outstanding shares of the Company, less common shares reserved under other Company stock-based compensation plans such as the deferred common share and incentive share plans. The exercise price can be 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.

<b>Changes in Stock Options Outstanding</b>	<b>Stock Options</b>	<b>Weighted-Average Exercise Price (Cdn\$)</b>
Balance at December 31, 2009	6,046,182	7.98
Granted	2,290,375	27.63
Exercised	(751,631)	5.60
Forfeited	(47,875)	13.91
<b>Balance at June 30, 2010</b>	<b>7,537,051</b>	<b>14.15</b>

#### *Deferred Common Shares*

The Company has established a deferred common share 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 the vesting and payment of Cdn\$0.05 per share. The deferred common shares vest after three years or upon the recipient leaving the Company, 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.

<b>Changes in Deferred Common Shares Outstanding</b>	<b>Number</b>
Balance at December 31, 2009	97,844
Granted	59,171
<b>Balance at June 30, 2010</b>	<b>157,015</b>

#### *Incentive Shares*

The Company has established an incentive share plan for directors, officers and employees. The plan allows the holder to receive one common share upon the vesting and payment of Cdn\$0.05 per share exercise price. The terms of the incentive shares granted are determined by the Company's Board of Directors but typically, incentive shares 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.

<b>Changes in Incentive Shares Outstanding</b>	<b>Number</b>
Balance at December 31, 2009	34,130
Granted	702,095
Forfeited	(2,400)
<b>Balance at June 30, 2010</b>	<b>733,825</b>

### Stock-Based Compensation

Stock-based compensation has been recorded based on the fair values of stock options, deferred common shares and incentive shares granted. These fair values have been estimated on their respective grant dates using the Black-Scholes option-pricing model with the following assumptions:

Six months ended June 30,	2010	2009
Risk free interest rate	2.25%	1.75%
Dividend rate	2.00%	0%
Expected life – options (years)	3.0 – 4.0	3.0 - 4.0
Expected life – deferred common shares (years)	8.0	8.0
Expected life – incentive shares (years)	3.0 – 4.0	-
Expected volatility	37.5%	42.5%
Fair value of stock options granted	\$ 7.33	\$ 3.46
Fair value of deferred common shares granted	\$ 27.63	\$ 9.34
Fair value of incentive shares granted	\$ 24.71	\$ -

### Earnings Per Share

The following tables summarize the net income and weighted average number of common shares used in calculating basic and diluted earnings per share.

Three months ended June 30,	2010	2009
<b>Net income adjustments</b>		
Net income, basic	\$ 81,218	\$ 15,323
Interest expense on convertible debentures	2,028	-
Tax effect	(669)	-
Net income, diluted	\$ 82,577	\$ 15,323
<b>Weighted average common share adjustments</b>		
Weighted average common shares outstanding, basic	99,181,100	97,973,894
Effect of stock options, deferred common shares and incentive shares	3,198,762	1,900,784
Effect of convertible debentures	2,987,367	_(1)
Weighted average common shares outstanding, diluted	105,367,229	99,874,678

Six months ended June 30,	2010	2009
<b>Net income adjustments</b>		
Net income, basic	\$ 154,594	\$ 22,711
Interest expense on convertible debentures	4,002	-
Tax effect	(1,321)	-
Net income, diluted	\$ 157,275	\$ 22,711
<b>Weighted average common share adjustments</b>		
Weighted average common shares outstanding, basic	98,958,886	98,629,354
Effect of stock options, deferred common shares and incentive shares	3,230,491	1,033,210
Effect of convertible debentures	2,987,367	_(1)
Weighted average common shares outstanding, diluted	105,176,744	99,662,564

(1) Convertible debentures were anti-dilutive for the three and six months ended June 30, 2009.

## NOTE 7 – INTEREST EXPENSE

Interest expense consists of:

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Cash interest and standby charges	\$ 2,004	\$ 999	\$ 3,879	\$ 2,194
Accretion on convertible debentures	1,291	1,090	2,535	2,142
Amortization of deferred financing costs	332	129	662	258
<b>Interest expense</b>	<b>\$ 3,627</b>	<b>\$ 2,218</b>	<b>\$ 7,076</b>	<b>\$ 4,594</b>

## NOTE 8 – CAPITAL MANAGEMENT

The Company's policy is to maintain a strong capital base in order to provide flexibility in the future development of the business and maintain investor, creditor and market confidence.

The Company manages its capital structure and makes adjustments in response to changes in economic conditions and the risk characteristics of the underlying assets. The Company considers its capital structure to include common share capital, convertible debentures, bank debt and net working capital surplus (a non-GAAP measure defined as current assets less accounts payable, accrued liabilities and income taxes payable). In order to maintain or adjust the capital structure, from time to time the Company may issue common shares or other securities, sell assets or adjust its capital spending to manage current and projected debt levels.

	June 30, 2010	December 31, 2009
Bank debt <sup>(1)</sup>	\$ -	\$ -
Net working capital surplus	\$ 67,277	\$ 13,509
Convertible debentures – principal amount <sup>(2)</sup>	\$ 81,700	\$ 81,700
Common share capital	\$ 202,811	\$ 197,709

<sup>(1)</sup> Petrominerales has a revolving credit facility with a \$150 million borrowing base that is undrawn and a Colombian operating line of credit of \$32.8 million.

<sup>(2)</sup> The debentures mature December 6, 2010, are convertible into common shares at \$27.3485 per share and have an annual coupon of 3.375 percent, payable semi-annually in cash or common shares. Petrominerales has an option to force conversion of the debentures at the prevailing conversion price, should the price of the Company's common shares exceed 130 percent of the prevailing conversion price of the debentures for 20 trading days within a period of 30 consecutive trading days.

The Company monitors leverage and adjusts its capital structure based on the ratio of net debt to annualized cash flow. This ratio is calculated as net debt, a non-GAAP measure the Company defines as outstanding bank debt plus the principal amount of convertible debentures, unless considered likely to be converted to equity, and working capital deficiency, divided by cash flow from operations before changes in non-cash working capital for the most recent calendar quarter, annualized. At June 30, 2010, net debt was negative since the Company had a working capital surplus and the convertible debentures were considered equity since the market price of Petrominerales shares is greater than the conversion price. Petrominerales uses the ratio of net debt to cash flow as a key indicator of the Company's leverage and to monitor the strength of the balance sheet. In order to facilitate the management of this ratio, the Company prepares annual budgets, which are updated as necessary depending on varying factors including current and forecast crude oil prices, changes in capital structure, execution of the Company's business plan and general industry conditions. The annual budget is approved by the Board of Directors and updates are prepared and reviewed as required. The Company is in compliance with the covenants

contained in its convertible debenture and credit facility agreements. The Credit facility has financial covenants to maintain a ratio of bank debt to trailing twelve month earnings before interest, tax, depletion, depreciation and amortization under 3.0 times and to maintain a current ratio greater than 1.0 times (current assets divided by current liabilities less unused bank debt and the liability portion of convertible debentures). The convertible debentures have financial covenants to maintain a ratio of equity to total assets of at least 30 percent and to limit the amount of security and encumbrances the Company has on its total assets to 27.5 percent of total assets.

Petrominerales initiated a quarterly dividend payment of Cdn \$0.125 per share, effective for the second quarter of 2010. Petrominerales' strategy is to provide a reasonable dividend yield to shareholders while executing an accretive growth-oriented business plan.

## NOTE 9 – FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Company has exposure to the following risks from its use of financial instruments: credit risk, liquidity risk and market risk. This note presents information about the Company's exposure to each of the above risks, and the Company's objectives, policies and processes for measuring and managing risk.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's financial risk management framework and monitors risk management activities. The Company identifies and analyzes the risks faced by the Company and may utilize financial instruments to mitigate these risks.

### *Credit Risk*

Crude oil production is sold, as determined by market based prices adjusted for quality differentials, to four main counterparties. The majority of crude oil production is sold to Ecopetrol, the Colombian state oil company, and the remainder to three international oil companies. Typically, the Company's maximum credit exposure to customers is up to two months' sales revenue except for the production month of December where November sales and part of December sales from the Company's main oil purchaser are received before the end of the year. The Company does not anticipate non-performance by any of the counterparties. In addition, the Company reduced its credit risk to certain counterparties through credit insurance.

<b>Accounts Receivable Breakdown</b>	<b>June 30, 2010</b>	<b>December 31, 2009</b>
Crude oil customers	\$ 156,748	\$ 37,712
Other receivables	7,800	9,818
<b>Total</b>	<b>\$ 164,548</b>	<b>\$ 47,530</b>

Receivables from crude oil customers are normally collected approximately 45 days after the month of production. The Company's policy to mitigate credit risk associated with these balances is to establish marketing relationships with large purchasers negotiate early payment, obtain credit guarantees and or credit insurance. The Company historically has not experienced any collection issues with its crude oil customers.

Cash and cash equivalents consist of cash bank balances and short term deposits maturing in less than 90 days. The Company manages the credit exposure related to short term investments by selecting counterparties based on credit ratings and monitors all investments to ensure a stable return, avoiding complex investment vehicles with higher risk such as asset backed commercial paper.

The carrying amount of accounts receivable, cash and cash equivalents and restricted cash represent the maximum credit exposure. The Company does not have an allowance for doubtful accounts as at June 30, 2010, and did not provide for any doubtful accounts nor was it required to write-off any receivables during the period ended June 30, 2010.

<b>Aged Accounts Receivable</b>	<b>June 30, 2010</b>	<b>December 31, 2009</b>
Not past due (less than 45 days)	\$ 160,814	\$ 45,652
Past due 0-30 days	640	77
Past due 31-120 days	3,094	1,801
<b>Total</b>	<b>\$ 164,548</b>	<b>\$ 47,530</b>

#### *Liquidity Risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company's approach to managing liquidity is to ensure, within reasonable means, sufficient liquidity to meet its liabilities when due, under both normal and unusual conditions, without incurring unacceptable losses or jeopardizing the Company's business objectives.

The Company prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. Crude oil production is monitored daily to provide current cash flow estimates and the Company utilizes authorizations for expenditures on projects to manage capital expenditures. To facilitate the capital expenditure program, the Company has a revolving reserve-based credit facility, as outlined in Note 3, which is reviewed at least semi-annually by the lender. The Company also attempts to match its payment cycle with collection of crude oil revenues. Currently, the Company is not borrowed against the credit facility as existing cash balances and production levels have been providing adequate funds to execute the Company's capital expenditure program and pay for any other expenses.

The following are the contractual maturities of financial liabilities as at June 30, 2010:

<b>Financial Liability</b>	<b>Total</b>	<b>&lt; 1 Year</b>	<b>1-2 Years</b>	<b>Thereafter</b>
Accounts payable and accrued liabilities	\$ 236,958	\$ 236,958	\$ -	\$ -
Income taxes payable	26,377	26,377	-	-
Convertible debentures – principal	81,700	81,700	-	-
<b>Total</b>	<b>\$ 345,035</b>	<b>\$ 345,035</b>	<b>\$ -</b>	<b>\$ -</b>

#### *Market Risk*

Market risk is the risk that changes in market factors, such as foreign exchange rates, commodity prices, and interest rates will affect the Company's cash flows, net income, liquidity or the value of financial instruments. The objective of market risk management is to mitigate market risk exposures where considered appropriate and maximize returns.

The Company may utilize derivative instruments to manage market risk. The Board of Directors periodically reviews the results of all risk management activities and all outstanding positions.

### *Foreign Currency Risk*

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in foreign currency exchange rates. The Company is exposed to foreign currency fluctuations as certain expenditures are denominated in Colombian pesos and Canadian dollars. As at June 30, 2010, if the U.S. dollar had appreciated five percent against the Colombian peso with all other variables held constant, net income and other comprehensive income for the three month period would have been \$8.6 million higher (2009 – \$1.7 million higher), due primarily to peso denominated accounts payable and accrued liabilities and future income tax liabilities.

The Company had no forward exchange rate contracts in place as at or during the six months ended June 30, 2010.

### *Commodity Price Risk*

Commodity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in commodity prices. Significant changes in commodity prices can also impact the Company's borrowing base under its secured credit facility. Lower commodity prices can also reduce the Company's ability to raise capital. Commodity prices for crude oil are impacted by world economic events that dictate the levels of supply and demand. From time to time the Company may attempt to mitigate commodity price risk through the use of financial derivatives. The Company's policy is to only enter into commodity contracts considered appropriate to a maximum of 50 percent of forecasted production volumes.

The Company did not have any risk management contracts outstanding as at or during the second quarter of 2010 and 2009.

### *Interest Rate Risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate cash flow risk on floating interest rate bank debt, to the extent it is drawn, due to fluctuations in market interest rates and interest rate price risk on fixed rate convertible debentures. The remainder of the Company's financial assets and liabilities are not exposed to interest rate risk. The Company's sensitivity to interest rates is currently immaterial.

The Company had no interest rate swap or financial contracts in place as at or during the six months ended June 30, 2010.

### Fair Value of Financial Instruments

The Company's financial instruments are classified as cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities, bank debt and convertible debentures on the balance sheet. The carrying value and fair value of these financial instruments at June 30, 2010 is disclosed below by financial instrument category, as well as any related gain and interest expense for the six months ended June 30, 2010:

Financial Instruments (\$000)	Carrying Value	Fair Value	Interest Expense
<i>Assets Held For Trading</i>			
Cash and cash equivalents <sup>(1)</sup>	160,935	160,935	-
Restricted cash	1,453	1,453	-
<i>Loans and Receivables</i>			
Accounts receivable	164,548	164,548	-
<i>Other Liabilities</i>			
Accounts payable and accrued liabilities	236,958	236,958	-
Bank debt	-	-	3,073 <sup>(2)</sup>
Convertible debentures	79,364	83,340 <sup>(3)</sup>	4,002 <sup>(4)</sup>

<sup>(1)</sup> The effective yield on cash equivalents at June 30, 2010 was 0.22 percent (December 31, 2009 – 0.24 percent).

<sup>(2)</sup> Included in interest expense on the statement of operations. The amount includes stand-by charges and the amortization of deferred financing costs of \$0.7 million in relation to the Company's bank debt.

<sup>(3)</sup> The fair value of the convertible debentures debt and equity components are difficult to measure reliably due to lack of active trading information. The Company estimated the fair value of the convertible debentures based on recent market transactions. The principal amount of the convertible debentures at June 30, 2010 was \$81.7 million.

<sup>(4)</sup> Included in interest expense on the statement of operations. The non-cash interest expense relating to the accretion of the initial discount and transaction costs are included in accretion on convertible debentures on the statement of cash flow. The effective yield of the convertible debentures is 9.7 percent.

The Company's financial instruments have been assessed on the fair value hierarchy described above. Cash and cash equivalents are classified as Level 1 and convertible debentures as Level 2. Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy level.

Bank debt bears interest at a floating rate and accordingly the fair value approximates the carrying value. Due to the short term nature of cash and cash equivalents, restricted cash, accounts receivable and accounts payable and accrued liabilities, their carrying values approximate their fair values.

## NOTE 10 – CHANGES IN NON-CASH WORKING CAPITAL

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Change in:				
Accounts receivable	\$ 18,904	\$ (15,072)	\$ (117,018)	\$ (60,156)
Accounts payable and accrued liabilities	92,994	25,810	130,124	47,908
Income tax payable	11,402	-	26,377	-
Income tax receivable	-	3,621	8,462	3,132
Acquisitions non cash movement	198	-	198	-
Crude oil inventory	991	(472)	(2,300)	(1,500)
Depletion related to crude oil inventory and other assets	(832)	120	851	809
	\$ 123,657	\$ 14,007	\$ 46,694	\$ (9,807)
Changes relating to:				
Attributable to operating activities	\$ 81,597	\$ 1,190	\$ (19,790)	\$ (42,267)
Attributable to financing activities	\$ 11,691	-	\$ 11,691	\$ -
Attributable to investing activities	\$ 30,369	\$ 12,817	\$ 54,793	\$ 32,460

## NOTE 11 – RELATED PARTY TRANSACTIONS

The Company is party to a Management Services Agreement with Petrobank providing for certain executive functions as well as other services, including administration, financial, treasury, accounting, information technology, human resources support and office space for Petrominerales employees located in Calgary, Alberta. The monthly fee is based on a negotiated value for services provided and currently is Cdn\$130,000. Amounts paid to Petrobank under this agreement totalled \$0.8 million for the six months ended June 30, 2010 (2009 – \$0.5 million) and were recorded as general and administrative expense.

## NOTE 12 – COMMITMENTS AND CONTINGENCIES

### Commitments

The following is a summary of the Company's contractual commitments as at June 30, 2010:

Type of Obligation	Total	< 1 Year	1-3 Years	Thereafter
Exploration contracts <sup>(1) (2)</sup>	\$ 69,400	\$ 45,700	\$ 23,700	\$ -
Transportation contract	2,001	2,001	-	-
Office lease	8,500	1,900	3,800	2,800
<b>Total</b>	<b>\$ 79,901</b>	<b>\$ 49,601</b>	<b>\$ 27,500</b>	<b>\$ 2,800</b>

<sup>(1)</sup> Pursuant to exploration contracts, the Company has work commitments totaling \$69.4 million to be completed during the next three years. The work commitments are normal course of business exploration activities that include property costs, acquisition and processing of seismic data and drilling exploration wells. The Company has issued letters of credit totaling \$21.4 million and pledged \$1.4 million in restricted cash to guarantee the obligations under these exploration contracts.

<sup>(2)</sup> Following the Colombian Open Bid Round 2010, Petrominerales was awarded Block 59 and Block 15. Our first phase work commitments on Block 59 will include spending \$24.2 million over three years to acquire 300 square kilometers of 3D seismic and drilling four exploration wells. Our first phase work commitments on Block 15 will include spending \$10.0 million over three years to acquire 100 square kilometers of 3D seismic and drilling two exploration wells. These additional commitments will be added to the schedule once the contracts are signed.

### Contingencies

In the normal course of operations, Petrominerales has disputes with industry participants for which the Company currently cannot determine the ultimate result. Petrominerales records costs as they are incurred or become determinable. Management believes the resolution of these matters would not have a material adverse effect on the Company's consolidated financial position or results from operations.

Petrominerales currently has a dispute with the Colombian Agencia Nacional de Hidrocarburos (National Hydrocarbon Agency) ("ANH") related to the interpretation of the Corcel Block exploration contract ("Corcel Contract") entered into between Petrominerales and the ANH on June 2, 2005.

The Corcel Contract requires a high price participation payment ("Additional Contribution") to be paid by Petrominerales to the ANH once an exploitation area has cumulatively produced more than five million barrels of oil, determined before the deduction of royalties. The Additional Contribution is paid at 30 percent of the price received above certain threshold prices, based on the oil quality produced.

The ANH has indicated their view that all exploitation areas under the Corcel Contract should be combined for the purposes of determining when the Additional Contribution is payable. As combined production from the Corcel-A, Corcel-C and Corcel-D exploitation areas has exceeded five million barrels of oil, the ANH asserts that Petrominerales is required to pay an Additional Contribution with respect to production from Corcel-A, Corcel-C and Corcel-D from January 2010 onwards and on a go-forward basis for all of Petrominerales' exploitation areas combined in the Corcel Block. Based on their view, the ANH has issued invoices to Petrominerales aggregating \$21.7 million as at June 30, 2010. As at June 30, 2010, the Corcel-A, Corcel-C and Corcel-D exploitation areas have individually produced 4.5, 3.2 and 2.2 million barrels, respectively. Individually, none of Petrominerales' exploitation areas on the Corcel Block have cumulatively produced more than five million barrels of oil.

Petrominerales disagrees with the ANH interpretation and views the Corcel Contract as providing that payment of the Additional Contribution is required once each individual exploitation area has cumulatively produced more than five million barrels of oil.

The dispute is currently in a conflict resolution process as provided for in the Corcel Contract. Petrominerales believes that the resolution of this dispute will be in favour of the Company, and accordingly, no additional royalty provision has been made in these financial statements.

## CORPORATE INFORMATION

### DIRECTORS

John D. Wright <sup>(3)</sup>  
Calgary, Alberta, Canada  
Chairman and Strategic Advisor

Jerald L. Oaks <sup>(1)</sup>  
Denver, Colorado, U.S.A.  
Director

Alastair Macdonald <sup>(2)</sup>  
Pembroke, Bermuda  
Director

Kenneth R. McKinnon <sup>(1) (2)</sup>  
Calgary, Alberta, Canada  
Director

Ernesto Sarpi <sup>(3)</sup>  
Naples, Italy  
Director

Enrique Umaña Valenzuela <sup>(1)</sup>  
Bogotá D.C., Colombia  
Director

Geir Ytreland <sup>(2) (3)</sup>  
Droebak, Norway  
Director

- (1) Member of the Audit Committee  
(2) Member of the Compensation Committee  
(3) Member of the Reserves Committee

### OFFICERS

Corey C. Ruttan  
President and Chief Executive Officer

John (Jack) F. Scott  
Chief Operating Officer

Kelly D. Sledz  
Chief Financial Officer

Erik Lyngberg  
Senior Vice President Exploration

Allen Knight  
Vice President New Ventures

Alastair Macdonald  
Corporate Secretary and Director

Andrea Hatzinikolas  
Assistant Corporate Secretary and General Counsel

Tannya E. Morales-Kozy  
Vice President Finance

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### REGISTRAR AND TRANSFER AGENTS

Computershare Trust  
Company of Canada  
Calgary, Alberta, Canada

### LEGAL COUNSEL

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Calgary, Alberta, Canada

### BANKERS

Standard Bank  
New York, New York, U.S.A.

Citibank Colombia S.A. and Helm Bank S.A.  
Bogotá D.C., Colombia

### AUDITORS

Deloitte & Touche LLP  
Calgary, Alberta, Canada &  
Bogotá D.C., Colombia

### RESERVE ENGINEERS

DeGoyler and MacNaughton  
Dallas, Texas, U.S.A.

### EXCHANGE LISTING

The Toronto Stock Exchange  
SYMBOL: PMG

### SECURITIES FILINGS

[www.sedar.com](http://www.sedar.com)

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