

Q1

2010

FIRST QUARTER REPORT



PETROMINERALES

A PETROBANK COMPANY

Petrominerales reported record results for the first quarter 2010 highlighted by a 75 percent increase in production to 38,199 barrels of oil per day (“bopd”), funds flow from operations of US\$140.1 million (US\$1.34 per diluted share) and net income of US\$73.4 million (US\$0.71 per diluted share). Production has continued to increase in April, averaging 49,587 bopd. We maintained our industry leading operating netbacks, at US\$51.05 per barrel, a 111% increase over 2009. Our balance sheet remains strong with a US\$44.4 million net working capital surplus and an undrawn US\$150 million bank facility at March 31, 2010. 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 March 31,	2010	2009	% change
Financial			
(\$000s, except where noted)			
Crude oil revenue	247,846	76,352	225
Funds flow from operations ⁽¹⁾	140,086	41,846	235
Per share – basic (\$)	1.42	0.42	235
– diluted (\$)	1.34	0.42	219
Net income	73,376	7,388	893
Per share – basic (\$)	0.74	0.07	957
– diluted (\$)	0.71	0.07	914
Capital expenditures	111,792	65,371	71
Total assets	867,248	582,667	49
Net working capital surplus ⁽¹⁾	44,417	16,273	173
Common shares, end of period (000s)			
Basic	98,935	98,656	-
Diluted ⁽²⁾	108,381	108,266	-
Operations			
Operating netback (\$/bbl) ⁽³⁾			
WTI benchmark price	79.08	43.08	84
Crude oil revenue ⁽⁴⁾	64.65	33.79	91
Royalties	7.12	3.67	94
Production expenses	6.48	5.92	9
Operating netback	51.05	24.20	111
Crude oil production (bopd) ⁽⁵⁾	38,199	21,771	75

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

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

⁽³⁾ Excludes gains and losses on risk management contracts.

⁽⁴⁾ Net of transportation and other expenses.

⁽⁵⁾ Actual production sold for the three months ended March 31, 2010 was 38,462 bopd (2009 – 21,409 bopd).

Highlights

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

- We increased crude oil production to 38,199 bopd, a 75 percent gain over the prior year and a 56 percent gain over the fourth quarter of 2009.
- We added two more producing wells on our Candelilla discovery. The three Candelilla wells contributed 20,972 bopd to first quarter production.
- We generated solid operating netback of \$51.05 per barrel in the quarter, a 111% increase.
- We recorded funds flow from operations of \$140.1 million (\$1.34 per diluted share) and net income of \$73.4 million (\$0.71 per diluted share).
- We drilled a new oil discovery on our Casimena Block in Colombia, Yenac-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 6.8 million gross (3.9 million net) acres.

OPERATIONAL REVIEW

Guatiquia, Colombia

Following the initial Candelilla discovery well in the fourth quarter of 2009, we drilled two additional wells into the structure, Candelilla-2 and 3, which were placed on production on February 15 and March 29, 2010, respectively. Both wells confirmed the lateral extent and the productivity of the Lower Sand 3 reservoir.

Production from the Candelilla structure averaged 20,972 bopd during the quarter, and 32,198 bopd during the month of April. On April 18, 2010, we temporarily shut-in the Candelilla-1 well to reconfigure the bottom-hole perforations to maximize oil production and delay the onset of water production. On April 28, Candelilla-1 was placed back on production. Total production from the Candelilla structure is currently over 31,500 bopd at a fifteen percent watercut. Candelilla production is being handled through temporary facilities built on the block to handle up to 50,000 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 second quarter.

Corcel, Colombia

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. The Block 31 seismic satisfies our seismic work commitment on the block.

We resumed the Corcel drilling program on April 13, 2010 when we commenced drilling operations on the Corcel-C2 development well. We expect to have initial results from this well by the end of May and with success, have the well on production by mid-June. Following C2, the drilling rig will move to the northeast section of the Corcel Block to drill Amarillo-1, the first of eight exploration wells in the area.

A second rig has been contracted to begin working in Corcel, starting with the Corcel-E2 well in August.

Central Llanos (Casimena, Castor, Casanare Este, Mapache), Colombia

In January, we initiated a 13-well exploration program in the Central Llanos Basin starting with the Yenac-1 well on the Casimena Block. Yenac-1 was cased as a potential oil well based on well logs that indicated 42 feet of potential net oil pay in the Mirador formation. During our testing program we encountered oil in three separate Mirador intervals. Two of the three intervals were placed on production at rates of over 1,900 bopd while the third interval can be produced at a future date. Since coming on production April 13 the well has produced at an average rate of 1,961 bopd.

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. Three of the five planned test intervals have been completed to date, two intervals were wet while a third interval swab tested at an average rate of 200 bopd of 30 degree API oil. We expect to have the remaining test results by mid-May.

The third well of our Central Llanos exploration program, Cerillo-1 on our Casanare Este Block, reached total measured depth of 9,580 feet on April 19, 2010 and the well was cased as a potential oil well despite inconclusive log results. We expect to have test results by the end of May.

Following Cerillo-1, we plan to move the rig to the Mapache Block, to begin our ten-well exploration drilling program with the Mapana-1 location. These ten locations are southwest and up-structure from our existing discoveries, along a seismically identified fault trend.

Neiva, Colombia

On our Neiva block, we drilled and completed six wells in the first quarter as part of our multi-year development drilling program. Neiva production averaged 2,620 bopd in the first quarter, a 133 percent increase from 2009, and has increased to average 3,156 bopd during the month of April. We plan to keep our rig actively drilling on the block through the remainder of 2010.

Heavy Oil (Rio Ariari, Chiguiro Oeste, Chiguiro Este, Antorcha), Colombia

During the quarter, we drilled and completed Rio Ariari-2, a follow-up well to our heavy oil Rio Ariari discovery. Well logs indicated 40 feet of potential net oil pay in the Mirador formation. We cased the well and initiated a multi-zone testing program. Due to inconsistencies in the test data and cement integrity issues with the well bore, resulting in high watercuts, we suspended the testing program at Rio Ariari-2. We plan to bring a rig back to the block in August to drill an additional step-out location as well as a multi-well program targeting new exploration prospects to follow-up on the original Rio Ariari discovery.

In Colombia, the addition of the 87,383 acre Antorcha block from PanAndean provides Petrominerales with another heavy oil exploration opportunity in an area close to infrastructure in the Middle Magdalena Basin. We expect to commence drilling the Antorcha-1 well in August.

Peru

On April 14, 2010 we completed our previously announced acquisition of PanAndean Resources plc (“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 only the Colombian and Peruvian assets of PanAndean, consisting of four exploration blocks in Peru totaling 6.8 million gross acres (3.9 net acres) and the Antorcha Block in Colombia.

Combining the PanAndean acquisition with our existing 55 percent working interest in Block 126, Petrominerales will have the exploration rights to a significant concentration of land in the highly under-explored Ucayali Basin of Peru, under compelling fiscal terms.

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 with our joint venture partner. Lease construction and infrastructure improvements are anticipated to begin on Block 126 in the third quarter of 2010. 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, together with our joint venture partner, 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 reprocess 150 kilometres of 2D seismic during the second quarter of 2010. On Block 141 in the Titicaca Basin, we plan to complete a 300 kilometre 2D seismic program in 2011. We are carried by the third party on the first exploration wells on blocks 114 and 131, which are expected to be drilled in late 2011.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") is dated May 5, 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 months ended March 31, 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 or at 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 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 volumes. 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 first quarter 2010 compared to the first quarter of 2009 unless otherwise noted)

Average Daily Crude Oil Production ⁽¹⁾	Three months ended March 31,		
	2010	2009	Change
Guatiquia	20,972	-	100%
Corcel	11,251	17,269	(35%)
Orito	3,064	2,676	14%
Neiva	2,620	1,125	133%
Mapache and others	292	701	(58%)
Total (bopd)	38,199	21,771	75%

⁽¹⁾ Represents crude oil produced in the period. Sales volumes may be different due to crude oil in transit at the period-end date and volumes marketed on behalf of third parties. Sales volumes in the first quarter of 2010 were 38,462 bopd (2009 - 21,409 bopd).

Production increased 75 percent to 38,199 bopd primarily due to drilling success at Guatiquia and Neiva, offset by natural production declines at Corcel. On a quarter-over-quarter basis, 2010 first quarter production increased 56 percent over the fourth quarter of 2009.

Guatiquia production additions relate 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 on February 15 and March 29, 2010, respectively. In Corcel, production decreased 35 percent as no additional wells have been drilled on the block since the A2 sidetrack was put on production September 28, 2009. In Neiva, production increased 133 percent to 2,620 bopd due to the results of Petrominerales’ on-going development drilling program. Since March 31, 2009, 34 new wells have been drilled at Neiva.

Average Benchmark and Realized Prices (\$/bbl)	Three months ended March 31,		
	2010	2009	Change
WTI	79.08	43.08	84%
Sales price	71.60	39.64	81%
Transportation	5.08	5.85	(13%)
Other	1.87	-	-
Realized oil price, net of transportation (\$/bbl)	64.65	33.79	91%
Discount as a percentage of WTI	18%	22%	(18%)

The majority of the Company’s production is priced in relation to the Colombian Vasconia crude oil stream and the Caño Limon oil stream. The Company’s 2010 average realized oil prices increased 91 percent to \$64.65 per barrel mainly due to an 84 percent increase in the benchmark WTI price. The discount as a percentage of WTI decreased to 18 percent mainly due to the narrowing of the Vasconia crude discount compared to WTI.

All Guatiquia, Corcel, and Mapache production is trucked to various offloading stations. Transportation costs decreased to \$5.08 per barrel from \$5.85 per barrel in 2009, averaged over total Company sales volumes. Transportation costs decreased mainly due to trucking a larger portion of production volumes to the Monterrey offloading station. Petrominerales completed construction of the Monterrey offloading station during the first quarter of 2010. It is located 77 kilometres from Corcel and is the closest offloading station to Corcel and Guatiquia production. Trucking costs for oil delivered to Monterrey are less than \$3.00 per barrel.

In addition, Petrominerales has entered into a contract to deliver up to 10,000 bopd to an offloading station at Cusiana. Initial deliveries to this station are expected to commence in the third quarter of 2010.

The other amount relates to the cost of crude oil purchased and marketed on behalf of third parties.

Oil Revenue

Crude oil revenue increased 225 percent for the three month period ended March 31, 2010. The quarterly increase is due to a 91 percent increase in realized oil prices together with 80 percent higher sales volumes.

	Three months ended March 31,
Oil revenue, March 31, 2009	76,352
Sales volume variance	60,833
Price variance	110,661
Oil revenue, March 31, 2010	247,846
\$ change in revenue	171,494
% change in revenue	225%

Royalties	Three months ended March 31,		
	2010	2009	Change
Royalties	24,663	7,088	248%
\$ per bbl	7.12	3.67	94%
Royalties as a percent of realized oil price	11%	11%	-

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 royalty 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 royalty rate is 30 percent of the difference between the realized oil price and a threshold oil price set by the Colombian Hydrocarbon Agency ("ANH").

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 first quarter of 2010, royalties increased 248 percent due to higher production combined with higher crude oil prices. Royalties on a per barrel basis increased 94 percent, consistent with a 91 percent

increase in the realized oil sales price. Royalties as a percentage of realized oil prices remained consistent at 11 percent.

Production Expenses	Three months ended March 31,		
	2010	2009	Change
Production expenses	22,425	11,416	96%
\$ per bbl	6.48	5.92	9%

In the first quarter of 2010, production expenses increased 96 percent primarily due to 75 percent higher production levels. On a per barrel basis, production expenses increased 9 percent to \$6.48 per barrel. The per barrel increase from 2009 is primarily due to larger facilities resulting in higher fixed costs, and costs associated with handling higher fluid volumes.

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 \$5.69 per barrel and \$3.06 per barrel, respectively, in 2010.

General and Administrative Expenses	Three months ended March 31,		
	2010	2009	Change
General and administrative expenses	5,030	2,751	83%
\$ per bbl	1.46	1.43	2%

The increase in general and administrative expenses in the first quarter of 2010 was primarily due to higher personnel costs as a result of expanding operations. On a per barrel basis, these costs have remained consistent.

Stock-Based Compensation Expenses	Three months ended March 31,		
	2010	2009	Change
Stock-based compensation expenses	2,545	1,136	124%

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.

Interest Expense	Three months ended March 31,		
	2010	2009	Change
Cash interest and standby charges	1,875	1,195	57%
Accretion on convertible debentures	1,244	1,052	18%
Amortization of deferred financing costs	330	129	156%
Interest expense	3,449	2,376	45%

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

Foreign Exchange Loss (Gain)	Three months ended March 31,
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	2010	2009	Change
Foreign exchange loss (gain)	4,263	(2,809)	-

The appreciation of the Colombian peso relative to the U.S. dollar in the first quarter of 2010 resulted in a \$4.3 million foreign exchange loss in the first quarter of 2010. The Colombian peso to U.S. dollar exchange rate decreased 6 percent in the first quarter, from 2,044 at January 1, 2010 to 1,929 at March 31, 2010. 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.

Depletion, Depreciation and Accretion ("DD&A") Expenses	Three months ended March 31,		
	2010	2009	Change
DD&A expenses	60,227	41,133	46%
\$ per bbl	17.40	21.35	(19%)

Depletion, depreciation and accretion expense in the first quarter of 2010 increased 46 percent over 2009 due to a 75 percent production increase offset by a 19 percent lower per barrel depletion rate. The depletion rate per barrel decreased 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.

Tax Expense	Three months ended March 31,		
	2010	2009	Change
Current income tax	28,049	781	3,491%
Equity tax	517	401	29%
Future income tax (recovery)	(720)	(6,472)	(89%)
Taxes (recovery)	27,846	(5,290)	-

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 mainly due to 80 percent higher sales volumes and an 84 percent increase in world oil prices. Petrominerales had an effective tax rate of 28 percent in the first quarter of 2010. The effective tax rates are lower than the Colombian statutory income tax rate largely as a result of the enhanced tax deductions for the acquisition of certain capital assets.

Net Income

In 2010, net income increased 893 percent to \$73.4 million, mainly due to higher commodity prices and higher sales volumes offset by higher royalties, transportation expenses, operating costs and income taxes. The following table summarizes the changes in net income and net income per share.

Reconciliation of Changes in Net Income	Three months ended March 31, (000's) per share, diluted	
Quarter ended March 31, 2009	7,388	0.07
Increase (decrease) due to:		
Sales volumes	60,833	0.58
Realized oil prices	110,661	1.08
Royalties	(17,575)	(0.17)
Operating expenses	(11,009)	(0.10)
Transportation expenses	(12,814)	(0.12)
General and administrative expenses	(2,279)	(0.02)
DD&A	(19,094)	(0.18)
Taxes	(33,136)	(0.33)
Other ⁽¹⁾	(9,599)	(0.10)
Quarter ended March 31, 2010	73,376	0.71

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

Funds Flow from Operations

In 2010, funds flow from operations increased 235 percent to \$140.1 million, primarily due to higher commodity prices and higher sales volumes offset by higher royalties, transportation expenses, operating costs and income taxes. The following table summarizes the changes in funds flow from operations.

Reconciliation of Changes in Funds Flow from Operations	Three months ended March 31, (000's) per share,	
Quarter ended March 31, 2009	41,846	0.42
Increase (decrease) due to:		
Sales volumes	60,833	0.58
Realized oil prices	110,661	1.07
Royalties	(17,575)	(0.17)
Operating expenses	(11,009)	(0.10)
Transportation expenses	(12,814)	(0.12)
General and administrative expenses	(2,279)	(0.02)
Foreign exchange	(2,807)	(0.04)
Interest	614	-
Taxes	(27,384)	(0.30)
Quarter ended March 31, 2010	140,086	1.34

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

	Three months ended March 31,		
	2010	2009	Change
Funds flow from operations: Non-GAAP	140,086	41,846	235%
Changes in non-cash working capital	(101,387)	(43,457)	(133%)
Cash flow from operating activities: GAAP	38,699	(1,611)	-

Three months ended March 31, 2010, Capital Expenditures	Drilling and completions	Facilities and infrastructure	Seismic	HSEC	Total
Guatiquia	20,493	5,931	84	100	26,608
Corcel	4,932	12,164	7,924	1,102	26,122
Neiva	15,937	1,423	-	106	17,466
Exploration	6,739	4,965	3,071	863	15,638
Mapache	705	11,056	35	971	12,767
Heavy Oil	4,234	2,068	167	183	6,652
Peru	-	-	5,453	-	5,453
Orito	111	954	-	21	1,086
Total	53,151	38,561	16,734	3,346	111,792

First quarter capital expenditures at 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. Corcel expenditures included facilities costs at the Corcel central processing facility to increase fluid handling capacity, completion costs for the F1 water injector well, costs related to the 2010 3D seismic acquisition program and civil construction costs related to the 2010 drilling program. Neiva expenditures included drilling and completing six oil wells and performing five well optimizations. Exploration activity included civil construction costs associated with 2010 Central Llanos exploration program and drilling and initial completion costs associated with the Yenac-1 well on the Casimena Block. Mapache expenditures related mainly to civil construction for the 2010 ten-well exploration drilling program. Heavy oil block expenditures related to drilling, completion and testing of the Rio Ariari-2 well. Peru expenditures relate to the acquisition of 150 square kilometres of 3D seismic on Block 126. Orito expenditures related primarily to a water flood pilot project.

On April 14 2010, Petrominerales acquired all of the issued and outstanding shares of PanAndean Resources plc for \$30.4 million. The assets acquired pursuant to the acquisition include 6.9 million gross (3.9 million net) acres under four exploration contracts in Peru and one exploration contract in Colombia.

SUMMARY OF QUARTERLY RESULTS

	2010	2009				2008		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Financial (\$000s except where noted)								
Crude oil revenue	247,846	160,646	119,485	104,823	76,352	70,610	125,065	77,915
Funds flow from operations	140,086	106,171	71,709	64,098	41,846	57,813	78,343	53,225
Per share – basic (\$)	1.42	1.08	0.73	0.65	0.42	0.58	0.78	0.53
– diluted (\$)	1.33	1.03	0.71	0.63	0.42	0.56	0.75	0.51
Net income	73,376	51,211	26,224	15,323	7,388	20,278	57,951	30,687
Per share – basic (\$)	0.74	0.52	0.27	0.16	0.07	0.20	0.58	0.31
– diluted (\$)	0.71	0.51	0.26	0.15	0.07	0.20	0.57	0.30
Capital expenditures	111,792	81,983	53,998	79,527	65,371	46,861	73,080	79,714
Operations								
Operating netback (\$/bbl)								
WTI benchmark price	79.08	76.19	68.19	59.79	43.08	59.08	118.22	123.80
Crude oil sales price	64.65	61.75	56.29	47.96	33.79	45.57	105.90	114.57
Royalties	7.12	6.76	5.52	4.30	3.67	3.90	11.22	10.83
Production expenses	6.48	7.62	8.02	6.76	5.92	6.45	8.02	10.75
Operating netback	51.05	47.37	42.74	36.90	24.20	35.22	86.66	92.99
Crude oil production (bopd)	38,199	24,555	21,546	21,548	21,771	15,344	12,485	7,339

Significant factors influencing quarterly results were:

- Since mid-2008, production has grown from 7,339 bopd to 38,199 bopd in Q1 2010, mainly due to drilling successes on the Guatiquia and Corcel blocks.
- First quarter 2009 production increased due mainly to the Corcel-D2 well, two wells on the Mapache block, and six new wells at Neiva.
- 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 and world oil prices started to recover.
- First quarter 2010 production increased mainly due to three Candelilla wells drilled on Petrominerales' Guatiquia Block.

LIQUIDITY AND CAPITAL RESOURCES

Petrominerales' first quarter capital program 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 March 31, 2010, Petrominerales had a net working capital surplus of \$44.4 million and an undrawn \$150 million borrowing base. 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 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. 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 \$30.1 million that are primarily used to issue letters of credit to support exploration contracts. At March 31, 2010, letters of credit issued against the Colombian operating lines of credit totalled \$18.0 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 \$140.1 million in the first quarter of 2010.

Commitments

The following is a summary of the Company's contractual commitments as at March 31, 2010:

Type of Obligation	Total	< 1 Year	1-3 Years	Thereafter
Exploration contracts ⁽¹⁾	61,100	33,900	27,200	-
Transportation contract ⁽²⁾	55,634	8,054	35,685	11,895
Office lease	9,400	1,800	3,800	3,800
Total	\$ 126,134	\$ 43,754	\$ 66,685	\$ 15,695

⁽¹⁾ Pursuant to exploration contracts, the Company has work commitments totaling \$61.1 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 \$18.0 million and pledged \$1.4 million in restricted cash to guarantee the obligations under these exploration contracts.

⁽²⁾ The Company entered into a take-or-pay transportation contract to deliver up to 10,000 barrels of oil per day in the Llanos Basin of Colombia.

Outstanding Share Data

The aggregate number of Petrominerales common shares, stock options, deferred common shares and incentive shares outstanding at May 5, 2010 was 105,476,085 (common shares – 99,153,685, stock options – 6,050,414, deferred common shares – 144,456, incentive shares – 127,530).

TRANSACTIONS WITH RELATED PARTIES

The Company is party to a Management Services Agreement with Petrobank providing for the services of the President and Chief Executive Officer, Vice-President Finance and Chief Financial Officer, 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 fee is based on a negotiated value for services provided. Effective April 1, 2009, the monthly fee was increased to Cdn\$130,000. Amounts paid to Petrobank under this agreement totalled \$0.4 million for the three months ended March 31, 2010 (2009 – \$0.2 million) and were recorded as general and administrative expense.

RISKS AND UNCERTAINTIES

There have been no significant changes in the three months ended March 31, 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)
WTI	\$1.00/bbl WTI reference price (assuming 45,000 bopd)	\$11.0
Crude oil	1,000 bopd of production @ \$75/bbl WTI	\$19.8

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.

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.

IFRS Conversion Project Plan

The project plan consists of three phases as identified below:

IFRS Conversion Project Phase	Progress
Phase 1 Initial Scoping <ul style="list-style-type: none">• Identification of key differences between Canadian GAAP and IFRS, and high-level changes required in accounting policies, systems and processes.	Completed
Phase 2 Detailed Assessment and Design <ul style="list-style-type: none">• Comprehensive documentation and analysis of changes in accounting standards, policies, processes and procedures, which expands on scoping from Phase 1.	In progress; the IFRS team has completed a preliminary review of certain high impact standards
Phase 3 – Implementation <ul style="list-style-type: none">• Implementation and execution of changes identified and prioritized from Phase 2.	In progress in 2010

Potential Impacts of IFRS Adoption

Significant differences that have been identified between Canadian GAAP and IFRS that will impact Petrominerales are: accounting for capital assets, including exploration costs, depletion and depreciation, impairment testing, capitalized interest, asset retirement obligations, share-based payments and an increased level of disclosure requirements. These differences have been identified based on the current IFRS standards issued and expected to be in effect on 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 IFRS ("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.

In July 2009, the International Accounting Standards Board approved amendments and released "Additional Exemptions for First-time Adopters" which prescribes transitional exemptions for oil and gas companies following full cost accounting. The amendment allows an entity that used full cost accounting under Canadian GAAP to elect, at its time of adoption, to measure exploration and evaluation assets at the amount determined under Canadian GAAP and to measure oil and natural gas assets in the development or production phases by allocating the amount determined under Canadian GAAP for those assets, to the underlying assets pro rata using reserve volumes or reserve values as of the date of transition, subject to an impairment test as prescribed under IFRS. This exemption will allow Petrominerales to apply IFRS to its full cost pools on a prospective basis, from date of transition to IFRS.

Impairment of Assets (“IAS 36”)

IAS 36 uses the concept of cash generating units to accumulate asset carrying costs to test and measure impairment. Under IFRS, Petrominerales will no longer test for asset impairment at the cost center level (country level) as permitted under the Canadian GAAP full cost guideline. 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 as an initial first step to test impairment.

Under, 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.

Exploration and Evaluation Expenditures (“IFRS 6”)

Oil and gas companies are required to account for exploration and evaluation expenditures in accordance with IFRS 6. 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 category. Petrominerales is currently evaluating its policy options and applicable impact of these policies under IFRS.

Property Plant and Equipment (“IAS 16”)

IFRS and Canadian GAAP contain the same basic principles of accounting for property, plant and equipment; however, differences in application do exist, specifically for oil and gas companies. 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 amortize 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. It is expected that Petrominerales will choose and apply the cost model to account for its property, plant and equipment after transition to IFRS.

Borrowing Costs ("IAS 23")

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 if any, 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.

Decommissioning Costs ("IAS 37")

Under IFRS, the recognition criteria for contingent liabilities are much more explicit than Canadian GAAP and may potentially require the booking of additional liabilities associated with the asset retirement obligations of Petrominerales' oil and gas assets. Liabilities for decommissioning and restoration are recognized for both legal and constructive obligations. Under IFRS, the estimated liability is calculated at each reporting period using estimates of risk-adjusted future cash outflows, discounted using the risk free rate whereas under Canadian GAAP the estimated liability is estimated using a credit-adjusted rate, rather than a risk free rate.

Changes in the estimated timing of cash flows necessary to discharge the obligation are added to or deducted from the cost of the related asset and the adjusted amounts are amortized prospectively over the estimated useful life of the asset. The measurement of the present value of the estimate (arising due to different discount rates used) is likely to be higher under IFRS as compared to Canadian GAAP. However the difference is not known at this time.

In addition, the unwinding of the discount arising from the passage of time is recognized as a financing cost and not a part of depletion expense as is currently presented in Petrominerales' financial statements under Canadian GAAP.

Internal Controls over Financial Reporting and Disclosure

As part of Petrominerales' certification of internal controls process, as required under Canadian Securities Administrators' National Instrument 52-109, all entity level, information technology, disclosure and business process controls will be reviewed, updated as necessary and tested to reflect changes arising from Petrominerales' conversion to IFRS. Material changes identified will be mapped and tested to ensure that no material deficiencies exist as a result of the conversion to IFRS.

Information Systems

It is expected that the conversion to IFRS will have an impact on the information system requirements. Petrominerales has initiated a plan to map IFRS accounting and reporting requirements to changes required in the accounting system which will be implemented and tested during 2010.

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 March 31, 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 first quarter 2010 Operational Update and the 2009 Annual Report.

CONSOLIDATED BALANCE SHEETS

(Unaudited, thousands of United States dollars)

As at	March 31, 2010	December 31, 2009
Assets		
Current assets		
Cash and cash equivalents	\$ 13,862	\$ 61,600
Restricted cash (Note 3)	1,375	1,375
Accounts receivable (Note 8)	183,452	47,530
Income taxes receivable	-	8,462
Crude oil inventory	4,667	1,376
	203,356	120,343
Other assets (Note 4)	25,905	26,594
Capital assets	624,044	573,179
Total assets	\$ 853,305	\$ 720,116
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 143,964	\$ 106,834
Income taxes payable	14,975	-
Convertible debentures	78,073	76,829
	237,012	183,663
Future income tax liabilities	35,749	34,724
Asset retirement obligations	7,719	6,748
	280,480	225,135
Commitments and contingencies (Note 11)		
Shareholders' equity		
Convertible debentures	10,407	10,407
Common shares (Note 5)	200,104	197,709
Contributed surplus (Note 5)	9,401	7,328
Accumulated other comprehensive income (Note 5)	16,024	16,024
Retained earnings	336,889	263,513
	572,825	494,981
Total liabilities and shareholders' equity	\$ 853,305	\$ 720,116

Subsequent event (Note 12)

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 March 31,	2010	2009
Revenues		
Oil	\$ 247,846	\$ 76,352
Royalties	(24,663)	(7,088)
Interest income	35	80
	223,218	69,344
Expenses		
Production	22,425	11,416
Transportation and other	24,057	11,243
General and administrative	5,030	2,751
Foreign exchange loss (gain)	4,263	(2,809)
Interest (Note 6)	3,449	2,376
Stock-based compensation (Note 5)	2,545	1,136
Depletion, depreciation and accretion	60,227	41,133
	121,996	67,246
Income before taxes	101,222	2,098
Equity and current income taxes	28,566	1,182
Future income taxes (recovery)	(720)	(6,472)
Net income	73,376	7,388
Retained earnings, beginning of period	263,513	177,800
Repurchase of common shares (Note 5)	-	(4,962)
Retained earnings, end of period	\$ 336,889	\$ 180,226
Basic earnings per share (Note 5)	\$ 0.74	\$ 0.07
Diluted earnings per share (Note 5)	\$ 0.71	\$ 0.07

See accompanying notes to these consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited, thousands of United States dollars)

Three months ended March 31,	2010	2009
Net income	\$ 73,376	\$ 7,388
Other comprehensive income	-	-
Comprehensive income	\$ 73,376	\$ 7,388

See accompanying notes to these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOW

(Unaudited, thousands of United States dollars)

Three months ended March 31,	2010	2009
Operating Activities		
Net income	\$ 73,376	\$ 7,388
Depletion, depreciation and accretion	60,227	41,133
Stock-based compensation	2,545	1,136
Unrealized foreign exchange loss (gain)	1,745	(2,520)
Amortization of other assets	1,669	129
Accretion on convertible debentures	1,244	1,052
Future income taxes (recovery)	(720)	(6,472)
	140,086	41,846
Changes in non-cash working capital (Note 9)	(101,387)	(43,457)
	38,699	(1,611)
Financing Activities		
Repurchase of common shares (Note 5)	-	(6,525)
Issuance of common shares (Note 5)	1,923	244
Financing costs	-	(188)
	1,923	(6,469)
Investing Activities		
Expenditures on capital assets	(111,792)	(65,371)
Expenditures on other assets	(992)	(3,321)
Changes in restricted cash	-	1,293
Changes in non-cash working capital (Note 9)	24,424	19,643
	(88,360)	(47,756)
Net change in cash and cash equivalents	(47,738)	(55,836)
Cash and cash equivalents, beginning of period	61,600	82,174
Cash and cash equivalents, end of period	\$ 13,862	\$ 26,338
Cash and cash equivalents consist of:		
Cash	\$ 2,559	\$ 762
Cash equivalents	\$ 11,303	\$ 25,576
Other cash flow information:		
Cash taxes paid	\$ -	\$ -
Cash interest paid	\$ 1,104	\$ 409
Cash interest received	\$ 35	\$ 79

See accompanying notes to these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three months ended March 31, 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 months ended March 31, 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 March 31, 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 \$30.1 million. Advances under the facility are collateralized by a promissory note provided by the Company.

At March 31, 2010, the Company had letters of credit totalling \$19.4 million outstanding to guarantee work commitments under exploration blocks. Letters of credit issued against the Colombian operating line of credit, totalling \$18.0 million at March 31, 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

	Prepaid Pipeline Tariffs	Deferred Charges	Total Other Assets
Balance at December 31, 2009	\$ 21,174	\$ 5,420	\$ 26,594
Additions	980	-	980
Less: amortization	(1,339)	(330)	(1,669)
Balance at March 31, 2010	\$ 20,815	\$ 5,090	\$ 25,905

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 – 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.

Changes in Common Shares Outstanding	Number	Amount
Balance at December 31, 2009	98,610,917	\$ 197,709
Exercise of stock options	324,214	1,923
Transfer from contributed surplus related to stock options exercised	-	472
Balance at March 31, 2010	98,935,131	\$ 200,104

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 in the first quarter of 2009, \$1.6 million reduced the book value of the common shares and the remaining \$5.0 million was recorded as a reduction to retained earnings.

Contributed Surplus

Changes in Contributed Surplus	Amount
Balance at December 31, 2009	\$ 7,328
Stock-based compensation	2,545
Transfer to common shares related to stock options exercised	(472)
Balance at March 31, 2010	\$ 9,401

Accumulated Other Comprehensive Income

There has been no change to accumulated other comprehensive income as at and for the three months ended March 31, 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.

Changes in Stock Options Outstanding	Stock Options	Weighted-Average Exercise Price (Cdn\$)
Balance at December 31, 2009	6,046,182	7.98
Granted	500,000	28.97
Exercised	(324,214)	6.12
Forfeited	(24,000)	15.18
Balance at March 31, 2010	6,197,968	9.74

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.

Changes in Deferred Common Shares Outstanding	Number
Balance at December 31, 2009	97,844
Granted	46,612
Balance at March 31, 2010	144,456

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 evenly over a period of four years from the date of grant and expire between five and 10 years after the date of grant.

Changes in Incentive Shares Outstanding	Number
Balance at December 31, 2009	34,130
Granted	81,600
Balance at March 31, 2010	115,730

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 using the following assumptions:

Three months ended March 31,	2010	2009
Risk free interest rate	2.25%	1.75%
Dividend rate	0%	0%
Expected life – options (years)	3.0 – 4.0	3.3 - 4.0
Expected life – deferred common shares (years)	8.0	8.0
Expected volatility	42.5%	42.5%
Fair value of stock options granted	\$ 9.24	\$ 2.57
Fair value of deferred common shares granted	\$ 28.99	\$ 7.60
Fair value of incentive shares granted	\$ 27.85	\$ -

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 March 31,	2010	2009
Net income adjustments		
Net income, basic	\$ 73,376	\$ 7,388
Interest expense on Petrominerales' convertible debentures	1,974	-
Tax effect	(651)	-
Net income, diluted	\$ 74,699	\$ 7,388
Weighted average common share adjustments		
Weighted average common shares outstanding, basic	98,734,202	99,292,097
Effect of stock options, deferred common shares and incentive shares	3,456,363	155,997
Effect of convertible debentures	2,987,367	_(1)
Weighted average common shares outstanding, diluted	105,177,932	99,448,094

⁽¹⁾ Convertible debentures were anti-dilutive for the three months ended March 31, 2009.

NOTE 6 – INTEREST EXPENSE

Interest expense consists of:

Three months ended March 31,	2010	2009
Cash interest and standby charges	\$ 1,875	\$ 1,195
Accretion on convertible debentures	1,244	1,052
Amortization of deferred financing costs	330	129
Interest expense	\$ 3,449	\$ 2,376

NOTE 7 – 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.

	March 31, 2010	December 31, 2009
Bank debt ⁽¹⁾	\$ -	\$ -
Net working capital surplus	\$ 44,417	\$ 13,509
Convertible debentures – principal amount ⁽²⁾	\$ 81,700	\$ 81,700
Common share capital	\$ 200,104	\$ 197,709

⁽¹⁾ Petrominerales has a revolving credit facility with a \$150 million borrowing base that is undrawn and a Colombian operating line of credit of \$30.1 million.

⁽²⁾ 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 March 31, 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.

The Company has not paid or declared any dividends since the date of incorporation.

NOTE 8 – 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.

Accounts Receivable Breakdown	March 31, 2010	December 31, 2009
Crude oil customers	\$ 174,183	\$ 37,712
Other receivables	9,269	9,818
Total	\$ 183,452	\$ 47,530

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 March 31, 2010, and did not provide for any doubtful accounts nor was it required to write-off any receivables during the three months ended March 31, 2010.

Aged Accounts Receivable	March 31, 2010	December 31, 2009
Not past due (less than 45 days)	\$ 183,275	\$ 45,652
Past due 0-30 days	168	77
Past due 31-120 days	9	1,801
Total	\$ 183,452	\$ 47,530

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 March 31, 2010:

Financial Liability	Total	< 1 Year	1-2 Years	Thereafter
Accounts payable and accrued liabilities	\$ 143,964	\$ 143,964	\$ -	\$ -
Income taxes payable	14,975	14,975	-	-
Convertible debentures – principal	81,700	81,700	-	-
Total	\$ 240,639	\$ 240,639	\$ -	\$ -

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 March 31, 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 \$5.4 million higher (2009 – \$2.4 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 three months ended March 31, 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 during the first 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 period ended March 31, 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 March 31, 2010 is disclosed below by financial instrument category, as well as any related gain and interest expense for the three months ended March 31, 2010:

Financial Instrument	Carrying Value	Fair Value	Interest Expense
<i>Assets Held For Trading</i>			
Cash and cash equivalents ⁽¹⁾	13,862	13,862	-
Restricted cash	1,375	1,375	-
<i>Loans and Receivables</i>			
Accounts receivable	183,452	183,452	-
<i>Other Liabilities</i>			
Accounts payable and accrued liabilities	143,964	143,964	-
Bank debt	-	-	1,476 ⁽²⁾
Convertible debentures	78,073	91,872 ⁽³⁾	1,973 ⁽⁴⁾

⁽¹⁾ The effective yield on cash equivalents at March 31, 2010 was 0.20 percent (December 31, 2009 – 0.24 percent).

⁽²⁾ Included in interest expense on the statement of operations. The amount includes stand-by charges and the amortization of deferred financing costs of \$0.3 million in relation to the Company's bank debt.

⁽³⁾ 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 March 31, 2010 was \$81.7 million.

⁽⁴⁾ 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.

Petrominerales classifies the fair value of these transactions according to the following hierarchy based on the amount of observable inputs used to value the instrument.

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.
- Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

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 9 – CHANGES IN NON-CASH WORKING CAPITAL

Three months ended March 31,	2010	2009
Change in:		
Accounts receivable	\$ (135,922)	\$ (45,083)
Accounts payable and accrued liabilities	37,130	22,098
Income tax payable	14,975	-
Income tax receivable	8,462	(490)
Crude oil inventory	(3,291)	(1,028)
Depletion related to crude oil inventory and other assets	1,683	689
	\$ (76,963)	\$ (23,814)
Changes relating to:		
Attributable to operating activities	\$ (101,387)	\$ (43,457)
Attributable to investing activities	\$ 24,424	\$ 19,643

NOTE 10 – RELATED PARTY TRANSACTIONS

The Company is party to a Management Services Agreement with Petrobank providing for the services of the President and Chief Executive Officer, Vice-President Finance and Chief Financial Officer, 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 fee is based on a negotiated value for services provided. Effective April 1, 2009, the monthly fee was increased to Cdn\$130,000. Amounts paid to Petrobank under this agreement totalled \$0.4 million for the three months ended March 31, 2010 (2009 – \$0.2 million) and were recorded as general and administrative expense.

NOTE 11 – COMMITMENTS AND CONTINGENCIES

Commitments

The following is a summary of the Company's contractual commitments as at March 31, 2010:

Type of Obligation	Total	< 1 Year	1-3 Years	Thereafter
Exploration contracts ⁽¹⁾	\$ 61,100	\$ 33,900	\$ 27,200	\$ -
Transportation contract ⁽²⁾	55,634	8,054	35,685	11,895
Office lease	9,400	1,800	3,800	3,800
Total	\$ 126,134	\$ 43,754	\$ 66,685	\$ 15,695

⁽¹⁾ Pursuant to exploration contracts, the Company has work commitments totaling \$61.1 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 \$18.0 million and pledged \$1.4 million in restricted cash to guarantee the obligations under these exploration contracts.

⁽²⁾ The Company entered into a take-or-pay transportation contract to deliver up to 10,000 barrels of oil per day in the Llanos Basin of Colombia.

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.

NOTE 12 – SUBSEQUENT EVENTS

On April 14 2010, Petrominerales acquired all of the issued and outstanding shares of PanAndean Resources plc for \$30.4 million. The assets acquired pursuant to the acquisition include 6.9 million gross (3.9 million net) acres from four exploration contracts in Peru and one exploration contract in Colombia.

CORPORATE INFORMATION

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Pembroke, Bermuda
Director

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Director

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Naples, Italy
Director

Enrique Umaña Valenzuela ⁽¹⁾
Bogotá D.C., Colombia
Director

John D. Wright ⁽³⁾
Calgary, Alberta, Canada
President, Chief Executive Officer and Director

Geir Ytreland ⁽²⁾⁽³⁾
Droebak, Norway
Director

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

OFFICERS

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President, Chief Executive Officer and Director

Andrea Hatzinikolas
Assistant Corporate Secretary and General Counsel

Allen Knight
Vice President New Ventures

Erik Lyngberg
Vice President Exploration

Alastair Macdonald
Corporate Secretary and Director

Tannya E. Morales-Kozy
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