



# **PETROMINERALES**

**PETROMINERALES LTD.**

**ANNUAL INFORMATION FORM  
FOR THE YEAR ENDED DECEMBER 31, 2010**

**MARCH 31, 2011**

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## ABBREVIATIONS AND DEFINITIONS

“**1567725**” means 1567725 Alberta Ltd., a corporation incorporated pursuant to the ABCA and renamed “Petrominerales Ltd.” effective January 1, 2010 on completion of the Petrobank Reorganization;

“**2010 Bid Round**” means the Columbia Open Bid Round 2010;

“**2010 Notes**” means the 3.375% unsecured convertible notes of the Company that matured on December 6, 2010;

“**2016 Notes**” means the 2.625% unsecured convertible notes of the Company that mature on August 25, 2016;

“**ABCA**” means the *Business Corporations Act* (Alberta);

“**ANH**” means Agencia Nacional de Hidrocarburos, or National Hydrocarbon Agency, an agency of the Colombian government;

“**API**” means a degree of gravity that provides a relative measure of crude oil density;

“**ATI**” means Archon Technologies International Inc., an indirect wholly-owned subsidiary of Petrobank;

“**Archon**” means Archon Technologies Ltd., a wholly-owned subsidiary of Petrobank;

“**Board of Directors**” means the board of directors of the Company, as constituted from time to time;

“**baseline production**” means, with respect to the IPCs for Orito and Neiva, an established decline curve corresponding to the field’s original production history;

“**Canadian GAAP**” means Canadian generally accepted accounting principles;

“**Casimena**” means the 107,704 acre Casimena block in the Llanos Basin in Colombia governed by an Exploration Contract between the Company and the ANH;

“**Castor**” means the 108,741 acre Castor block in the Llanos Basin in Colombia governed by an Exploration Contract between the Company and the ANH;

“**COGE Handbook**” means the Canadian Oil and Gas Evaluation Handbook prepared jointly by the Society of Petroleum Evaluation Engineers (Calgary Chapter) and the Canadian Institute of Mining, Metallurgy and Petroleum;

“**Company**” or “**Petrominerales**” means “Petrominerales Ltd.” and (a) at any time prior to the Petrobank Reorganization, refers to the company incorporated pursuant to the laws of Bahamas, continued under the laws of Bermuda on November 12, 2010 and renamed “Petrominerales Bermuda Ltd.” on January 4, 2011 following completion of the Petrobank Reorganization; (b) at any time the Petrobank Reorganization, refers to the company incorporated under the laws of Alberta, Canada as 1567725 Alberta Ltd. and renamed “Petrominerales Ltd.” upon completion of the Petrobank Reorganization; and (c) includes, except where the context otherwise requires, the Company’s direct or indirect wholly-owned subsidiaries;

“**Contractor**” means the non-government or state controlled oil company party to an Exploration Contract or a License Contract, who is also the operator of such contract.

“**Corcel**” means the 79,815 acre Corcel block in the Llanos Basin in Colombia governed by an Exploration Contract between the Company and the ANH;

“**D&M**” means DeGolyer and MacNaughton, independent oil and gas reservoir engineers, of Dallas, Texas, USA;

“**D&M Report**” means the independent engineering appraisal of the Company’s reserves prepared by D&M, dated February 23, 2011, with an effective date of December 31, 2010;

“**Ecopetrol**” means Empresa Colombiana de Petróleos, the Colombian national oil company;

“**Exploration Contract**” means an exploration and production contract in Colombia established by the ANH;

“**Gross**” means: (a) in relation to the Company’s interest in production and reserves, its “Company gross reserves”, which represent the Company’s working interest (operating and non-operating) share of gross reserves before deduction of royalties and without including any royalty interest of the Company; (b) in relation to wells, the total number of wells in which the Company has an interest, and (c) in relation to properties, the total area of properties in which the Company has an interest;

“**Guatiquia**” means the 26,349 acre Guatiquia block in the Llanos Basin in Colombia governed by an Exploration Contract between the Company and the ANH;

“**IFRS**” means the International Financial Reporting Standards;

“**IPC**” means an incremental production contract in Colombia, signed with Ecopetrol;

“**Joint Operating Agreement**” means the joint operating agreement to be entered upon Archon exercising the option granted under the Option Agreement, which joint operating agreement will govern the operations of certain heavy oil projects in Colombia in which ATI has acquired a working interest pursuant to the Option Agreement;

“**Joropo**” means the 72,257 acre Joropo exploration block in the Llanos Basin in Colombia governed by or subject to an Exploration Contract between the Company and the ANH;

“**License Contract**” means an exploration and production contract in Peru established by PeruPetro S.A.;

“**Neiva**” means the 2,395 acre Neiva field in the Upper Magdalena Valley Basin in Colombia governed by an IPC between the Company and Ecopetrol;

“**net**” means: (a) in relation to the Company’s interest in production and reserves, its “Company net reserves”, which represent the Company’s working interest share of gross reserves after deduction of royalties obligations; (b) in relation to wells, the number of wells obtained by aggregating the Company’s current working interest in each of its gross wells, and (c) in relation to the Company’s interest in a property, the total area in which the Company has an interest multiplied by the working interest owned by the Company;

“**net profits interest or NPI**” means the percentage of net profits, as calculated on a monthly basis, payable to third parties holding rights related to the Corcel or Joropo Blocks;

“**NI 51-101**” means National Instrument 51-101 - *Standards of Disclosure for Oil and Gas Activities* of the Canadian Securities Administrators;

“**OBC**” means the Oleoducto Bicentenario de Colombia oil pipeline to be built in the Llanos Basin of Colombia;

“**Option Agreement**” means the option agreement dated May 18, 2006 between Petrominerales and ATI pursuant to which ATI has been granted an option to acquire a working interest in, and to act as operator of, certain heavy oil projects in Colombia using THAI<sup>®</sup>;

“**Orito**” means the 42,492 acre Orito field in the Putumayo Basin of south western Colombia governed by an IPC between the Company and Ecopetrol;

“**PanAndean**” means PanAndean Resources plc, a company incorporated under the United Kingdom Companies Act 2006, all the shares of which were acquired by Petrominerales on April 14, 2011 and which was renamed “PanAndean Resources Ltd.”;

“**PBL**” means Petrominerales Bermuda Ltd., a company governed by the laws of Bermuda which was formerly called “Petrominerales Ltd.” and became an indirect wholly-owned subsidiary of the Company upon completion of the Petrobank Reorganization;

“**PCL**” means Petrominerales Colombia Ltd., an indirect wholly-owned subsidiary of the Company;

“**PeruPetro**” means PeruPetro S.A., a private state law company responsible for promoting the investment of hydrocarbon exploration and exploitation activities in Peru;

“**Petrobank**” means Petrobank Energy and Resources Ltd., the indirect majority shareholder of Petrominerales until the completion of the Petrobank Reorganization;

“**Petrobank Reorganization**” means the series of transactions completed December 31, 2010 pursuant to which, among other things, Petrobank effectively distributed its 65% ownership of Petrominerales directly to Petrobank shareholders;

“**Petro International**” means Petro International Ltd., a wholly-owned subsidiary of the Company upon completion of the Petrobank Reorganization;

“**Petrominerales Shares**” or “**Shares**” means common shares in the share capital of the Company;

“**R Factor**” means the ratio of cumulative revenues to cumulative costs for purposes of allocating production under the Neiva and Orito IPCs;

“**Reorganization Transactions**” means the share exchange transactions contemplated by the Share Exchange Agreement completed on June 9, 2006, pursuant to which the Company acquired all of the outstanding shares of PCL;

“**Rights Plan**” means the shareholder rights plan agreement entered into between the Company and Computershare Trust Company of Canada as described under the heading “*Shareholder Rights Plan*”.

“**Rio Ariari**” means the 514,426 acre Rio Ariari block in the Llanos Basin in Colombia governed by an Exploration Contract between the Company and the ANH;

“**Share Exchange Agreement**” means the share exchange agreement dated June 9, 2006 between Petro International and Petrominerales;

“**Technical Services Agreement**” means the technical services agreement dated July 1, 2003, between Petrobank and PCL;

“**Technology License Agreement**” means the technology license agreement dated May 18, 2006 between ATI and Petrominerales respecting the use of the THAI<sup>®</sup> technology in heavy oil projects in Colombia;

“**THAI<sup>®</sup>**” means Archon’s patented Toe-to-Heel-Air-Injection in-situ heavy oil recovery technique, which combines a vertical air injection well with a horizontal production well;

“**TSX**” means the Toronto Stock Exchange; and

“**Veraz**” means Veraz Petroleum Ltd.;

“**WTI**” means West Texas Intermediate.

In this Annual Information Form, the abbreviations set forth below have the following meanings:

<b>bbl/d</b>	Barrels of oil per day	<b>Mbbl</b>	Thousand barrels
<b>bbl(s)</b>	Barrel(s)	<b>MMbbl</b>	Million barrels
<b>Cdn\$</b>	Canadian dollars	<b>M\$</b>	Thousands of United States dollars
<b>km</b>	Kilometres	<b>MM\$</b>	Millions of United States dollars
<b>km<sup>2</sup></b>	Square kilometres	<b>\$</b>	United States dollars

The following table sets forth certain standard conversions between Standard Imperial Units and the International System of Units (or metric units).

<b>To Convert From</b>	<b>To</b>	<b>Multiply By</b>
bbls	cubic metres	0.159
cubic metres	bbls	6.293
Feet	metres	0.305
Metres	feet	3.281
Miles	kilometres	1.609
Kilometres	miles	0.621
Acres	hectares	0.405
Hectares	acres	2.471

Certain other technical terms used in this Annual Information Form but not otherwise defined herein are defined in NI 51-101 and, unless the context otherwise requires, shall have the same meanings herein as in NI 51-101. See the disclosure found under the heading “*Reserves Data and Other Oil and Gas Information*” of this Annual Information Form.

Unless otherwise noted, the Company’s average daily production volumes disclosed herein are based on the Company’s working interest production before deduction of royalties paid.

The estimates of reserves and future net revenue for individual properties may not reflect the same confidence level as estimates of reserves and future net revenue for all properties, due to the effects of aggregation.

**Except as otherwise indicated, all dollar amounts in this Annual Information Form are expressed in United States dollars and references to \$ are to United States dollars.**

## INFORMATION

The information in this Annual Information Form is stated as at December 31, 2010, unless otherwise indicated. For an explanation of the capitalized terms and expressions and certain defined terms, please refer to the “*Abbreviations and Definitions*” at the beginning of this Annual Information Form.

### FORWARD-LOOKING STATEMENTS

Certain statements contained in this Annual Information Form constitute forward-looking statements. The use of statements that express, or involve discussions as to expectations, beliefs, plans, objectives, assumptions or future events or performance 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 the forward looking statements. The Company believes the expectations reflected in those forward-looking statements are reasonable, but no assurance can be given that these expectations will prove to be correct. Accordingly, any such forward-looking statements are qualified in their entirety by reference to, and are accompanied by, the factors discussed throughout this Annual Information Form. Such forward-looking statements included in this Annual Information Form should not be unduly relied upon.

In particular, this Annual Information Form may contain forward-looking statements pertaining to the following:

- the performance characteristics of the Company’s oil properties;
- forecasted oil production levels;
- the size of the oil reserves;
- projections of market prices and costs;
- supply and demand for oil;
- expectations regarding the ability to continually add to reserves through exploration, development and acquisitions;
- treatment under governmental regulatory regimes and tax laws; and
- capital expenditure programs and the timing for the completion of certain projects.

With respect to forward looking statements contained in this Annual Information Form, the Company has made assumptions regarding:

- oil production levels;
- commodity prices;
- general economic and financial market conditions;
- availability of labour and drilling equipment;
- availability of infrastructure to process associated water and sell produced oil;
- timing and amount of capital expenditures;
- operating costs;
- government regulation in the areas of taxation, royalty rates and environmental protection; and
- expectations and assumptions concerning the obtaining of necessary regulatory approvals.

The actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and elsewhere in this Annual Information Form:

- volatility in market prices for oil;
- fluctuation in foreign currency exchange rates;
- risks inherent in oil operations in Columbia and Peru;

- exploration risk and future drilling success;
- uncertainties associated with estimating oil reserves;
- competition for, among other things, capital, acquisitions of reserves and land, equipment and personnel, and transportation and infrastructure;
- geological, technical, drilling and processing problems;
- changes in legislation, including changes in environmental or tax laws, royalties and government incentive programs relating to the oil and gas industry; and
- the other factors discussed under “*Risk Factors*”.

Statements relating to “reserves” or “resources” are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the resources and reserves described can be profitably produced in the future.

Readers are cautioned that the foregoing lists of factors are not exhaustive. The forward-looking statements contained in this Annual Information Form are expressly qualified by this cautionary statement. Further, any forward-looking statement is made only as of a certain date, and the Company undertakes no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events, except as may be required by applicable securities laws. New factors emerge from time to time, and it is not possible for management of the Company to predict all of these factors and to assess in advance the impact of each such factor on the Company’s business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement.

## **INTRODUCTION**

Petrominerales is an exploration and production company operating at the forefront of Colombia's oil and gas industry. Seven years ago, the Colombian government introduced a compelling new fiscal and land contracting regime. Under the new regime, Petrominerales began accumulating Exploration Blocks and the Company is now one of the country's largest exploration land holders with 15 Exploration Blocks spread across three hydrocarbon basins. Petrominerales was one of the first exploration companies in the country to use 3D seismic as a primary exploration tool, and in 2007, we drilled a major discovery on our Corcel Block. With rapid development of Corcel and further exploration success on other blocks like Guatiquia, Petrominerales became Colombia's largest producer from Exploration Blocks under the new fiscal and land contracting regime. Corcel and Guatiquia are only two of many exploration plays being pursued by the Company in the largely under-explored basins of Colombia. The Company commenced operations in Peru in 2008 and, in 2010, Petrominerales further expanded in Peru with the acquisition of four exploration License Contracts through the acquisition of PanAndean. The Company plans to drill its first exploration well in Peru in 2011. See "*General Development of the Business*".

## **CORPORATE STRUCTURE**

Petrominerales Colombia Ltd. ("**PCL**"), through its predecessor companies, was originally incorporated in 1996 under the *International Business Companies Act, 2000* (Bermuda) to engage in oil exploration and development activities in Colombia. PCL is the Company's main operating subsidiary and has been operating as a branch in Colombia since 1996. See "*General Development of the Business*".

In May 2002, Petrobank, through its wholly-owned subsidiary Petro International, acquired all the issued and outstanding shares of PCL.

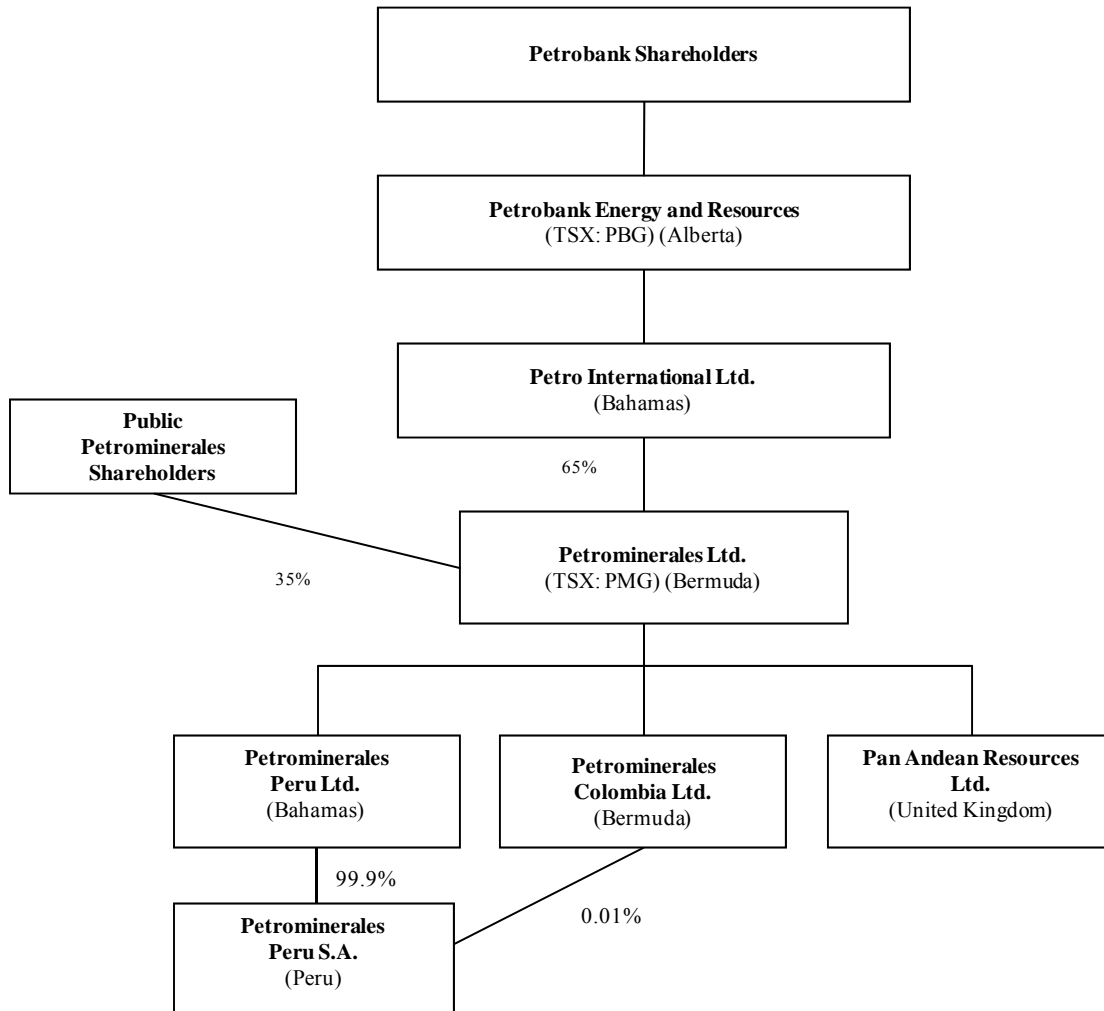
On April 20, 2006, Petrominerales Ltd. was incorporated under the *International Business Companies Act, 2000* (Bahamas).

On May 11, 2006, the Company amended its Memorandum of Association and Articles of Association to increase the authorized share capital to 200 million common shares and to remove the restrictions on the Company's ability to offer common shares to the public.

On June 29, 2006, the Company, Petro International and PCL completed the Reorganization Transactions, being the share exchange transactions contemplated by the Share Exchange Agreement, whereby Petrominerales acquired all of the shares of PCL and commenced trading on the TSX under the symbol 'PMG'.

On October 29, 2010, 1567725 was incorporated pursuant to the ABCA. On November 12, 2010, Petrominerales Ltd. was continued under the *Companies Act, 1981* (Bermuda).

The following chart illustrates the structure of the Company and its material subsidiaries immediately prior to the Petrobank Reorganization:



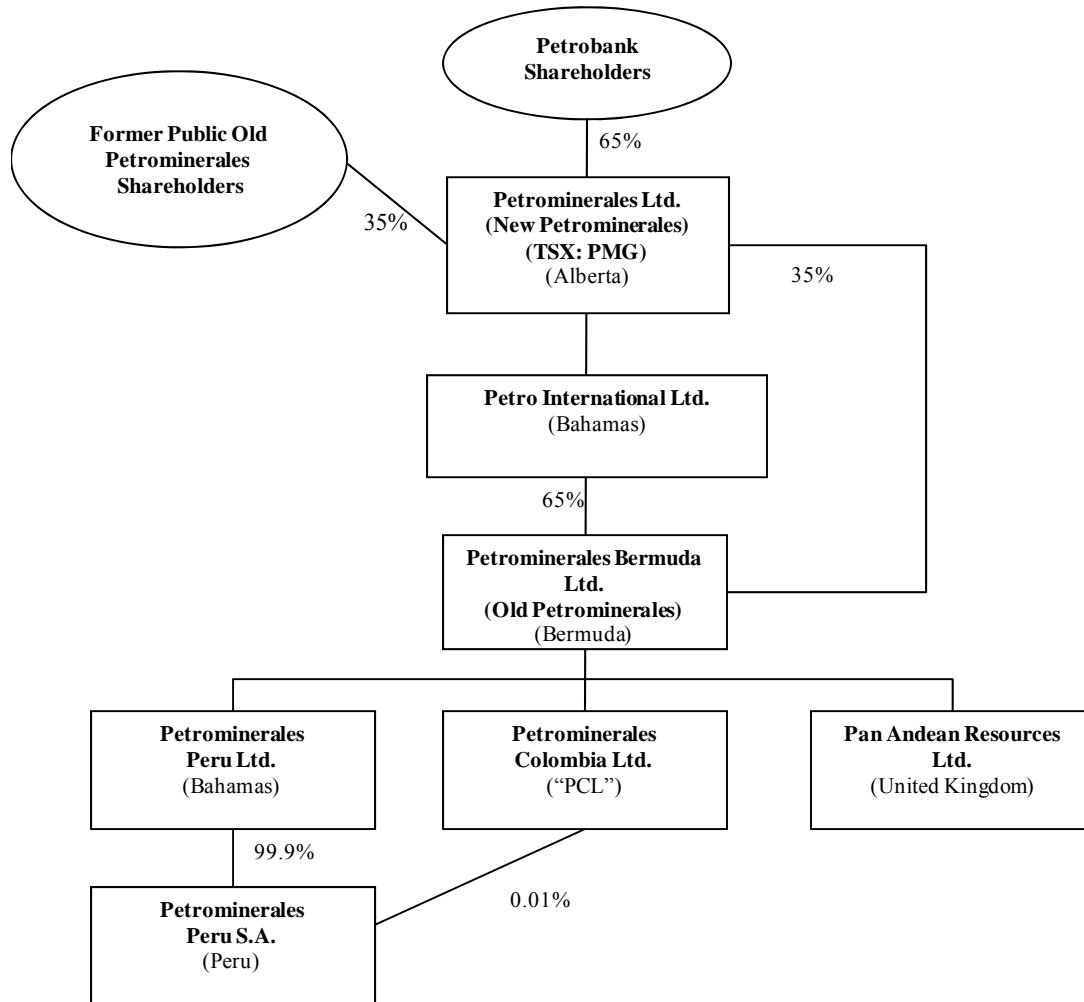
### ***Petrobank Reorganization***

Effective December 31, 2010, the Petrobank Reorganization was completed. The purpose of the Petrobank Reorganization was for Petrobank to distribute its 65% ownership of Petrominerales directly to its shareholders. The distribution was accomplished through the incorporation of 1567725 (“**New Petrominerales**”) and the completion of a series of transaction pursuant to which:

- New Petrominerales acquired all of the shares of Petro International, thereby indirectly acquiring approximately 65% of the shares of Petrominerales Ltd. (“**Old Petrominerales**”);
- Each of the common shares of Petrobank was exchanged for one new common share of Petrobank and 0.6142 of a share of New Petrominerales; and
- Each common share of Old Petrominerales, other than those held by Petro International, was exchanged for one common share of New Petrominerales.

Immediately following completion of the Petrobank Reorganization, New Petrominerales changed its name to “Petrominerales Ltd.” and Old Petrominerales changed its name to Petrominerales Bermuda Ltd. Following the Petrobank Reorganization, the common shares of New Petrominerales traded on the TSX under the symbol “PMG” in substitution for the Old Petrominerales common shares.

The following chart illustrates the structure of the Company and its material subsidiaries immediately following the Petrobank Reorganization:



The Company’s registered office is located at 3300, 421-7<sup>th</sup> Avenue S.W., Calgary, Alberta, T2P 4K9. The Company’s head office in Canada is located at 1900, 111 – 5<sup>th</sup> Avenue S.W., Calgary, Alberta, T2P 3Y6 and in Colombia is located at Calle 116 No. 7-15 Edificio Torre Cusezar Piso 6, Bogotá. The Company is a reporting issuer in all of the provinces of Canada.

## **GENERAL DEVELOPMENT OF THE BUSINESS**

Petrominerales, through its predecessor companies, has conducted business in Colombia since 1996. From 1996 to 2000, PCL undertook the assessment and evaluation of a number of exploration blocks and other opportunities. In April 2001, PCL signed IPCs in respect of the Orito and Neiva fields. PCL initiated drilling operations in the latter part of 2002, with first production commencing in January 2003.

On January 1, 2004, the regulatory regime in Colombia underwent a significant change, with the formation of the ANH, which has the responsibility of regulating the Colombian oil industry. In conjunction, the ANH developed a new exploration risk contract (“Exploration Contract”) that took effect in early 2005. This contract has significantly increased the amount of new exploration in the country. In 2005, Petrominerales began negotiating and executing Exploration Contracts, and to date has accumulated 2.0 million acres under 15 Exploration Contracts in Colombia.

Since entering into the Exploration Contracts, the Company’s exploration activities on its blocks have provided significant growth and production from Exploration Contracts accounted for 83% of the Company’s total production in 2010.

Petrominerales entered Peru in November 2008 by completing agreements to obtain a 55% working interest in the 2.6 million acre Block 126 in the Ucayali Basin of central Peru. In 2010, Petrominerales further increasing land holdings in Peru with the acquisition of PanAndean, which provides access to an additional 6.8 million gross (3.3 million net) acres of exploration land, and acquired additional working interest in Block 126 from Veraz, increasing our working interest to 80%.

The following describes the Company’s significant events that occurred in the past three years.

### **Year ended December 31, 2008**

Petrominerales incurred \$268.2 million in 2008 executing its capital program that included:

- drilling ten exploration wells: five at Corcel, two at Mapache and one on each of the Casanare Este, Castor and Joropo Blocks;
- drilling eight development wells at Orito;
- construction of the Corcel central processing facilities to initially handle 70,000 barrels of fluid per day;
- initial construction on an oil offloading station at Monterrey; and
- acquisition of 120 km<sup>2</sup> of 3D seismic on the Corcel Block.

See “*Principal Properties*” for additional information.

In August, the Company commenced a normal course issuer bid (the “NCIB”). In accordance with the NCIB, Petrominerales was authorized to repurchase up to 5,032,717 of its Shares, representing approximately 5% of the issued and outstanding Shares of the Company at that time. In 2008, Petrominerales repurchased a total of 1,326,000 Shares under the NCIB at an average price of \$8.77 (Cdn\$9.89) per Share.

In November, Petrominerales entered into an agreement to acquire a 55 percent interest in the 2.6 million acre Block 126 in the Ucayali Basin of Peru.

In late November, drilling and completion operations at the Orito field were suspended temporarily due to a general strike in the Putumayo region of Colombia. Operations resumed on January 6, 2009.

In December, Petrominerales was awarded two contiguous blocks in the Llanos Basin north of Corcel, Blocks 25 and 31, on trend with our Corcel Block and the Cusiana-Cupiagua field complex.

### **Year ended December 31, 2009**

Petrominerales incurred \$280.9 million in 2009 executing its capital program that included:

- drilling ten exploration wells, five at Corcel, two at Guatiquia and one on each of the heavy oil blocks Rio Ariari, Chiguiro Este and Chiguiro Oeste;
- an exploration program that was highlighted by the Candelilla discovery on the Guatiquia Block that provided a step-change increase in the Company's 2010 production and our first exploration wells on our heavy oil acreage;
- drilling 31 development wells at Neiva and three wells at Orito;
- expansions to the Corcel central processing facilities to handle 140,000 barrels of fluid per day;
- construction and commissioning of the Monterrey oil offloading station. This facility provides Petrominerales with a strategic offloading station to deliver oil into the Colombian pipeline system;
- the acquisition of 423 km<sup>2</sup> of 3D seismic on the Castor, Casanare Este, Casimena, Mapache and Rio Ariari blocks, and 14 km of 2D seismic on the Castor block; and
- the acquisition of 150 km<sup>2</sup> of 3D seismic and 50 km of 2D seismic on Block 126 in Peru.

See "*Principal Properties*" for additional information.

On May 15, 2009, Petrominerales and Petrobank completed a secondary offering of Petrominerales Shares whereby Petrobank, through its wholly-owned subsidiary Petro International, sold 9.9 million Petrominerales Shares at a price of Cdn\$10.25 per Share. Petrominerales did not receive any proceeds from the offering. The transaction reduced Petrobank's ownership percentage of Petrominerales at the time from 77% to 67% and increased the market liquidity of the Company's Shares.

In August, the Company's previously announced normal course issuer bid expired. Under the program, Petrominerales repurchased and cancelled 3,317,000 Petrominerales Shares at an average price of \$9.20 (Cdn\$10.94) per Share (1,326,000 Shares in 2008 and 1,991,000 Shares in 2009).

### **Year Ended December 31, 2010**

Petrominerales incurred \$506.4 million in 2010 executing its capital program that included:

- drilling 21 exploration or high-impact wells, six at Corcel, four at Guatiquia, three at Rio Ariari, two at Mapache and Casimena, and one on each of Chiguiro Oeste, Antorcha, Casanare Este and Castor;
- an exploration program that was highlighted by significant discoveries including Yatay on the Guatiquia Block, Yenac on the Casimena Block and Mochelo on the Rio Ariari Block;
- drilling 26 development wells at Neiva;
- expansions to oil and water handling facilities on the Corcel, Guatiquia and Mapache Blocks;
- the acquisition of 385 km<sup>2</sup> of 3D seismic on Block 31, the Guatiquia Block and the Chiguiro Este Block that has increased the exploration inventory to over 100 drilling prospects at the end of December 31, 2010.

See "*Principal Properties*" for additional information.

On April 14, 2010, Petrominerales Ltd. acquired all of the outstanding shares of PanAndean for \$29.6 million. Pursuant to this acquisition, Petrominerales acquired four additional exploration blocks in Peru in the Uyucali

Basin, consisting of 6.8 million gross acres (3.3 million net acres), and one 87,383 acre exploration block, Antorcha, in Colombia.

On May 6, 2010, the Company announced changes to its executive officers. Corey Ruttan was named President and Chief Executive Officer succeeding John Wright, who assumed the role of Chairman and Strategic Advisor. In addition, Jack Scott was promoted to Chief Operating Officer, Erik Lyngberg was promoted to Senior Vice President, Exploration, Kelly Sledz was promoted to Chief Financial Officer and Tannya Morales was promoted to Vice-President Finance. Ruben Cano was appointed Vice President, Services and Logistics and Allen Knight joined the Company full time as Vice-President New Ventures, stepping down from his concurrent position as Vice-President New Ventures of Petrobank.

In June, the Company was awarded two exploration blocks, Blocks 59 and 15, in the 2010 Bid Round. Both of the blocks are in the Llanos Basin. Block 59 is located north of the Apiay and Castilla oil fields. The Block covers 131,286 acres and the first phase work commitments include spending \$24.2 million over three years to acquire 300 square kilometres of 3D seismic and drill 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 include spending \$10.0 million over three years to acquire of 100 square kilometres of 3D seismic and drill two exploration wells. The Block currently has over 90 kilometres of existing 2D seismic from which we have identified several fault trends.

Both of these blocks are subject to a standard ANH Exploration Contract (8% initial royalty) plus a further state participation (“X-Factor”) of 1% of gross production, payable to the ANH. The contracts were signed on March 15, 2011.

In August, the Company completed the issuance of the 2016 Notes having an aggregate principal amount of \$550 million. The 2016 Notes are convertible into Petrominerales Shares, at an initial conversion rate of \$34.746 (subject to adjustment) and have an annual coupon rate of 2.625%. See “*Capital Structure – Convertible Notes*”.

On October 13, 2010, the Company entered into an agreement with Veraz to acquire an additional 25% working interest in Block 126 in the Ucayali Basin of Peru. According to the terms of the agreement, a total of \$6.75 million will be paid to Veraz, which includes a cash payment and the assumption of certain expenses for the drilling program on Block 126. Additionally, at the point where certain cumulative production levels are attained on the block, Petrominerales will pay a bonus worth as much as \$8 million. Petrominerales also granted Veraz a 20% working interest on Block 161 in the Ucayali Basin and on Block 141 in the Titicaca Basin.

On November 11, 2010, Petrominerales agreed to invest \$99.5 million for a 9.65% shareholding stake in the Oleoducto Bicentenario de Colombia (“OBC”). The objective of the OBC project is to build and operate a private-use oil pipeline between Casanare and Covenas that will be 960 kilometres long and have a final capacity of 450,000 barrels of oil per day. The pipeline will be the largest of its kind in Colombia and developed in three phases. The first phase, which will join the Araguanez station in Casanare with Banadia in Arauca, has an estimated cost of \$1.031 billion (net \$99.5 million to Petrominerales) and is expected to be completed in by the end of 2011. Once technical and financial studies for subsequent phases are complete, the Company will have an option to participate in phases two and three to maintain its proportionate ownership. The current estimated cost of phases two and three is US\$3.1 billion, and all phases are expected to be finalized by December 2012.

On December 6, 2010, the remaining 2010 Notes, having an aggregate principal amount of \$81.7 million, were converted into 2,987,367 Petrominerales Shares.

On December 17, 2010, the shareholders of the Company approved the Petrobank Reorganization and on December 31, 2010 the Petrobank Reorganization was completed. See “*Corporate Structure – Petrobank Reorganization*”.

On December 17, 2010, the shareholders of the Company approved the Rights Plan. See “*Shareholder Rights Plan*”.

## **DESCRIPTION OF THE BUSINESS**

### **Strategy**

Petrominerales is now one of the larger oil and gas companies in Colombia. The Company’s business strategy is to aggressively explore its exploration lands using leading exploration techniques and convert exploration successes into cash flows in a timely and economical manner. In executing the business plan, Petrominerales has developed a solid production base that exceeded 40,000 bbl/d in February 2011. Cash flows from this production base provide the Company with significant financial resources to execute its exploration focused capital programs. Petrominerales has grouped its asset base into five distinct focus areas:

- *Deep Llanos Basin Exploration, Colombia* – this area comprises the majority of the Company’s production base and includes the key Corcel and Guatiquia discoveries. The Company currently has over 50 exploration prospects in its drilling inventory and plans to be active in this area for the upcoming years. In addition, this area includes some acreage in the foothills region of the basin trending with major discoveries such as Cusiana-Cupiagua, Apiay and Castilla. Petrominerales plans to begin a two-well exploration program on its foothills acreage in 2011. These wells are significant for the Company as they are targeting potentially large hydrocarbon resource accumulations and will be the deepest wells drilled by the Company in Colombia. See “*ANH Contracts – Colombia – Deep Llanos Basin*”.
- *Heavy Oil* – a medium to longer-term strategy, which has potential for future large scale development. Petrominerales plans to be at the forefront of the expansion of the Colombian heavy oil industry through exploration and the application of technology. Petrominerales is targeting large accumulations of heavy oil and offer world-class exploitation expertise including the opportunity to deploy the THAI<sup>®</sup> technology in Colombia. Petrominerales believes that THAI<sup>®</sup> has significant operational and environmental benefits over other processes and represents a potential step change in recovery efficiencies. Petrominerales currently has the exclusive rights for the application of the technology in Colombia. See “*ANH Contracts – Colombia – Heavy Oil Llanos Basin*”.
- *Central Llanos Basin Exploration, Colombia* – this area includes the Company’s Yenac discovery. The Company currently has ten exploration prospects and a number of appraisal locations to its Yenac discovery. See “*ANH Contracts – Colombia – Central Llanos Basin*”.
- *Low-Risk Development Assets with Enhanced Recovery Potential* – the Company has two IPCs with Ecopetrol on large, existing oil fields that offer Petrominerales cost-effective, low risk development projects. Recently at Neiva, we have initiated a water-flood project that has expanded the reserve base and provides additional opportunity in the field. See “*IPC Contracts – Colombia*”.
- *Peru* – the Company has established one of the largest exploration land positions in the Ucayali Basin of central Peru. The Basin is in the early stages of development and offers excellent prospectivity for

prolific reserve accumulations. Petrominerales plans to drill its first exploration well in Peru later in 2011.

## **Production**

In 2010, the Company's average daily production by block was:

	<b>Three Months Ended (bbl/d)</b>				<b>Year ended (bbl/d)</b>
	<b>Mar. 31, 2010</b>	<b>June 30, 2010</b>	<b>Sept. 30, 2010</b>	<b>Dec. 31, 2010</b>	<b>Dec. 31, 2010</b>
Guatiquia	20,972	27,779	16,516	14,447	19,901
Corcel	11,251	8,220	8,155	9,747	9,336
Orito	3,064	2,950	2,762	2,532	2,825
Neiva	2,620	3,415	3,790	3,883	3,432
Casimena	-	1,536	1,139	1,417	1,027
Others	292	303	305	1,116	506
<b>Total</b>	<b>38,199</b>	<b>44,203</b>	<b>32,667</b>	<b>33,142</b>	<b>37,027</b>

## **Reserves**

As at December 31, 2010, the Company's independent reserve evaluator assigned gross reserves to the Company's properties as follows:

<b>RESERVES CATEGORY</b>	<b>OIL AND NATURAL GAS LIQUIDS RESERVES <sup>(1)</sup></b>				
	<b>Deep Llanos (Mbbbl)</b>	<b>Orito (Mbbbl)</b>	<b>Neiva (Mbbbl)</b>	<b>Central Llanos (Mbbbl)</b>	<b>Total Company (Mbbbl)</b>
Proved					
Developed	17,140	2,379	5,504	2,052	27,075
Undeveloped	4,476	7,052	2,926	2,457	16,911
Total Proved	21,616	9,431	8,430	4,509	43,986
Probable	6,845	4,570	1,536	3,285	16,236
Proved Plus Probable	28,461	14,001	9,966	7,794	60,222

### **Notes:**

1. Company gross reserves based on forecast prices and costs.

The reserves at December 31, 2010 shown in the table above do not include any possible reserves or resources associated with our remaining unevaluated acreage covering 15 exploration blocks in Colombia and 5 blocks in Peru. See "*Reserves Data and Other Oil and Gas Information*".

## **Acreage and Block Summary**

At December 31, 2010, Petrominerales had an interest in the following blocks. A description of the contractual regimes governing the blocks is set forth below under the heading "Industry Conditions" and a description of each block follows in the "Principal Properties" section.

<b>Block</b>	<b>Gross Area (acres)</b>	<b>Working Interest (%)</b>	<b>2010 Production (bbl/dd)</b>	<b>December 31, 2010 Gross Proved plus Probable reserves (Mbbbl)</b>
<b>Colombia</b>				
<i>Deep Llanos</i>				
Corcel	79,815	100%	9,336	7,742
Guatiquia	26,349	100%	19,901	20,989
Block 25	169,805	100%	-	-
Block 31	163,903	100%	-	-
Block 59 <sup>(1)</sup>	131,289	100%	-	-
Block 15 <sup>(1)</sup>	63,114	100%	-	-
	<b>634,275</b>		<b>29,237</b>	<b>28,461</b>
<i>Central Llanos</i> <sup>(2)</sup>				
Mapache	107,861	100%	506	2,840
Casimena	107,704	100%	1,027	4,954
Castor	108,741	100%	-	-
Casanare Este	78,815	100%	-	-
	<b>403,121</b>		<b>1,533</b>	<b>7,794</b>
<i>Llanos Heavy Oil</i>				
Chiguiro Este	178,272	100%	-	-
Chiguiro Oeste	125,952	100%	-	-
Rio Ariari	514,426	100%	-	-
	<b>818,650</b>		<b>-</b>	<b>-</b>
<i>Middle Magdalena</i>				
Antorcha	87,383	100%	-	-
<i>Putumayo</i>				
Las Aguilas	32,215	100%	-	-
<b>Colombia - Total ANH contracts</b>	<b>1,975,642</b>		<b>30,770</b>	<b>36,255</b>
<i>Incremental Production Contracts</i>				
Orito <sup>(3)</sup>	42,492	79%	2,825	14,001
Neiva <sup>(3)</sup>	2,395	69%	3,432	9,966
<b>Colombia - Total</b>	<b>2,020,529</b>		<b>37,027</b>	<b>60,222</b>
<b>Peru</b>				
<i>Ucayali</i>				
Block 126	2,636,506	80%		
Block 114	1,904,510	30%		
Block 131	2,447,510	30%		
Block 161	1,215,225	80%		
	<b>8,203,751</b>			
<i>Titicaca</i>				
Block 141	1,277,268	80%		
<b>Peru - Total</b>	<b>9,481,019</b>			
<b>Total Company</b>	<b>11,501,548</b>			

**Notes:**

1. These blocks were awarded in the 2010 Bid Round and were signed on March 15, 2011.
2. Excludes two blocks, Joropo and Jaguar, that have been sold and are awaiting final approval to transfer from the ANH.
3. Acreage is shown gross. See "Principal Properties – Incremental Production Contracts".

## INDUSTRY CONDITIONS

### Colombia

There are eight commercial oil production basins in Colombia: the Upper, Middle, and Lower Magdalena Valley; Llanos; Putumayo; Catatumbo; Eastern Cordillera and the Guajira basins. Oil extracted from fields in these basins is transported through Colombia's five major oil pipelines, four of which connect production fields to the Caribbean port town of Coveñas. These are: the central Ocesa pipeline, which transports oil from the Llanos Basin and Cusiana-Cupiagua fields; the 490-mile Caño Limon pipeline; the Alto Magdalena and Colombia Oil pipelines; and the Transandino or Trans-Andean (OTA) pipeline, which transports crude oil from the Orito field in the Putumayo Basin to Colombia's Pacific port of Tumaco.

Historically, all oil production in Colombia was undertaken by Ecopetrol in contracts of association with foreign companies that allowed Ecopetrol to back into exploration discoveries for up to 50 percent working interest. Ecopetrol is the Colombian national company which was responsible for exploration, extraction, production, transportation, and crude marketing for export. Colombia was considered to be at risk of becoming a net oil importer and, as a result, the regulatory regime in Colombia underwent a significant change effective January 1, 2004 with the formation of the ANH, which was given the responsibility of regulating the Colombian oil industry. As this function was previously performed by Ecopetrol, Ecopetrol now competes directly with foreign companies. This change, along with increased commodity prices, has resulted in a significant increase in Colombian exploration activity.

### *ANH*

The regulatory regime in Colombia underwent a significant change with the formation of the ANH, which developed the new Exploration Contract that took effect in mid 2004. This contract has changed the way the industry views Colombia and has significantly increased the amount of new exploration in the country. In place of the earlier association contracts from which the government (Ecopetrol) had an immediate right to back-in to production, the ANH Exploration Contract provides full risk/reward benefits for the Contractor. Under the terms of the ANH Exploration Contract, the successful operator retains the rights to all reserves, production and income from any new exploration block, subject to existing royalty and income tax regulations, including a high price participation payment provision for larger fields.

Previously, the ANH dealt with exploration acreage proposals on a “first-come, first-served” basis, but has since adopted a system of competitive bidding rounds, whereby the ANH allows any company that meets specified criteria to submit a bid for a block of land. Current bids are evaluated on two criteria: additional government participation (“X Factor” or “additional royalty”) and additional work program (investment). Depending on where the block of land subject to a bid is located, a minimum work program is required that typically includes technical studies, reprocessing or shooting new seismic and/or drilling wells. The ANH contract term consists of three phases:

- (i) **Initial Exploration Phase.** The initial exploration phase lasts six years and can be extended for up to an additional four years provided that the Contractor presents an additional exploration program and relinquishes 50 percent of the area. Depending on the length of time requested, this period is also divided into two phases as the Contractor proposes.
- (ii) **Evaluation Phase.** Upon a declared discovery, and at the Contractor’s request, the evaluation phase commences and lasts up to two years, depending on the size and scope of the evaluation plan proposed. If the evaluation plan relates to a gas or heavy oil field, two additional years may be granted because of the complex planning and marketing required. All discoveries must be reported to the ANH, while the Colombian Ministry of Mines and Energy defines the extent of the discovery.

(iii) **Exploitation or Production Phase.** Once the evaluation phase is complete and the Contractor declares commerciality, the exploitation phase begins. The duration of the exploitation period of each producing field is 24 years. The Contractor may obtain an extension of the exploitation period beyond the 24 years for a payment equal to five percent (for gas and heavy oil) or 10 percent (for oil) of the remaining reserves value.

Requirements to relinquish part or all of a contracted area depends on the phase of operations. Under normal circumstances, the Contractor must relinquish 50 percent of the area (excluding area's under evaluation and/or production) at the end of the six-year exploration period if the Contractor continues to explore and there is an evaluation program or a discovery. If not, the Contractor must relinquish 100 percent of the area excluding areas under evaluation and/or production. Another 25 percent must be relinquished after the two-year evaluation phase expires. The Contractor and the ANH may also agree on the relinquishment of certain parts of a license area during the initial six-year exploration period as part of the contract and on a block by block basis, depending on the scope of the exploration work program and the size of the area. The Contractor also has the option to relinquish all or part of the area after each exploration phase.

Blocks acquired from the 2010 Bid Round that exceed 50,000 hectares must relinquish 50% of the acreage after the first exploration phase.

### ***Royalties***

Historically, for new field production commencing prior to July 25, 2002, a flat 20 percent royalty applied. The Company has no Exploration Contracts subject to this flat 20% royalty.

For new field production commencing after July 25, 2002, royalties are calculated on a per field basis using a sliding scale that ranges from eight percent (for production up to 5,000 bbl/d) up to a maximum of 25 percent (for production above 600,000 bbl/d), illustrated as below, whereby the royalty rate increases one percent for every 10,000 bbl/d of production for fields over 5,000 bbl/d until the field reaches 125,000 bbl/d.

<u>Field Production (bbl/d)</u>	<u>Royalty Rate*</u>
0 – 5,000	8%
5,001 – 125,000	8% - 20%
125,001 – 400,000	20%
400,001 – 600,000 plus	20% - 25%

\* For new discoveries of heavy oil, classified as those with an API equal to or less than 15°, the royalties will be 75% of the royalty rates for light and medium oils presented above.

All of the Company's Exploration Contracts and Incremental Production Contracts are subject to this sliding scale royalty.

### ***High Price Participation Payment***

Certain terms, such as those relating the high price participation payment, have changed in subsequent bid rounds since the first ANH Exploration Contracts were signed.

In certain Exploration Contracts held by Petrominerales (the older ANH contracts), the high price participation payment commences once an exploitation area has cumulatively produced more than five million barrels of oil, determined before the deduction of royalties. In these contracts, the payment is paid at a 30 percent factor of the price received in excess of the threshold prices, based on the oil quality produced.

#### *High Price Participation Payment Threshold Prices*

<u>Quality</u>	<u>2011 Threshold Prices (“Po”)</u>
Less than 10° API	Nil
10° to 15° API	\$48.14/bbl
15° to 22° API	\$33.71/bbl
22° to 29° API	\$32.50/bbl
Greater than 29° API	\$31.29/bbl

Threshold prices are adjusted annually for inflation.

As an example, crude oil production with a quality above 29 degrees API and a realized oil price of US\$85/bbl results in a high price participation payment which is equivalent to an incremental 19 percent royalty ( $\$85 - \$31.29 = \$53.71 \times 30\% = \$16.11 / \$85 = 19\%$ ), bringing the total government take to 27 percent for a field with production less than 5,000 bbl/d.

In more recent Exploration Contracts held by Petrominerales (the newer ANH contracts), the high price participation payment commences once the block has cumulatively produced more than five million barrels of oil, determined before the deduction of royalties. In these contracts, the payment is determined at an established percentage using a sliding scale factor of the price received in excess of the threshold prices (“Po”), based on the oil quality produced. The sliding scale factor is:

<u>Realized Monthly Average Price (P)</u>	<u>Established Percentage</u>
$P < P_o$	0%
$P_o \leq P < 2P_o$	30%
$2P_o \leq P < 3P_o$	35%
$3P_o \leq P < 4P_o$	40%
$4P_o \leq P < 5P_o$	45%
$5P_o \leq P$	50%

As an example of the more recent Exploration Contracts, crude oil production with a quality above 29 degrees API and a realized oil price of US\$85/bbl results in a high price participation payment which is equivalent to an incremental 22.1 percent royalty ( $\$85 - \$31.29 = \$53.71 \times 35\% = \$18.80 / \$85 = 22.1\%$ ), bringing the total government take to 30.1 percent for a field with production less than 5,000 bbl/d.

The high price participation payment does not apply to Petrominerales’ Incremental Production Contracts.

Petrominerales is currently in a dispute with the ANH regarding the interpretation of the high price participation provision contained in the Corcel Exploration Contract. See “*Legal Proceedings*”.

## ***X-Factor***

For certain Exploration Contracts acquired in the 2008 Heavy Oil Bid round and in subsequent bid rounds, the ANH required an additional royalty percentage, or X-Factor, to be paid by the Contractor to the ANH. The X-Factor is also now one of the bid criteria for new Exploration Contracts, and the minimum X-Factor is one percent. The X-factor does not apply to Petrominerales' Incremental Production Contracts.

### ***Summary of Fiscal Terms by ANH Exploration Contract***

Each Exploration Contract with the ANH has a sliding scale royalty of 8%-25% based on the average monthly production level of a field, plus potentially two additional payments that vary by contract, a high price participation payment and an X-factor. The following table summarizes the high price participation factors and X-factors applicable to Petrominerales' Exploration Contracts.

<b>Block</b>	<b>X-factor %</b>	<b>Basis for High Price Participation Payment</b>
<b><u>Colombia</u></b>		
<i>Deep Llanos</i>		
Corcel <sup>(1)</sup>	-%	Exploitation Area + 30% factor
Guatiquia	-%	Exploitation Area + 30% factor
Block 25	1%	Exploitation Area + sliding scale factor
Block 31	1%	Exploitation Area + sliding scale factor
Block 59	1%	Block + sliding scale factor
Block 15	1%	Block + sliding scale factor
<i>Central Llanos</i>		
Mapache	-%	Exploitation Area + 30% factor
Casimena	-%	Exploitation Area + 30% factor
Castor	-%	Exploitation Area + 30% factor
Casanare Este	-%	Exploitation Area + 30% factor
<i>Llanos Heavy Oil</i>		
Chiguiro Este	-%	Exploitation Area + 30% factor
Chiguiro Oeste	-%	Exploitation Area + 30% factor
Rio Ariari	-%	Exploitation Area + 30% factor
<i>Middle Magdalena</i>		
Antorcha	-%	Exploitation Area + 30% factor
<i>Putumayo</i>		
Las Aguilas	-%	Exploitation Area + 30% factor

#### **Notes:**

1. The Corcel Block is subject to an eight percent net profits interest granted to the original owner. This is the only third-party interest that affects the Company's Exploration Contracts. The Corcel NPI is calculated by applying eight percent to net profit, if positive. Net profit is calculated by subtracting from oil sales the following costs: royalties, transportation, operating expenses, an overhead allocation and capital expenditures. The NPI account is a cumulative balance and no amount is payable when the account has a negative balance.

## Peru

Peru, located on the west central coast of South America, is a constitutional republic characterized by a stable market orientated government that possesses a strong commitment to hydrocarbon exploration and production.

PeruPetro is the Peruvian private law state company responsible for promoting the investment of hydrocarbon exploration and exploitation activities in Peru. The country is a net oil importer and, as a result, the regulatory regime in Peru is very competitive compared to other foreign jurisdictions. This competitive regulatory regime, combined with significant blocks of unexplored acreage and relatively high commodity prices, has resulted in a significant increase in Peruvian exploration activity.

Peru offers an attractive royalty structure that guarantees, through legislation, taxation levels throughout the term on an awarded block. Peruvian Law N° 26221, enacted in 1993, comprises the entire hydrocarbon legal framework and eliminated the previous state monopoly on hydrocarbon importation, transportation, refining and distribution.

Peru has a long history of petroleum exploration. The first wells were drilled in Peru in 1875. These wells were located in the Talara Basin; an onshore basin that extends offshore along the north west coast of Peru. The best known basin in Peru is the Marañon Basin, the southern extension of the Oriente Basin of Ecuador and the Putumayo Basin of Colombia, where Petrominerales' Orito Field is located.

The Ucayali Basin is located in east Central Peru. Today, the 140,000 km<sup>2</sup> basin is defined by tectonic elements to the North, the Contaya Arch, and to the South by the Fitzcarrald Arch. The basin is approximately 650 km in length and 250 km in width. The western part of the basin is defined by the sub-Andean thrust and fold belt while the eastern edge of the basin is constrained by the Brazilian Shield. The basin contains in excess of 5,000 metres of sedimentation ranging in age from the Paleozoic to the Tertiary and Quaternary. The Ucayali Basin has experienced several episodes of extension and rifting that has affected the sedimentary history, resulting in the basin having a similar tectonic history to the Western Canadian Sedimentary Basin. Prospectivity is found from a variety of play types, multiple reservoirs and the presence of several source rocks within a sedimentary column of up to 16,000 feet.

General activity by third parties in Peru includes fifty wells drilled in the Ucayali Basin and 13,400 km of seismic data acquired. Three oilfields have been discovered, the Agua Caliente (1938), the Maquia (1958) and the Pacay (1958). In 1984, the first of the five gas/condensate fields which form part of the Camisea complex were discovered. These fields are the San Martín (1984), the Cashiriari (1996), the Pagorene (1998), the Mipaya (1987) and the Aguaytia (1961).

### ***Peru - Hydrocarbon Law & License Contracts***

Law N° 26221, enacted in 1993, comprises the entire hydrocarbon legal framework and eliminated the previous government monopoly on hydrocarbon importation, transportation, refining and distribution. The Country has adopted a system of competitive bidding rounds, whereby PeruPetro allows any company that meets specified criteria to submit a bid for a block of land. The bidding criteria changes with each bid round. For more information on PeruPetro and the Peruvian contracting terms see [www.perupetro.com.pe](http://www.perupetro.com.pe).

In order for private entities to conduct hydrocarbon exploration and/or exploitation activities, such parties must first enter into a Hydrocarbons Agreement with PeruPetro. According to the Hydrocarbons Law, there are two main types of Hydrocarbons Agreements, as follows:

1. ***License Agreements:*** Contractor exploits and sells the hydrocarbons and pays Perupetro a royalty.

2. **Service Agreements:** Contractor exploits the hydrocarbons but PeruPetro sells the product and pays the contractor a compensation to be calculated on the basis of the hydrocarbons produced.

#### Requirements for Executing Hydrocarbon Agreements

##### 1. Qualification as a Hydrocarbon Contractor Company

Any company wishing to enter into a Hydrocarbon Agreement with PeruPetro must meet certain qualifications including technical, economical, legal and financial requirements. Qualified foreign companies must either incorporate in Peru or establish a Peruvian branch. Upon qualification by PeruPetro, the qualified company must then be registered on the Hydrocarbons Contractors Registry, administered by the Peruvian Public Records Office.

##### 2. Approval of a Hydrocarbons Agreement

PeruPetro is entitled to negotiate and execute Hydrocarbons Agreements and assume the rights and obligations arising out of said agreements. Hydrocarbons Agreements may be executed, at PeruPetro's decision, by direct negotiation with the interested party or by means of a public bidding process. License Agreements must be approved by the Peruvian State by means of a Supreme Decree and the Ministers of Energy and Mines and of Economy and Finance. Once executed, License Agreements (and any amendments to such) must be formalized by means of a public deed and recorded before the Public Records Office.

Petrominerales License Contracts have terms that consist of two phases:

- (i) **Initial Exploration Phase.** The initial exploration phase lasts seven years; however, the Contractor may request an extension for up to three additional years provided that it has fully complied with the minimum work programs for the four exploration phases. The exploration phase of a License Contract is divided into four phases, and each phase has minimum work program that is defined in Exploration Work Units (EWU). Each EWU is assigned a value of \$5,000, and exploration activities are assigned EWU values, as follows:

2D seismic	1 EWU per km
3D Seismic	3 EWU per km <sup>2</sup>
2D reprocessing	0.02 EWU per km
Well 0 – 1000 metres	0.01 EWU per metre
Well 1001 – 2000 metres	0.13 EWU per metre
Well 2001 – 3000 metres	0.18 EWU per metre
Well 3001 – 4000 metres	0.22 EWU per metre
Well > 4001 metres	0.25 EWU per metre

- (ii) **Exploitation Phase.** Upon a declared discovery, and at the Contractor's request, the exploitation phase commences with a 30 year term (40 years for natural gas), extendable under certain circumstances. All discoveries are reported to Perupetro.

The benefit of this system is that it permits flexibility for the exploration company to change its program without having to seek regulatory approval. If a discovery is made but it is non-commercial only for reasons of transportation, the Contractor may request a retention period of up to five years (ten years for natural gas) in order to make transportation feasible. At the end of the exploration phase, the Contractor must declare commerciality or return the block.

## Peru - Royalties

Peru's older contracts, including Petrominerales' Blocks 126 and 115, are under a sliding scale royalty framework that starts at 5% for production less than 5,000 bbl/d and increases in a linear fashion to 20% for production greater than 100,000 bbl/d. For some contracts awarded between 2007 and 2009, including Petrominerales' Blocks 131, 161 and 141, there are incremental royalties on top of the sliding scale royalty framework. For contracts awarded subsequent to 2009, an economic bid was required for the additional royalty. As part of the bid round, companies bid an additional royalty rate on top of the prescribed sliding scale royalty rate. In addition, the sliding scale changed to be based on an R Factor (cumulative revenue / cumulative costs) whereby the royalty rate starts at 15% (R Factor less than 1.0x) and increases to 35% (R Factor greater than 2.0x). Petrominerales does not have a working interest in any contacts awarded subsequent to 2009.

Certain License Contracts include an alternative economic results royalty method that can be elected by the operator after it declares a commercial discovery. Once the royalty scheme is selected for a License Contract, it cannot be changed. When the operator elects to have royalties based on the economic results methodology, the royalty payable consists of a percent fixed royalty plus a variable profits interest calculated using income and expenditures in a manner shown below, with a total maximum royalty of 20 percent:

$$\text{Royalty Rate \%} = \text{Fixed Rate \%} + \text{Variable Rate \% (VR)}$$

Where:

$$\text{VR} = \frac{\text{Revenue} - \text{Expenses}}{\text{Revenue}} \times \frac{1}{1 - (\text{Revenue}/\text{Expenses} - 1.15)} \times 100$$

- Revenue is the revenues in the annual period immediately preceding the time at which the calculation of the Variable Rate is made.
- Expenses are the expenses in the annual period immediately preceding the time at which the calculation of the Variable Rate is made.

### Summary of Fiscal Terms for Petrominerales License Contracts

When the operator elects to have royalties based on production levels, the following sliding scale illustrates the applicable royalty rate for all Petrominerales License Contracts:

Field Production (bbl/d)	Royalty %				
	Block 126	Block 114	Block 131	Block 161	Block 141
0 – 5,000	5	5	23.48	37	23.48
5,001– 100,000	5 - 20	5 - 20	23.48 - 38.48	37 - 52	23.48 - 38.48
> 100,000	20	20	38.48	52	38.48

When the operator elects to have royalties based on economic results, the following fixed royalty rate will be added to the variable royalty percentage for all Petrominerales Blocks:

	Royalty %				
	Block 126	Block 114	Block 131	Block 161	Block 141
Fixed Base	5	5	23.48	37	23.48

## *Peru - Taxes*

The statutory tax rate applicable to corporate income is 30 percent, and tax losses can be carried forward for four years. The Peruvian government, through the Ministry of Economy and Finance, guarantees the benefit of tax stability for the operations carried out under a License Contract.

## **PRINCIPAL PROPERTIES**

### **ANH Contracts - Colombia**

#### **Deep Llanos Basin**

<b>Block</b>	<b>Area (gross acres)</b>	<b>Working Interest (%)</b>	<b>Contract Effective Date</b>	<b>Current Phase Number</b>	<b>Current Phase Expiry Date</b>	<b>Current Commitments</b>
Corcel	79,815	100%	02-Jun-05	6	1-Jun-11	One exploratory well (done)
Guatiquia	26,349	100%	28-Aug-07	4	27-Aug-11	One exploratory well (done)
Block 25	169,805	100%	16-Feb-09	1	24-Aug-12	138 km 2D seismic + 55 km <sup>2</sup> 3D seismic + one exploratory well
Block 31	163,903	100%	16-Feb-09	1	15-Feb-12	148 km 2D seismic (done) + Two exploratory wells
Block 59	131,289	100%	15-Mar-11	1	(1)	303 km <sup>2</sup> 3D seismic + four exploratory wells
Block 15	63,114	100%	15-Mar-11	1	(1)	101 km <sup>2</sup> 3D seismic + two exploratory wells
	<u>634,275</u>					

#### **Notes:**

1. Duration of the phase depends on the certification of the communities.
2. Corresponds to the Phase 1 commitment. Phase 0 corresponds to the certification of the communities.

#### ***Corcel (79,815 acres)***

The Corcel block is located in the Llanos Basin and is governed by an ANH contract that was signed on June 2, 2005. The contract is currently in its sixth exploration phase.

In 2006, Petrominerales acquired 47 km<sup>2</sup> of 3D seismic over the southwest part of Corcel, representing approximately 15 percent of the blocks' acreage. From this initial 3D seismic, the first discovery well, Corcel A1, was drilled in July 2007. Subsequently, the Company has acquired 3D seismic over the remainder of the block and drilling activity has resulted in seven discoveries/exploitation areas from drilling a total of 19 exploration and development wells. To handle and process the production, Petrominerales has built a central processing facility on the block.

Cumulative production on the block to December 31, 2010 was 12.6 million barrels of oil and averaged 15,537 bbl/d in 2009 and 9,198 bbl/d in 2010. Cumulative production by exploitation area to December 31, 2010 was 4.8 million barrels for Corcel A, 3.9 million barrels for Corcel C, 2.3 million barrels for Corcel D, 0.7 million barrels for Boa, 0.7 million barrels for Corcel E, and 0.2 million barrels for Caruto. Independent reserve engineers assigned 9.6 million barrels of remaining proved plus probable reserves at Corcel as at December 31, 2010.

The Company believes there is significant hydrocarbon prospectivity remaining on the block. The Company has over 25 exploration prospects in its prospect inventory and plans to have two drilling rigs operating on the Corcel and Guatiquia blocks in 2011.

While the ultimate potential of the block will be defined through long-term testing and additional drilling, Corcel is a significant discovery that has extended the oil horizon of the Deep Llanos Basin.

The Corcel Block is subject to an eight percent net profits interest granted to the original owner. This is the only third-party interest that affects Petrominerales' exploration and production blocks. The Corcel NPI is calculated by applying eight percent to net profit, if positive. Net profit is calculated by subtracting from oil sales the following costs: royalties, transportation, operating expenses, an overhead allocation and capital expenditures. The NPI account is a cumulative balance and no amount is payable when the account has a negative balance.

### ***Guatiquia (26,349 acres)***

The Guatiquia block is located in the Llanos Basin and is contiguous with the southwest corner of the Corcel Block. The block is governed by an ANH contract that was signed on August 28, 2007 and is currently in its fourth exploration phase.

In 2008, the Company completed a 40 km<sup>2</sup> 3D seismic program over the block, immediately southwest and adjacent to the Corcel discovery. Two exploration wells were drilled on the block in 2009. The first well, Percheron-1, discovered heavy oil in the upper portion of the Lower Sand 1 formation. The second well, Candelilla-1, made a significant discovery of light oil in the Lower Sand 3 formation.

Candelilla-1 was placed on production at the start of 2010 and Petrominerales re-aligned its drilling program to drill three follow-up wells on its Candelilla discovery. The Candelilla discovery provided a step-change increase in 2010 Company production that averaged 19,901 bbl/d. In addition, Petrominerales made another discovery, Yatay-1, at the end of 2010. As at December 31, 2010, cumulative production on the block was 7.3 million barrels and independent reserve engineers had assigned 18.9 million barrels of remaining proved plus probable reserves at Guatiquia.

In 2010, the Company acquired additional seismic over the entire Guatiquia block. The initial plan for the Guatiquia block in 2011 is to drill one exploration well, Azalea, and complete the interpretation of the new seismic data.

### ***Block 25 (169,805 acres)***

Block 25 is located in the Llanos Basin and is immediately southwest of and on trend with the Cusiana-Cupiagua field that has produced over one billion barrels of oil to-date. The block is governed by an ANH contract that was signed on February 16, 2009 and is currently in its first of two exploration phases.

In 2011, Petrominerales is planning to begin a two-well exploration drilling program on Block 25. These wells are significant as they will be the deepest wells drilled in Colombia by Petrominerales and are targeting large hydrocarbon accumulations.

### ***Block 31 (163,903 acres)***

Block 31 is located in the Llanos Basin and is immediately south of Block 25 and immediately north of and adjacent to our Corcel Block. The block is governed by an ANH contract that was signed on February 16, 2009, and is currently in its first of two exploration phases.

Petrominerales acquired 144 km<sup>2</sup> of 3D seismic on Block 31 in 2010, satisfying the seismic commitment for the block. Based on seismic interpretation, the Company has identified a number of exploration prospects and

plans to drill its first exploration wells on the block in 2011. In addition, a 239 km<sup>2</sup> 3D seismic acquisition program is planned for 2011.

***Block 59 (131,289 acres)***

Block 59 is located in the Llanos Basin and is north of the Apiay and Castilla oil fields. The Block is governed by an ANH contract that was signed on March 15, 2011, and is currently in phase zero of three exploration phases.

First phase work commitments include spending \$24.2 million over three years to acquire at least 303 km<sup>2</sup> of 3D seismic and drilling four exploration wells. The Block has over 500 km of existing 2D seismic from which several leads have already been identified. The Company is currently planning a 340 km<sup>2</sup> seismic project on the block which is expected to commence in the second half of 2011.

***Block 15 (63,114 acres)***

Block 15 is located in the Llanos Basin and is northeast of the Cusiana-Cupiagua oil fields. The block is governed by an ANH contract that was signed on March 15, 2011, and is currently in phase zero of three exploration phases.

First phase work commitments include spending \$10.0 million over three years to acquire at least 101 km<sup>2</sup> of 3D seismic and drilling two exploration wells. In 2011, the Company plans to reprocess existing seismic on the block and plan the seismic acquisition program, which is expect to begin in 2012.

**Central Llanos Basin**

<b>Block</b>	<b>Area (gross acres)</b>	<b>Working Interest (%)</b>	<b>Contract Effective Date</b>	<b>Current Phase Number</b>	<b>Current Phase Expiry Date</b>	<b>Current Commitments</b>
Mapache	107,861	100%	31-Aug-06	4	29-Jun-11	One exploratory well
Casimena	107,704	100%	03-Nov-05	6	02-Nov-11	One exploratory well (done)
Castor	108,741	100%	14-Nov-06	4	13-Jun-11	Acquire & process 120km <sup>2</sup> 3D seismic
Casanare Este	78,815	100%	02-Jun-05	6	01-Jun-11	Acquire & process 100km <sup>2</sup> 3D seismic
	<b><u>403,121</u></b>					

***Mapache (107,861 acres)***

The Mapache Block is located in the Llanos Basin. The block is governed by an ANH contract that was signed on August 31, 2006, and is currently in its fourth exploration phase.

Petrominerales has drilled four exploration wells and has acquired 133 km<sup>2</sup> of 3D seismic on the block. Three oil discoveries were made, Mapache-1 and Mirasol-1 in the first quarter of 2009, and Manzanillo-1 in the first quarter of 2010. Cumulative production on the block was 0.6 million barrels to December 31, 2010.

In 2011, the Company plans to drill one well, Disa-1, and acquire an additional 154 km<sup>2</sup> of 3D seismic.

### ***Casimena (107,704 acres)***

The Casimena Block is located in the Llanos Basin. The block is governed by an ANH contract that was signed on November 3, 2005, and is currently in its sixth exploration phase.

Petrominerales has drilled four exploration wells and has acquired 235 km<sup>2</sup> of 3D seismic on the block. The first exploration well was dry and abandoned. The second exploration well made the Yenac discovery in April 2010. Yenac-2 was the third well drilled and was placed on production in December 2010 at a rate of 2,900 bbls/d. The fourth well, Mantis-1 well was drilled in the fourth quarter of 2010 and was placed on production in January 2011 at a rate of 1,800 bbl/d.

In 2011, the Company plans to further delineate the Yenac and Mantis discoveries with additional appraisal drilling.

### ***Castor (108,741 acres)***

The Castor Block is located near a number of producing oil fields in the Llanos Basin and directly north of Casanare Este. The block is governed by an ANH contract that was signed on November 14, 2006, and is currently in its fourth exploration phase.

Petrominerales has drilled two exploration wells and has acquired 150 km<sup>2</sup> of 3D seismic on the Block. The first exploration well was dry and abandoned. The second well was our Capybara discovery in 2010 that tested oil at a rate of 650 bbl/d. The Company has reinterpreted our existing 3D seismic dataset incorporating the Capybara-1 well results. Based on this reinterpretation, a second Capybara well up-dip from the Capybara-1 discovery is planned. As at December 31, 2010, independent reserve engineers assigned 2.8 million proved plus probable barrels of oil to this discovery.

In 2011, the Company plans to drill Capybara-2 and acquire an additional 154 km<sup>2</sup> of 3D seismic.

### ***Casanare Este Block (78,815 acres)***

The Casanare Este Block is located near a number of producing oil fields in the Llanos Basin and directly south of Castor. The block is governed by an ANH contract that was signed on June 2, 2005, and is currently in its sixth exploration phase.

Petrominerales has drilled three exploration wells and has acquired 129 km<sup>2</sup> of 3D seismic on the block. In 2011, the Company plans to acquire an additional 116 km<sup>2</sup> of 3D seismic to better assess prospects in the area.

### **Llanos Basin Heavy Oil Blocks**

<b>Block</b>	<b>Area (gross acres)</b>	<b>Working Interest (%)</b>	<b>Contract Effective Date</b>	<b>Current Phase Number</b>	<b>Current Phase Expiry Date</b>	<b>Current Commitments</b>
Chiguiro Este	178,272	100%	14-Jun-07	3&4	11-Jun-11	Acquire & process 80km <sup>2</sup> 3D seismic & one exploratory well
Chiguiro Oeste	125,952	100%	20-Apr-07	4	19-Oct-11	Acquire & process 59km <sup>2</sup> 3D seismic
Rio Ariari	514,426	100%	20-Apr-07	3&4	19-Oct-11	Four exploratory wells (done)
	<b>818,650</b>					

***Rio Ariari (524,426 acres), Chiguiro Oeste (125,952 acres) and Chiguiro Este (178,272 acres)***

Collectively Petrominerales has 818,650 acres over three blocks in the heavy oil region of the Llanos Basin. Each of the blocks are governed by an ANH contract signed in 2007, and each block is currently in its fourth exploration phase.

Petrominerales has acquired 576 km of 2D seismic data and, 112 km<sup>2</sup> of 3D seismic data and has drilled eight exploration wells, on the blocks.

Of the exploration wells drilled, four have been successful oil wells or have recovered heavy crude during testing operations: Rio Ariari-1, Mochelo 1, Avellana-1, and Asarina-1. Test results are pending for the Borugo and Anturio wells. The Company plans to drill seven additional wells during 2011. Two of these seven wells may be horizontal wells drilled from existing pads. On the Rio Ariari block, an additional 368 km<sup>2</sup> of 3D seismic is planned during 2011 to help delineate the existing discoveries. The objective of the 2011 heavy oil exploration program is to further identify and quantify the resource potential and formulate a commercial development plan.

The Company has recently completed the acquisition of 85 km<sup>2</sup> of 3D seismic on the Chiguiro Este block and may acquire up to 134 km<sup>2</sup> of 3D seismic on the Chiguiro Oeste block. On Chiguiro Este, the Company is planning to drill one exploration well in 2011.

**Middle Magdalena Basin**

<b>Block</b>	<b>Area (gross acres)</b>	<b>Working Interest (%)</b>	<b>Contract Effective Date</b>	<b>Current Phase Number</b>	<b>Current Phase Expiry Date</b>	<b>Current Commitments</b>
Antorcha	87,383	100%	30-Nov-07	3	14-Aug-11	One exploratory well

**Antorcha**

The Antorcha Block is located near a number of producing oil fields and oil infrastructure in the Middle Magdalena Basin. The block is governed by an ANH contract that was signed on November 30, 2007, and is currently in its third exploration phase.

Petrominerales acquired the Antorcha Block through its acquisition of PanAndean in 2010. The Company drilled one exploration well on the block in 2010 which was abandoned without testing. In 2011, the Company's plans for the Block may include drilling another well, completing a 2D seismic program, or drilling two stratigraphic wells.

**Putumayo Basin**

<b>Block</b>	<b>Area (gross acres)</b>	<b>Working Interest (%)</b>	<b>Contract Effective Date</b>	<b>Current Phase Number</b>	<b>Current Phase Expiry Date</b>	<b>Current Commitments</b>
Las Aguilas	32,215	100%	21-Oct-05	3&4	10-Nov-11	Two exploratory wells + 8 km <sup>2</sup> 3D seismic

### ***Las Aguilas (32,215 acres)***

The Las Aguilas Block is located in the Putumayo Basin to the west and south of Orito, the largest oil field in the Putumayo Basin. The block is governed by an ANH contract that was signed on October 21, 2005, and is currently in its fourth exploration phase.

Petrominerales has drilled one exploration well and has acquired 19 km<sup>2</sup> of 3D seismic on the block. In 2008, the Conga-1 exploration well tested fluctuating flow rates of oil from the Caballos formation through a jet pump completion. In November 2008, a heavy workover rig was mobilized to recommence testing operations, however on November 20, 2008 a general strike in the Putumayo forced the Company to suspend activities at this location. Further exploration activities in 2009 and 2010 were suspended.

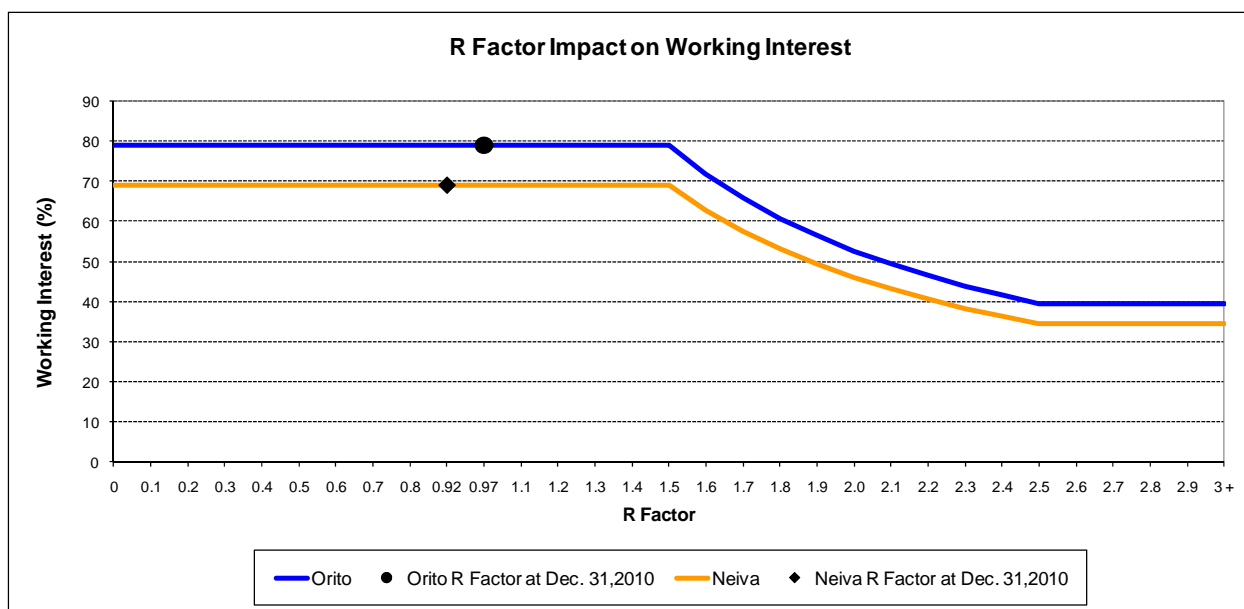
In 2011, the Company plans to complete a two well exploration program, including one well targeting a location up-dip from the Conga-1 discovery.

### **Incremental Production Contracts (IPCs)**

Petrominerales is the owner of interests in, and is engaged in the exploration for and development and production of oil from, two IPCs granted by Ecopetrol. The IPC's are in two fields in southwestern Colombia: Orito is in southern Colombia's Putumayo Basin and Neiva is in the Upper Magdalena Valley Basin. Each block is governed by a separate IPC with Ecopetrol. Each IPC covers a specific period, expiring in June 2023, and required certain expenditures in the early years of the contract in order to advance to subsequent development phases. Petrominerales' earlier activities focused on fulfilling initial work commitments required by these IPC's, which gives Petrominerales the right to carry out development activities on the blocks and share in incremental production generated above a pre-defined declining baseline.

Working interest production is subject to an eight percent royalty paid to the government. The Company's initial participation levels at Orito and Neiva are 79 percent and 69 percent, respectively. These participation levels decline on a contract by contract basis once the ratio of cumulative total revenues to total costs ("R Factor") exceeds 1.5 times. At R Factors above 2.5 times, the participation levels at Orito and Neiva are fixed at 39.5 percent and 34.5 percent, respectively, as indicated in the following table:

<b>R Factor</b>	<b>Orito</b>	<b>Neiva</b>
1.5 to 2.5	79%/(R-0.5)	69%/(R-0.5)
2.5 or more	39.5%	34.5%



The cumulative revenues, costs and R Factors as at December 31, 2010 for each of the Company’s IPC’s were as follows:

	Orito	Neiva
Cumulative revenue (US\$MM)	351.7	163.2
Cumulative costs (US\$MM)	362.8	178.3
R Factor	0.97	0.92

Cumulative revenues include Company interest oil sales made from the block before the deduction of royalties. Cumulative costs include royalty expense, transportation expenses, operating expenses and capital costs.

### ***Orito Field***

The Orito field, the largest in southern Colombia’s Putumayo Basin, has extensive field infrastructure, good seismic control and connection to an under-utilized export pipeline with deep water loading facilities, enabling fiscalization of incremental oil production. Pursuant to the IPC, Petrominerales gains access to all existing infrastructure and data, while Ecopetrol participates in any incremental upside Petrominerales generates over the life of the contract, which terminates in June 2023. The Orito IPC covers 42,492 gross acres.

The Caballos formation is a reservoir containing four major sand packages and is interpreted to have a strongly tilted oil-water contact that varies from a depth of 5,200 feet sub-sea in the northern part of the field to 6,200 feet sub-sea in the south. This aquifer provides pressure support to the Caballos reservoir as evidenced by relatively unchanged pressures since 1980. In addition, the Caballos reservoir fluid is compositionally graded, ranging at original conditions from a conventional black 29 degree API oil at structurally low positions, increasing to approximately 45 degree API oil with decreasing depth, and culminating in a gas-condensate region at the very top of the reservoir. The complex fluid combined with the tilted contact and structural nature of the reservoir results in a system that has several drive processes occurring simultaneously. “Combination drive” reservoirs (water drive, solution gas drive, and gas cap expansion) tend to exhibit high recovery efficiencies. Cumulative total production from the Caballos zone of approximately 193 MMbbl is considerably below average for a field of this type. To enhance current

production, Petrominerales is employing a combination of late-stage primary recovery techniques, such as drilling in-fill wells, changing from gas lift to electric submersible pumps, and re-completing wells to enhance oil inflow.

As at December 31, 2010, the Orito field had produced just over 234 MMbbl, including approximately 193 MMbbl from the Caballos zone, the most significant of three reservoirs at Orito. The majority of the Company's expenditures to date have targeted the Caballos zone. The Company also plans to complete testing the Villeta formation found in the Conga-1 exploration well drilled on the neighboring Las Aguilas Block, and has initiated a pilot water flood in the shallower Pepino zone. Petrominerales' management believes that the Orito field offers numerous opportunities to create value through in-fill drilling, field extension, facilities upgrades, secondary recovery and other enhancement techniques proven in Canada and elsewhere.

In 2010, gross field production at Orito averaged 5,798 bbl/d and baseline production averaged 2,222 bbl/d, resulting in average incremental production of 3,576 bbl/d (2,825 bbl/d working interest to the Company before deduction of an eight percent royalty). The baseline production forecast is:

<b>Year</b>	<b>(bbl/d)</b>
2011	2,119
2012	2,022
2013	1,934
2014	1,855
2015	1,781
2016	1,713
2017	1,649
2018	1,590
2019	1,535
2020	1,483
2021	1,432
2022	1,385
2023	562

The Orito field is operated by Ecopetrol and at December 31, 2010, there were 62 wells in production. Petrominerales has drilled 27 wells at Orito to date.

### ***Neiva Field***

The Neiva Field in the Upper Magdalena Basin lies approximately 300 kilometres northeast of Orito. Neiva has shallow multi-zone reservoirs facilitating low-risk exploitation drilling. Neiva's reservoir consists of sand-shale sequences totalling up to 1,500 feet of gross pay in the Honda and Doima/Chicoral zones.

Petrominerales holds 2,395 gross acres (1,653 net acres) of land at Neiva under an IPC that expires in June 2023. The Neiva field is operated by Ecopetrol and at December 31, 2010, there were 106 wells in production. To the end of 2010, Petrominerales had drilled 59 wells at Neiva.

In 2010, average daily production in the Neiva field was 6,807 bbl/d and baseline production averaged 1,833 bbl/d, resulting in average incremental production of 4,974 bbl/d (3,432 bbl/d working interest to the Company before deduction of an eight percent royalty). The baseline production forecast is:

Year	(bbl/d)
2011	1,723
2012	1,621
2013	1,524
2014	1,433
2015	1,348
2016	1,267
2017	1,192
2018	1,121
2019	1,054
2020	991
2021	932
2022	876
2023	348

### **Exploration Blocks – Peru**

Block	Area (gross acres)	Working Interest (%)	Effective Date	Current Phase Number	Current Phase Expiry Date	Current Commitments
<i>Ucayali Basin</i>						
Block 126 <sup>(3)</sup>	2,636,506	80%	20-Dec-07	3	21-Dec-12	One exploratory well or 250 EWU
Block 114 <sup>(4)</sup>	1,904,510	30%	06-Sep-06	3	03-Jan-13	One exploratory well
Block 131 <sup>(4)</sup>	2,447,510	30%	19-Jan-08	2	16-Aug-11	Acquire, process & interpret 300km of 2D seismic
Block 161	<u>1,215,225</u>	80%	15-Jun-09	2	02-Mar-12	Acquire, process & interpret 376km of 2D seismic
	<b>8,203,751</b>					
<i>Titicaca Basin</i>						
Block 141	<u>1,277,268</u>	80%	19-Jan-08	2	02-May-11	Acquire, process & interpret 300km of 2D seismic
<b>Peru - Total Acreage</b>	<b><u>9,481,019</u></b>					

#### ***Block 126 (2.6 million acres)***

Petrominerales is the operator and has an 80% working interest in Block 126 in the Ucayali Basin. The block is governed by a License Contract with PeruPetro.

Petrominerales, together with its joint venture partner, has acquired 150 km<sup>2</sup> of 3D seismic and 50 km of 2D seismic on the block. In 2011, the Company is planning to commence an up to three well exploration program. Currently, the Company is working on the construction of logistics bases and facilities needed as part of the drilling program.

***Block 114 (1.9 million acres)***

Petrominerales has a 30% working interest in Block 114 in the Ucayali Basin. The block is governed by a License Contract with PeruPetro and is in the second exploration phase which includes 150 exploration work units. The operator of the block has initiated a program to obtain over 260 km of 2D seismic during 2011.

The operator of the block is obligated to pay Petrominerales' proportion of the costs for the current seismic phase, the first exploratory well, and half of the costs associated with the drilling the second exploratory well.

***Block 131 (2.4 million acres)***

Petrominerales has a 30% interest in Block 131, located in the Ucayali basin. The block is governed by a License Contract with PeruPetro and is currently in the second exploration phase. This phase includes 300 exploration work units.

The operator of the Block is planning 304 kilometres of 2D seismic in 2011. The operator of the Block is obligated to pay Petrominerales' proportion of the costs for the current seismic phase, the first exploratory well, and half of the costs associated with the drilling the second exploratory well.

***Block 161 (1.2 million acres)***

The Company has an 80% interest in Block 161, located in the Ucayali basin. The block is governed by a License Contract with PeruPetro and is currently in the second exploration phase. This phase includes 376 exploration work units. The Company is planning the following work program: (i) acquire 350 km of 2D seismic (ii) prepare a geology and geophysics report that incorporates all existing information by March 2013 and (iii) complete a corresponding environmental impact study.

***Block 141 (1.3 million acres)***

The Company has an 80% interest in Block 141, located in the Titicaca basin. The block is governed by a License Contract with PeruPetro and is currently in the second exploration phase. This phase includes 150 exploration work units. The Company is planning the following work program: (i) acquire 300 km of 2D seismic (ii) prepare a geology and geophysics report that incorporates all existing information by March 2012 and (iii) complete a corresponding environmental impact study.

## GENERAL

### Taxes

The Company's pre-tax income from Colombian sources, as defined under Colombian law, is subject to Colombian income taxes at a statutory rate of 33 percent. The Company's Colombian entities are also subject to a one-time equity tax equal to 6.8 percent of January 1, 2011 equity levels. This tax will be payable in eight equal instalments from 2011 to 2014. A "presumptive" minimum income tax exists which may apply in years with little or no income. When applicable, presumptive income tax is calculated as 33 percent of three percent of prior year net equity. The excess may be carried forward as a credit for five years and recovered against future cash taxes otherwise payable. Tax losses may be carried forward without limitations to offset taxable income.

Costs incurred prior to December 31, 2010 related to the acquisition or construction of fixed assets were subject to a special tax deduction in the year of acquisition. The additional deduction rate was equal to 40 percent if the costs were incurred prior to December 31, 2009 and 30 percent if incurred in 2010. The 30% special deduction was eliminated as of January 1, 2011. However, companies that had applied to the Colombian government for legal stability agreements before November 1, 2010, including Petrominerales, may obtain the benefit for up to three years once the legal stability agreement is approved. These enhanced tax allowances may reduce taxes payable in future periods.

As at December 31, 2010, the Company had tax balances in Colombia totalling \$718 million, including loss carry-forwards of \$1.9 million.

### Insurance

The Company maintains insurance in an amount that it considers adequate and consistent with industry practice and its operations. See the additional disclosure contained under the heading "*Risk Factors - Security*".

### Employees

As at December 31, 2010, Petrominerales and its subsidiaries, collectively, had 261 employees.

### Specialized Skill and Knowledge

The Company believes its success is largely dependent on the performance of its management and key employees, many of whom have specialized knowledge and skills relating to oil and gas operations. The Company believes that it has adequate personnel with the specialized skills required to successfully carry out its operations.

### Marketing

The Company's crude oil production is sold, as determined by market based prices adjusted for quality differentials, to 6 counterparties. In 2009, the Company sold 36% of its production to Ecopetrol (2009 – 77%), 23% to BP (2009 – 0%) and 41% to the remaining four counterparties.

#### *Sales Contracts – Llanos Basin*

Petrominerales enters into sales contracts with various oil purchasers whereby the Company trucks sales oil to delivery stations specified in each sales contract. Prices received by Petrominerales under the sales contracts are generally based on the average WTI price for the month of delivery adjusted for a quality differential,

marketing fees and pipeline transportation costs. The quality differential is generally based on either the average Caño Limon discount (premium) relative to WTI (for higher API crude oil) or the average Vasconia Blend discount (premium) to WTI (for medium API crude oil). Marketing fees are a fixed cost per barrel, and pipeline transportation costs vary depending on which offloading station the oil is delivered to.

In 2010, the Company trucked its Llanos Basin oil to several delivery points at an average cost of \$7.51/bbl and realized an average price of \$73.08/bbl.

#### *Sales Contracts – Orito and Neiva*

The Company's Orito oil production is sold at the wellhead pursuant to a sales contract with Ecopetrol. Under the terms of this contract the price received for each barrel of oil sold is calculated based on the average WTI price in the month of production less the average differential of the Colombian South Blend (port of Tumaco) relative to WTI month +1, adjusted for quality differences, less pipeline transportation and marketing fees. Orito's realized price was \$72.64 in 2010.

The Company's Neiva oil production is sold at the wellhead through a sales contract with a third party, whereby the price received is based on the actual export price of the buyer which usually is negotiated on the basis of WTI adjusted for a Vasconia Blend discount or premium, quality differences and less pipeline transportation and marketing fees. Neiva's realized oil price was \$73.83/bbl in 2010.

#### *Oil Prices and Differentials*

The following table illustrates the average differential compared to WTI for certain Colombian crude oils.

<b>Average Monthly WTI Price and (Discount) Premium US\$/bbl</b>						
<b>Month – 2010</b>	<b>WTI ~39 API</b>	<b>South Blend ~30 API</b>	<b>Vasconia ~25 API</b>	<b>Cusiana ~43 API</b>	<b>Castilla ~19 API</b>	<b>Caño Limon ~30 API</b>
January	78.40	(2.52)	(3.03)	(0.51)	(7.86)	(1.95)
February	76.45	(1.64)	(3.55)	(0.84)	(8.20)	(1.18)
March	81.29	(1.99)	(5.95)	(1.12)	(9.36)	(1.72)
April	84.58	(6.40)	(5.50)	(0.59)	(10.61)	(1.52)
May	74.12	(6.18)	(2.51)	0.27	(11.18)	(0.20)
June	75.40	(3.17)	(2.15)	(0.27)	(10.09)	(0.45)
July	76.38	(2.03)	(2.86)	(0.50)	(8.65)	(1.01)
August	76.67	(1.92)	(2.85)	(0.44)	(8.46)	(1.36)
September	75.55	(2.20)	(1.68)	1.26	(8.52)	(0.95)
October	81.97	(1.93)	(1.31)	1.90	(8.79)	(0.63)
November	84.31	(1.39)	(1.94)	1.26	(8.40)	(1.29)
December	89.23	(2.95)	(1.36)	1.55	(8.94)	(0.84)
2010 Average	79.53	(2.86)	(2.89)	0.16	(9.09)	(1.09)
<b>Month – 2011</b>						
January	89.58	1.85	0.30	2.87	(6.95)	0.80
February	89.74	2.01	6.42	10.16	(2.52)	7.00

#### *Pipeline and Oil Offloading Investments*

Access to offloading stations and pipelines is important for growing production in the Llanos Basin.

On November 11, 2010, Petrominerales agreed to invest \$99.5 million for a 9.65% shareholding stake in the Oleoducto Bicentenario de Colombia (“OBC”). The objective of the OBC project is to build and operate a private-use oil pipeline between Casanare and Covenas that will be 960 kilometres long and have a final capacity of 450,000 barrels of oil per day. The pipeline will be the largest of its kind in Colombia and developed in three phases. The first phase, which will join the Araguaney station in Casanare with Banadia in Arauca, will have an estimated cost of US\$1.031 billion (net \$99.5 million to Petrominerales) and is expected to be completed in by the end of 2011. Once technical and financial studies for subsequent phases are complete, the Company will have an option to participate in phases two and three to maintain its proportionate ownership. The current estimated cost of phases two and three is US\$3.1 billion, and all phases are expected to be finalized by December 2012.

In November 2008, the Company entered into an agreement to construct an offloading facility adjacent to the Corcel Block in exchange for preferential rights to deliver up to an initial 20,000 barrels of oil per day to the facility. The term of the agreement is 15 years, over which Petrominerales’ rights to deliver oil will decrease in stages, ultimately to 10,000 barrels of oil per day, at the earlier of 2020(ten years from commencement of facility operations) or once 29.4 million barrels of oil have been delivered to the facility, as illustrated in the table below.

**Petrominerales’ Oil Delivery Limits at Monterrey**

<u>Year</u>	<u>bbl/d</u>
1 (2010)	20,000*
2	18,000
3	14,857
4	14,857
5	14,857
6	10,000
Thereafter	10,000

During the earlier of 10 years from commencement of facility operations or once the 29.4 million barrel limit is reached, a tariff to cover operation and maintenance costs of the offloading facility will be charged to Petrominerales as well a reduced tariff of \$0.34 per barrel for pipeline use from the injection point to the El Porvenir Station. After the threshold delivery level has been reached, Petrominerales will be charged a tariff equivalent of 75 percent of the then current market rates charged to third parties to use the pipeline and the offloading facility at Monterrey.

\*The first year of deliveries commenced in April 2010. Due to general pipeline capacity constraints experienced in the Llanos Basin in 2010, Petrominerales delivered an average of 11,815 bopd in 2010.

**Regulatory Framework**

The environmental regulatory framework in Colombia, including occupational health, industrial safety, environmental protection and social responsibility, which governs the oil and gas industry is divided into two parts; planning and compliance.

***Planning***

The Colombian Ministry of Environment, Housing and Development requires that environmental impact assessments (“EIA”) and environmental management plans (“EMP”) be submitted as the principal planning tools for all new projects, ensuring local and specific environmental and social variables are included in

project planning. Exploratory drilling projects require the submission of an EIA and EMP at least six months prior to beginning project activities. Following approval, the Ministry of the Environment awards an environmental license. When a discovery is made, the environmental license typically allows for a maximum one year of production testing, while the company prepares a new EIA and EMP for the development of a permanent oil and gas production field and development drilling.

Field pipeline design and construction is subject to a two part environmental licensing process. First, an environmental options assessment is conducted, whereby both the company and the government environmental authority review options to agree on an environmentally friendly pipeline design and layout. Once an agreement is reached, the company can apply for the pipeline environmental license through a comprehensive EIA and EMP.

Once a production field's environmental license is in place, development drilling, flowlines, batteries and other production infrastructure can be added by preparing specific EMP's. This also applies for all activities Petrominerales carries out in its IPC's.

Social responsibility in project planning includes consultation with local communities through regulatory procedures, depending upon the type of community to be consulted (i.e.: settlers, farmers, indigenous, Afro-Colombians). In addition, each EIA and EMP should include a comprehensive plan with respect to occupational health and industrial safety, based on national regulations and international standards with respect to health and safety.

### ***Compliance***

The second essential area in occupational health, industrial safety, environmental protection and social responsibility is maintaining optimal regulation compliance standards. In Colombia, these regulations include specific standards for water and air quality, wastewater and solid waste treatment and disposal, air emission control and industrial hygiene.

Our operations are subject to strict monitoring by the Ministry of Environment, Housing and Territorial Development (MAVDT) as well as the regional environmental corporations (Corpoamazonia in Putumayo, Cormacarena in Meta, Corporinoquia in Casanare and the CAM in Neiva). These regional authorities belong to the Colombian National Environmental System (SINA).

Petrominerales has independent third party health, safety, environment and community auditors in all of our operations areas. These auditors ensure that both our employees and contractors comply with environmental legislation, the requirements set by the regional environmental corporations, and that they follow the approved environmental management plans.

At the end of each operation, an environmental compliance report is prepared, against which the environmental authorities do their final evaluation. A yearly follow-up to this report is also completed.

### ***Environment, Health and Safety Policies and Procedures***

Our main environmental strategies include the preparation of comprehensive environmental impact assessments and assembling project-specific environmental management plans. Petrominerales encourages local community engagement in environmental planning in order to create a positive relationship between the oil business and local means of production.

Petrominerales believes it is in material compliance with environmental legislation in the jurisdictions in which it operates at this time (Colombia and Peru). The Company's practice is to do all that it reasonably can

to ensure that it remains in material compliance with environmental protection legislation. Petrominerales is committed to meeting its responsibilities to protect the environment wherever it operates and will take such steps as required to ensure compliance with environmental legislation.

Monitoring and reporting programs for environment, health and safety ("**EH&S**") performance in day-to-day operations, as well as inspections and assessments, are designed to provide assurance that environmental and regulatory standards are met. We maintain an active comprehensive integrity monitoring and management program for our surface piping, facilities, storage tanks and underground pipelines. Contingency plans are in place for a timely response to an environmental event and abandonment, remediation and reclamation programs are in place and utilized to restore the environment. We also perform a detailed due diligence review as part of the acquisition process to determine whether the acquired assets are in regulatory and environmental compliance and assess any liabilities with respect thereto. Petrominerales expects to incur abandonment and site reclamation costs as existing oil and gas properties are abandoned and reclaimed. In 2010, expenditures for normal compliance with environmental regulations as well as expenditures beyond normal compliance were not material. Based on current estimates, the total anticipated undiscounted future cost of abandonment and reclamation costs to be incurred over the life of the reserves is estimated at approximately \$86.8 million. As at December 31, 2010, Petrominerales has recorded an asset retirement obligation of \$12.8 million based on a discount rate of 9%. See "*Other Oil and Gas Information – Additional Information Concerning Abandonment and Reclamation Costs*".

Management of the Company is responsible for reviewing the Company's internal control systems in the areas of health, safety and environment and our strategies and policies regarding health, safety and the environment, including our emergency response plan. Management reports to the Board of Directors on a quarterly basis with respect to environment, health and safety matters, including: (i) compliance with all applicable laws, regulations policies with respect to EH&S; (ii) on emerging trends, issues and regulations related to health, safety and the environment that are relevant to the Company; (iii) the findings of any significant report by regulatory agencies, external health, safety and environmental consultants or auditors concerning performance in EH&S; (iv) any necessary corrective measures taken to address issues and risks with regards to our performance in the areas of EH&S that have been identified by management, external auditors or by regulatory agencies; (v) the results of any review with management, outside accountants, external consultants and legal advisors of the implications of major corporate undertakings such as the acquisition or expansion of facilities or decommissioning of facilities; and (vi) all incidents and near misses with respect to the Company's operations, including corrective actions taken as a result thereof.

### ***Trends in Environmental Regulation***

The Company believes that it is reasonably likely that the trend towards stricter standards in environmental legislation and regulation will continue. The Company anticipates increased capital and operating expenditures as a result of increasingly stringent laws relating to the protection of the environment. No assurance can be given however that environmental laws will not result in a curtailment of production or a material increase in the costs of production, the development or exploration activities, or otherwise adversely affect the Company's financial condition, capital expenditures, results of operations, competitive position or prospects.

### ***Community Relations***

Petrominerales has developed a series of policies and practices that complement our basic responsibilities as a development tool for our surrounding communities. Our corporate social responsibility strategy is based on the following main principles:

- Opening a representation office in each community in which we conduct operations. We have opened four offices and plan to open three more in the immediate future as our operations expand;
- Creating local employment opportunities, both within the oil industry and within existing local industries, which has been well received by communities and has contributed to maintaining a positive relationship in and around the Company's operations;
- Providing education and training programs to strengthen community and local authority relationships, identify new markets for local goods and services, and reduce dependence on industry support; and
- Engaging communities in studies and processes related to environmental management by combining the Company's expertise with local knowledge.

## **RESERVES DATA AND OTHER OIL AND GAS INFORMATION**

### **Disclosure of Reserves Data**

The Company engaged D&M to evaluate the Company's reserves as at December 31, 2010. The reserves data set forth in this Annual Information Form is based upon the evaluation by D&M dated February 23, 2011, with an effective date of December 31, 2010.

The D&M Report presents an appraisal, as of December 31, 2010, of the extent and value of the proved and probable crude oil reserves, of the Corcel, Guatiquia, Castor and Casimena blocks (each located in the Llanos Basin), Orito (located in Putumayo Basin) and Neiva (located in the Upper Magdalena Valley Basin), respectively, of Colombia. The D&M Report was prepared using reserves definitions consistent with those of NI 51-101. Interests in these properties are held by PCL. The Corcel, Guatiquia, Castor and Casimena are solely operated by Petrominerales. The operator of the Orito and Neiva properties is Ecopetrol. The D&M Report was prepared under a forecast prices and costs case.

Reserves estimated in the D&M Report are expressed as gross, company gross, and company net reserves. Gross reserves are defined as the total estimated petroleum to be produced after December 31, 2010 from the properties evaluated in the D&M Report. Company gross reserves are defined as Petrominerales' working-interest share of the gross reserves before deduction of royalties. Company net reserves are defined as company gross reserves after deduction of royalty obligations. Estimated company gross and company net reserves in the Orito and Neiva fields are limited to the Company's share of the incremental volumes produced above predefined baseline production curves agreed to under terms of IPC's signed with Ecopetrol.

The D&M Report presents values that were estimated for proved and proved-plus-probable reserves using costs provided by Petrominerales in United States dollars (\$). Prices utilized were based on D&M's world crude oil price forecast and were adjusted based on information from Petrominerales regarding realized oil prices. All monetary values in the D&M Report are expressed in United States dollars.

Values for proved and proved plus probable reserves in the D&M Report are expressed in terms of estimated future gross revenue, future net revenue, and present worth. Future gross revenue is defined as that revenue to be realized from the sale of the company gross reserves less royalty expenses. Future net revenue is defined as the future gross revenue less direct operating expenses, capital costs, net profits interests and host country taxes. Operating expenses include field operating expenses, petroleum processing costs, compression costs, and an allocation of overhead that directly relates to production activities. Capital costs include such items as surface production facilities, pipelines, and the drilling of wells.

As PCL's registered office is located in Canada and its head office in Colombia, no Canadian income taxes have been accounted for in the D&M Report. Present worth is defined as future net revenue discounted at a specified arbitrary discount rate compounded monthly over the expected period of realization.

### **Classification of Reserves**

Petroleum reserves included in the D&M Report are classified by degree of probability as proved or probable. For purposes of the report, reserves are those quantities of oil and gas anticipated to be economically recoverable from known accumulations. The definitions of reserves shown below serve as the basis for the estimates contained in the D&M Report. The definitions are in accordance with those prepared for the NI 51-101 as presented in the COGE Handbook. The petroleum reserves are classified in accordance with Sections 5.4.1, 5.4.2, and 5.4.3 of COGE Handbook. Section 5 of COGE Handbook contains the complete and official explanation of reserves definitions herein.

## **Notes to Reserve Data Tables**

In the tables set forth in this Annual Information Form, the following definitions and other notes are applicable. Crude oil reserves estimates presented in the D&M Report are based on the definitions and guidelines contained in the COGE Handbook. A summary of those definitions is set forth below.

### ***Reserve Categories***

Reserves are estimated remaining quantities of crude oil anticipated to be recoverable from known accumulations, from a given date forward, based on:

- analysis of drilling, geological, geophysical and engineering data;
- the use of established technology, and
- specified economic conditions which are generally accepted as being reasonable, and shall be disclosed.

Reserves are classified according to the degree of certainty associated with the estimates.

*Proved Reserves* - Proved reserves are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves.

*Probable Reserves* - Probable reserves are those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves.

### ***Development and Production Status***

Each of the reserves categories (proved and probable) may be divided into developed and undeveloped categories.

*Developed Reserves* - Developed reserves are those reserves that are expected to be recovered from existing wells and installed facilities or, if facilities have not been installed, that would involve a low expenditure (e.g., when compared to the cost of drilling a well) to put the reserves on production. The developed category may be subdivided into producing and non-producing.

*Developed Producing Reserves* - Developed producing reserves are those reserves that are expected to be recovered from completion intervals open at the time of the estimate. These reserves may be currently producing or, if shut in, they must have previously been on production, and the date of resumption of production must be known with reasonable certainty.

*Developed Non-producing Reserves* - Developed non-producing reserves are those reserves that either have not been on production, or have previously been on production, but are shut in, and the date of resumption of production is unknown.

*Undeveloped Reserves* - Undeveloped reserves are those reserves expected to be recovered from known accumulations where a significant expenditure (e.g., the cost of drilling a well) is required to render them capable of production. They must fully meet the requirements of the reserves classification (proved, probable, possible) to which they are assigned.

In multi-well pools, it may be appropriate to allocate total pool reserves between the developed and undeveloped categories or to subdivide the developed reserves for the pool between developed producing and developed non-producing. This allocation should be based on the evaluator's assessment as to the reserves that will be recovered from specific wells, facilities, and completion intervals in the pool and their respective development and production status.

### ***Levels of Certainty for Reported Reserves***

The qualitative certainty levels referred to in the definitions above are applicable to individual reserve entities (which refers to the lowest level at which reserves calculations are performed) and to reported reserves (which refers to the highest level sum of individual entity estimates for which reserve estimates are presented). Reported reserves should target the following levels of certainty under a specific set of economic conditions:

- at least a 90 percent probability that the quantities actually recovered will equal or exceed the estimated proved reserves; and
- at least a 50 percent probability that the quantities actually recovered will equal or exceed the sum of the estimated proved plus probable reserves.

A quantitative measure of the certainty levels pertaining to estimates prepared for the various reserves categories is desirable to provide a clearer understanding of the associated risks and uncertainties. However, the majority of reserves estimates will be prepared using deterministic methods that do not provide a mathematically derived quantitative measure of probability. In principle, there should be no difference between estimates prepared using probabilistic or deterministic methods.

### ***Significant Factors or Uncertainties Affecting Reserves Data***

There are numerous uncertainties inherent in estimating quantities of proved reserves, including many factors beyond the control of the Company. The reserves data included in this Annual Information Form represents estimates only. In general, estimates of economically recoverable crude oil reserves and the future net cash flows therefrom are based upon a number of variable factors and assumptions, such as historical production from the properties, the assumed effects of regulation by governmental agencies and future operating costs, all of which may vary considerably from actual results. The actual production, revenues, taxes and development and operating expenditures of the Company with respect to these reserves will vary from such estimates, and such variances could be material, provided that there is inherent degree of certainty associated with the particular reserves category disclosed.

Estimates with respect to proved reserves that may be developed and produced in the future are often based upon volumetric calculations and upon analogy to similar types of reserves rather than actual production history. Estimates based on these methods are generally less reliable than those based on actual production history. Subsequent evaluation of the same reserves based upon production history will result in variations, which may be substantial, in the estimated reserves.

The Company has used forecast prices and costs in calculating reserve quantities included in this Annual Information Form. Actual future net cash flows also will be affected by other factors such as actual production levels, supply and demand for oil, curtailments or increases in consumption by oil purchasers, changes in governmental regulation or taxation, currency exchange rates and the impact of inflation on costs. Estimated values of future net revenue, whether calculated without discount or using a discount rate, do not represent fair market value.

As discussed under the heading "*Incremental Production Contracts*", the Company's reserves at the Orito and Neiva fields are also subject to an "R Factor" calculation under which the Company's interest in reserves

decreases as the ratio of cumulative revenues to cumulative costs increases. Accordingly, at higher prices the Company's reserve values increase but reserve volumes decline, thereby increasing reserve uncertainty.

Unless otherwise noted, the Company's average daily production volumes disclosed herein are based on the Company's working interest production before deduction of royalties paid to others. The estimates of reserves and future net revenue for individual properties may not reflect the same confidence level as estimates of reserves and future net revenue for all properties, due to the effects of aggregation. Note that in certain cases, columns may not add due to rounding.

**SUMMARY OF OIL AND GAS RESERVES  
FORECAST PRICES AND COSTS, as of December 31, 2010**

RESERVES CATEGORY	LIGHT AND MEDIUM OIL		NATURAL GAS LIQUIDS		TOTAL	
	Company Gross (Mbbl)	Company Net (Mbbl)	Company Gross (Mbbl)	Company Net (Mbbl)	Company Gross (Mbbl)	Company Net (Mbbl)
Proved						
Developed Producing	25,927	22,832	1,148	938	27,075	23,770
Undeveloped	16,544	14,805	367	300	16,911	15,105
Total Proved	42,471	37,637	1,515	1,238	43,986	38,875
Probable	15,858	13,693	378	283	16,236	13,976
Proved Plus Probable	58,329	51,330	1,893	1,521	60,222	52,851

**NET PRESENT VALUES OF FUTURE NET REVENUE  
FORECAST PRICES AND COSTS, as of December 31, 2010**

RESERVES CATEGORY	BEFORE INCOME TAXES DISCOUNTED AT					AFTER HOST COUNTRY INCOME TAXES DISCOUNTED AT					FUTURE NET REVENUE ON A PER UNIT BASIS US\$/bbl <sup>(1)</sup>
	(%/year)					(%/year)					
	0	5	10	15	20	0	5	10	15	20	
	(US MMS)	(US MMS)	(US MMS)	(US MMS)	(US MMS)	(US MMS)	(US MMS)	(US MMS)	(US MMS)	(US MMS)	
<b>Colombia</b>											
Proved											
Developed Producing	1,471	1,321	1,204	1,108	1,029	1,167	1,047	951	872	806	50.65
Undeveloped	940	772	645	547	470	672	548	454	380	322	42.70
Total Proved	2,411	2,094	1,849	1,655	1,498	1,839	1,595	1,405	1,252	1,129	47.56
Probable	933	782	668	579	509	642	537	457	394	344	47.80
Total Proved Plus Probable	3,344	2,876	2,517	2,234	2,007	2,481	2,132	1,861	1,647	1,473	47.63

**Note:**

1. Before deduction of income taxes, discounted at 10% and based on net reserves.

**NET PRESENT VALUE OF FUTURE NET REVENUE BY PRODUCTION GROUP (Discounted at 10% / year)  
FORECAST PRICES AND COSTS, as of December 31, 2010**

RESERVES CATEGORY	PRODUCTION GROUP	FUTURE NET REVENUE BEFORE INCOME TAXES	FUTURE NET REVENUE BEFORE INCOME TAXES
		(USM\$)	(US\$/bbl Net Reserves)
Total Proved	Light and Medium Crude Oil <sup>(1)</sup>	1,849	47.56
Proved Plus Probable	Light and Medium Crude Oil <sup>(1)</sup>	2,517	47.63

**Note:**

1. Includes natural gas liquids.

**FUTURE NET REVENUE BY PRODUCTION GROUP (Undiscounted)  
FORECAST PRICES AND COSTS, as of December 31, 2010**

RESERVES CATEGORY	Revenue (US MM\$)	Royalties (US MMS)	Operating Costs (US MMS)	Develop- ment Costs (US MMS)	Well Abandon- ment Costs (US MMS)	Future Net Revenue Before Income Taxes (US MMS)	Income Taxes (US MMS)	Future Net Revenue After Income Taxes (US MMS)
Total Proved	3,649	433	446	342	17	2,411	572	1,839
Proved Plus Probable	5,011	629	577	440	21	3,344	863	2,481

**RECONCILIATION OF COMPANY GROSS RESERVES BY PRINCIPAL PRODUCT TYPE**

**FORECAST PRICES AND COSTS**

FACTORS	LIGHT AND MEDIUM OIL RESERVES <sup>(1)</sup>			NATURAL GAS LIQUIDS		
	Company Gross Proved (Mbbbl)	Company Gross Probable (Mbbbl)	Company Gross Proved Plus Probable (Mbbbl)	Company Gross Proved (Mbbbl)	Company Gross Probable (Mbbbl)	Company Gross Proved Plus Probable (Mbbbl)
<b>December 31, 2009</b>	35,560	16,813	52,373	427	307	734
Improved Recovery	493	(283)	210	0	0	0
Technical Revisions	6,391	(5,702)	689	771	88	859
Discoveries	13,805	5,205	19,010	400	(17)	383
Economic Factors	(324)	(175)	(499)	0	0	0
Production	(13,454)	0	(13,454)	(83)	0	(83)
<b>December 31, 2010</b>	42,471	15,858	58,329	1,515	378	1,893

**Note:**

1. The December 31, 2009 balance includes heavy oil reserves from Rio Ariari of 110 Mbbbl company gross proved and proved plus probable. The technical revisions balance includes heavy oil reserves from Rio Ariari of 95 Mbbbl company gross proved and proved plus probable. The production balance includes heavy oil reserves from Rio Ariari of 15 Mbbbl company gross proved and proved plus probable

**FUTURE DEVELOPMENT COSTS  
FORECAST PRICES AND COSTS**

YEAR	Total Proved Reserves	Total Proved Plus Probable
	(USM\$)	Reserves (USM\$)
2011	235,952	292,308
2012	75,133	80,590
2013	30,432	66,950
2014	-	-
2015	-	-
2016	-	-
Thereafter	563	563
Total undiscounted	342,080	440,411
Total discounted at 10%	312,050	398,514

Future development costs are expected to be funded by cash on hand, internally generated cash flow and if necessary from a combination of debt and potentially equity financing, the costs of which are not expected to have an effect on the reserves or future net revenue.

*Production Estimates*

The following table sets out the volume of the Company's production estimated for the year ended December 31, 2011 which is reflected in the estimate of future net revenue disclosed in the tables contained in this Annual Information Form.

RESERVES CATEGORY	LIGHT AND MEDIUM OIL	NATURAL GAS LIQUIDS	OIL EQUIVALENT
	Company Gross (bbl/d)	Company Gross (bbl/d)	Company Gross (boe/d)
<b>Colombia</b>			
Proved Producing			
Deep Llanos	13,983	1,455	15,438
Orito	2,178	0	2,178
Neiva	2,934	0	2,934
Central Llanos	14,115	0	14,115
Total Proved Producing	33,210	1,455	34,665
Total Proved			
Deep Llanos	15,109	1,507	16,616
Orito	3,074	0	3,074
Neiva	4,071	0	4,071
Central Llanos	18,066	0	18,066
Total Proved	40,320	1,507	41,827
Proved Plus Probable			
Deep Llanos	17,630	1,507	19,137
Orito	3,282	0	3,282
Neiva	4,567	0	4,567
Central Llanos	22,704	0	22,704
Total Proved Plus Probable	48,183	1,507	49,690

### Pricing Assumptions, Forecast Prices and Costs

In the D&M Report, D&M employed the following pricing assumptions, as of December 31, 2010, in estimating reserves data using forecast prices and costs.

Year	West Texas Intermediate Crude Oil at	Colombia Sales Prices at the Field					Inflation Rate (%/year)
	Cushing (US\$/bbl)	Orito (US\$/bbl)	Corcel (US\$/bbl)	Neiva (US\$/bbl)	Candelilla (US\$/bbl)	Casimena (US\$/bbl)	
2010 <sup>(1)</sup>	79.63	72.84	63.81	73.83	66.69	55.19	n/a
2011	88.00	81.29	71.84	81.81	78.03	63.95	0
2012	90.78	83.86	75.73	84.39	83.43	71.13	2
2013	93.64	86.50	78.11	87.05	86.06	73.37	2
2014	96.57	89.21	80.56	89.78	88.75	75.66	2
2015	99.58	91.99	83.07	92.58	91.51	78.02	2
Thereafter	+2% per yr.	+2% per yr.	+2% per yr.	+2% per yr.	+2% per yr.	+2% per yr.	+2% per

**Note:**

1. Historical prices realized.

### Undeveloped Reserves

The following discussion generally describes the basis on which the Company attributes proved and probable undeveloped reserves and its anticipated plans for developing those undeveloped reserves. Additional information concerning the exploration and development plans of the Company for the ensuing year is provided under the heading “Principal Properties”.

The Company currently plans to pursue the development of the majority of its undeveloped reserves within the next two years through ordinary course capital expenditures. However, the Company may choose to delay development depending on a number of circumstances, including the existence of higher priority expenditures and prevailing commodity prices and available cash flow.

The Company’s undeveloped medium to light oil reserves in the D&M Report are located in Colombia within the Guatiquia, Corcel, Casimena and Castor exploration blocks and the Orito and Neiva fields. Subject to the success of operations, within the next two years, the Company has the following plans regarding the development of proved and probable undeveloped reserves:

- The Company’s proved undeveloped reserves will be developed through further drilling and completion of wells within these areas.
- The 2011 drilling and completions schedule will focus on these six areas and on any other opportunities arising from the Company’s exploration programs. In 2011, the Company’s planned drilling program includes:
  - Deep Llanos: one proved undeveloped location at Gautiquia;
  - Central Llanos: one proved undeveloped locations and one probable location at Casimena, one probable location at Castor;
  - Orito: eight locations;
  - Neiva: 12 locations;
  - Workovers in all areas and fracture stimulations in both Orito and Neiva.

The D&M Report includes the following undeveloped locations:

- **Deep Llanos:**
  - Corcel: 1 Probable (A3 sidetrack)
  - Guatiquia: 2 Proven Undeveloped (Candelilla-5 and Yatay-2)
- **Central Llanos:**
  - Casimena: 1 Proven undeveloped (Yenac-3) and 3 Probable (Yenac-4, Yenac-5, Yenac-6)
  - Castor: 1 Proven undeveloped (Capybara-2)
- **Orito:** 21 Proven Undeveloped and 6 Probable locations
- **Neiva:** 26 Proven Undeveloped and 9 Probable locations

The following table sets out the volume of the Company's proved undeveloped and probable undeveloped reserves booked at December 31 over the most recent three financial years. First attributed consists of undeveloped reserves associated with acquisitions plus discoveries.

#### UNDEVELOPED RESERVES FORECAST PRICES AND COSTS

As of December 31, 2010

RESERVES CATEGORY	LIGHT AND MEDIUM OIL Company Gross (Mbbbl)		NATURAL GAS LIQUIDS Company Gross (Mbbbl)	
	First Attributed	Booked	First Attributed	Booked
Proved Undeveloped				
Prior to 2008	-	-	-	-
2008	3,250	10,385	560	560
2009	10,745	17,450	112	427
2010	13,805	16,544	400	367
Probable Undeveloped				
Prior to 2008	-	-	-	-
2008	3,905	11,469	206	206
2009	7,229	11,626	194	734
2010	5,205	6,182	-17	378

#### Oil Wells

The following table summarizes the Company's interests, by block onshore in Colombia, in oil wells which are producing or which are considered capable of production. All wells considered producing or non-producing are within economic distance of transportation facilities and are classified as proved developed reserves in the D&M Report.

as at December 31, 2010

	Producing		Non-Producing	
	Gross	Net	Gross	Net
Corcel	7	7	-	-
Guatiquia	4	4	1	1
Casimena	2	2	1	1
Castor	-	-	1	-
Orito	62	49	-	-
Neiva	106	74	10	7
Total	181	136	13	9

**Note:** Abandoned wells not included.

## **Land Holdings**

The land holdings of the Company, including those that are undeveloped as of December 31, 2010, are set forth in the following table (in 000s of acres unless otherwise noted):

<u>Country</u>	<u>Developed</u>		<u>Undeveloped</u>		<u>Total</u>		<u>Average</u>
	<u>Gross</u>	<u>Net</u>	<u>Gross</u>	<u>Net</u>	<u>Gross</u>	<u>Net</u>	<u>Working Interest %</u>
Colombia	29	24	1,992	1,987	2,021	2,011	100
Peru	-	-	9,481	5,409	9,481	5,409	57
Total	29	24	11,473	7,396	11,502	7,420	65

Undeveloped acreage includes rights granted pursuant to Exploration Contracts and License Contracts, which require certain work commitments. If the Company elects not to proceed with additional work commitments, all or a portion of this acreage may be relinquished.

## **Properties with No Attributed Reserves**

The undeveloped land holdings of the Company total 11,473,000 (4,463,000 in 2009) gross acres. Undeveloped acreage includes rights granted pursuant to Exploration Contracts or License Contracts, which require certain work commitments. First term commitments typically include evaluation of existing data and acquisition, processing and interpretation of additional seismic to be acquired by the Company. Subsequent terms typically involve drilling exploration wells. If, at the end of the exploration term, the Company elects not to proceed with additional work commitments, all or a portion of this acreage may be relinquished. See “ANH Contracts” and “Peru License Contracts” for more details on the contractual terms of the Company’s exploration lands.

## **Forward Contracts and Future Commitments**

See Notes 14, “*Financial Instruments and Financial Risk Management*”, and Note 16, “*Commitments and Contingencies*”, to the consolidated financial statements, which information is incorporated herein by reference and can be found on the Company’s website at [www.petrominerales.com](http://www.petrominerales.com) and on SEDAR at [www.sedar.com](http://www.sedar.com).

The nature of the crude oil operations exposes the Company to risks associated with fluctuations in commodity prices and foreign currency exchange rates. Periodically, the Company may manage these risks through the use of derivative instruments. The Board of Directors of the Company periodically reviews the results of all risk management activities and all outstanding positions. Currently, there are no risk management contracts outstanding.

## **Abandonment and Reclamation Costs**

The Company’s abandonment and reclamation costs were estimated for all legal obligations associated with the retirement of long-lived tangible assets such as wells, facilities and plants based on market prices or on the best information available where no market price was available. The estimated costs are then inflated at four percent over time until the actual retirement is expected to occur. In Colombia, Ecopetrol maintains ownership of all wells once the IPCs expire. Until expiry, Petrominerales is potentially liable for abandonment and reclamation costs for all wells drilled or intervened by Petrominerales.

As of December 31, 2010, 147 wells under the IPCs and 44 exploration wells under the ANH Exploration Contracts have either been drilled or intervened, however Petrominerales expects to incur costs on only 65 wells (65 net) due to the fact that most wells at Orito and Neiva are expected to produce beyond the term of the IPCs.

The total abandonment and reclamation costs net of salvage values of the Company's operations are estimated to be \$86.8 million on an undiscounted basis, and \$10.7 million discounted at 10 percent. In the next three fiscal years, the Company anticipates approximately \$1.6 million on an undiscounted basis and \$1.4 million discounted at 10 percent will be incurred on abandonment and reclamation costs.

The calculation of future net revenue of proved plus probable reserves in the forecast prices and costs tables contained herein have excluded \$65.8 million on an undiscounted basis from the Company's estimates, as these calculations do not reflect any costs for abandonment and reclamation for facilities and wells for which no proved reserves have been attributed and does not include any costs for abandonment and reclamation activities for the Orito or Neiva blocks.

### **Tax Horizon**

In 2010, Petrominerales generated taxable income in Colombia and recognized current income taxes of \$30 million for the year. In certain prior years, the Company's tax pools sheltered it from paying current income taxes. The D&M Report anticipates, based on proved plus probable reserves, an ordinary cash income tax liability in Colombia in 2011 of \$863 million. See "*General - Taxes*" for additional information on the Colombian tax regime.

### **Capital Expenditures**

The following table summarizes capital expenditures related to the Company's activities for the year ended December 31, 2010:

	<b>Total (M\$)</b>
Development	73
Exploration	434
Property acquisitions	32 <sup>(1)</sup>
<b>Total</b>	<b>539</b>

#### **Note:**

1. Property acquisition costs attributable to the Pan Andean acquisition.

### **Exploration and Development**

The following table summarizes the gross and net exploratory and development wells in which the Company participated during the year ended December 31, 2010.

	<b>Exploration</b>		<b>Development</b>		<b>Total</b>	
	Gross	Net	Gross	Net	Gross	Net
Oil	17	17	25	17	42	34
Service Well	-	-	-	-	-	-
Dry	4	4	-	-	4	4
<b>Total</b>	<b>21</b>	<b>21</b>	<b>25</b>	<b>17</b>	<b>46</b>	<b>38</b>
Success Rate	81%	81%	100%	100%	91%	89%

The Company's exploration and development plans are discussed under the heading "*Description of the Business*" and "*Principal Properties*".

## Production History

The following table shows the Company's 2010 average daily oil production (bbl/d) before deduction of royalties payable to others, by major producing region, for each of the last four fiscal quarters and year ended December 31, 2010.

	<b>Three Months Ended</b>				<b>Year ended</b>
	<b>Mar. 31, 2010</b>	<b>June 30, 2010</b>	<b>Sept. 30, 2010</b>	<b>Dec. 31, 2010</b>	<b>Dec. 31, 2010</b>
Guatiquia	20,972	27,779	16,516	14,447	19,901
Corcel	11,251	8,220	8,155	9,747	9,336
Orito	3,064	2,950	2,762	2,532	2,825
Neiva	2,620	3,415	3,790	3,883	3,432
Casimena	-	1,536	1,139	1,417	1,027
Others	292	303	305	1,116	506
<b>Total</b>	<b>38,199</b>	<b>44,203</b>	<b>32,667</b>	<b>33,142</b>	<b>37,027</b>
Oil (bbls/d)	38,199	44,203	32,667	32,242	36,800
NGL (bbl/d)	-	-	-	900	227
<b>Total (boe/d)</b>	<b>38,199</b>	<b>44,203</b>	<b>32,667</b>	<b>33,142</b>	<b>37,027</b>

## 2010 Production and Sales Volumes

The following tables set out the production volumes for the Company's important fields for the year ending December 31, 2010.

	<b>Company Gross Cumulative Production Volumes</b>		
	<b>LIGHT AND MEDIUM OIL (Mbbbl)</b>	<b>Natural Gas liquids (Mbbbl)</b>	<b>Total (Mbbbl)</b>
Guataquia	7,264	65	7,329
Corcel	3,407	18	3,425
Orito	1,031	-	1,031
Neiva	1,253	-	1,253
Casimena	375	-	375
Mapache and others	102	-	102
<b>Total production</b>	<b>13,432</b>	<b>83</b>	<b>13,515</b>

## *Average Daily Production (bbl/d)*

<b>Average daily Guatiquia production</b>	<b>2010</b>	<b>2009</b>
Gross Field	19,901	219
Royalty (15.5%)	(3,077)	(18)
Petrominerales net of royalty	16,824	201
<b>Average daily Corcel production</b>	<b>2010</b>	<b>2009</b>
Gross field	9,336	15,537
Royalty (8.1% to 11.2%)	(990)	(1,226)
Petrominerales net of royalty	8,346	14,311

<b>Average daily Orito production</b>	<b>2010</b>	<b>2009</b>
Gross Field	5,799	6,518
Baseline	(2,223)	(2,292)
Incremental	3,576	4,226
Petrominerales before royalty (79%)	2,825	3,338
Royalty (8%)	(226)	(267)
Petrominerales net of royalty	2,599	3,071

<b>Average daily Neiva production</b>	<b>2010</b>	<b>2009</b>
Gross Field	6,807	5,348
Baseline	(1,833)	(1,949)
Incremental	4,974	3,399
Petrominerales before royalty (69%)	3,432	2,346
Royalty (8%)	(275)	(187)
Petrominerales net of royalty	3,157	2,159

### ***Light and Medium Crude Oil and NGL Netback (US\$ per bbl)***

	<b>Three Months Ended</b>				<b>Year ended</b>
	<b>Mar. 31, 2010</b>	<b>June 30, 2010</b>	<b>Sept. 30, 2010</b>	<b>Dec. 31, 2010</b>	<b>Dec. 31, 2010</b>
WTI benchmark price	79.08	78.06	76.15	85.34	79.63
Average price received <sup>(1)</sup>	64.65	63.53	64.54	73.88	66.84
Royalties	7.12	6.35	9.09	12.06	8.49
Operating costs <sup>(2)</sup>	6.48	6.25	7.63	13.06	8.18
Netback	51.05	50.93	47.82	48.76	50.17

**Notes:**

1. Net of transportation and excludes revenue from purchased oil.
2. Operating costs are expenses incurred in the operation of producing properties and include items such as Ecopetrol operating fees, field staff salaries, repairs and maintenance, overhead fees and other costs.

## **RISK FACTORS**

### **Commodity Price Fluctuations**

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

### **Nature of the Oil Business and Replacement of Reserves**

An investment in Petrominerales should be considered speculative due to the nature of the Company's involvement in the exploration for, and the acquisition, development and production of crude oil in Colombia and Peru. The volume of production from oil and natural gas properties generally declines as reserves are depleted, with the rate of decline depending on reservoir characteristics. The Company's proved reserves will

decline as reserves are produced from its properties unless it is able to find, acquire or develop new reserves. The business of exploring for, developing or acquiring reserves is capital intensive. To the extent cash flow from operations is reduced and external sources of capital become limited or unavailable, the Company's ability to make the necessary capital investment to maintain or expand the Company's asset base of reserves will be impaired. In addition, there can be no assurance that even if the Company is able to raise capital to develop or acquire additional properties to replenish the Company's reserves, the Company's future exploration, development and acquisition activities will result in additional proved reserves or that the Company will be able to drill productive wells at acceptable costs. The cost of drilling, completing and operating wells is often uncertain and drilling operations may be curtailed, delayed or cancelled as a result of a variety of factors, including unexpected drilling conditions, pressure or irregularities in formations, equipment failures or accidents, adverse weather conditions, compliance with governmental requirements and shortages or delays in the availability of drilling rigs and the delivery of equipment. Significant portions of the properties in which the Company has an interest are prospects in which the presence of oil reserves in commercial quantities has not been established. There is no certain way to know in advance whether any of the Company's prospects will yield oil in commercial quantities.

### **Competition**

The oil and gas industry is intensely competitive. Competition is particularly intense in the acquisition of prospective oil and gas reserves. The Company's competitive position depends on its geological, geophysical and engineering expertise, its financial resources and its ability to efficiently acquire and develop its reserves. Petrominerales competes with a substantial number of other companies having larger technical staffs and greater financial and operational resources. Many such companies not only engage in the acquisition, exploration, development and production of oil and gas reserves, but also carry on refining operations and market refined products. Petrominerales also competes with major and independent oil and gas companies and other industries supplying energy and fuel in the marketing and sale of oil and gas to transporters, distributors and end users, including industrial, commercial and individual consumers, and with other oil and gas companies in securing access to pipelines, trucks and other means of transporting oil. Petrominerales also competes with other oil and gas companies in attempting to secure drilling rigs and other equipment necessary for drilling and completion of wells. Such equipment may be in short supply from time to time, and has been in particularly short supply recently due to the increase in the market price of oil. In addition, equipment and other materials necessary to construct production and transmission facilities may be in short supply from time to time. Finally, companies not previously investing in oil and gas may choose to acquire reserves providing additional competition for Petrominerales.

### **Ability to Produce or Market Our Oil**

The marketability and ultimate commerciality of oil and gas acquired or discovered is affected by numerous factors beyond the control of Petrominerales. These factors include reservoir characteristics, market fluctuations, weather, the proximity and capacity of pipelines, processing equipment, offloading access and capacity, trucking capacity and cost, availability of alternative means of transporting oil and government regulation. Oil and gas operations (exploration, production, pricing, marketing and transportation) are subject to extensive controls and regulations imposed by various levels of government, which may be amended from time to time. See "*Industry Conditions*". Restrictions on the ability to market the Company's production could have a material adverse effect on the Company's revenues and financial position.

Due to overall increased crude oil production in Llanos region, transportation capacity can be constrained. When this occurs, our ability to transport oil through the pipeline system may be restricted. In addition, Colombia has experienced a shortage of trucks for transporting oil from wellsites to offloading stations. In the event we are unable to transport our oil through pipelines or by trucks or alternative transport methods, we may be forced to shut in production, which could have a negative impact on our revenues and the value of our Shares.

In the course of producing oil from our wells, water is also produced from the reservoir which must be processed and disposed of. The ratio of water to oil typically increases over the life of the well. Currently, water disposal options include river disposal, injection through water disposal wells, trucking to processing facilities or other bio-remediation projects. To the extent we are unable to process and dispose of water produced by our wells, we may be required to reduce the total amount of fluid produced by the wells, thereby decreasing the amount of oil produced. Such a reduction could reduce our total production of sales oil, thereby adversely impacting our revenues and cash flows.

### **Availability of Equipment and Access Restrictions**

Oil exploration and development activities are dependent on the availability of drilling and related equipment in the particular areas where such activities will be conducted. Demand for such limited equipment or access restrictions due to regulatory requirements or weather delays may affect the availability of such equipment to the Company and may delay exploration and development activities. There can be no assurance that sufficient drilling and completion equipment, services and supplies will be available when needed. Shortages could delay the Company's proposed exploration, development, and sales activities and could have a material adverse effect on the Company's financial condition. If the demand for, and wage rates of, qualified rig crews rise in the drilling industry then the oil industry may experience shortages of qualified personnel to operate drilling rigs. This could delay the Company's drilling operations and adversely affect the Company's financial condition and results of operations.

### **Operations**

Oil and gas exploration, development and production operations are subject to all the risks and hazards typically associated with such operations, including hazards such as fire, explosion, blowouts and oil spills, each of which could result in substantial damage to oil and gas wells, production facilities, other property and the environment or in personal injury. Operational risks are managed using prudent field operating procedures. The Company has a detailed emergency response plan to deal with potential incidents and maintains a comprehensive insurance program to reduce the risk of significant economic loss; however, not all risks can be eliminated. In accordance with industry practice, the Company is not fully insured against all of these risks, nor are all such risks insurable. Although Petrominerales maintains liability insurance in an amount that it considers adequate and consistent with industry practice, the nature of these risks is such that liabilities could exceed policy limits, in which event Petrominerales could incur significant costs that could have a material adverse effect upon its financial condition. Oil and gas production operations are also subject to all the risks typically associated with such operations, including premature decline of reservoirs and the invasion of water into producing formations.

### **Ultimate Reserves and Oil Production Could Vary Significantly From Reported Reserves**

The Company's reserve evaluations have been prepared in accordance with NI 51-101. There are numerous uncertainties inherent in estimating quantities of reserves and cash flows to be derived therefrom, including many factors that are beyond the control of the Company. The reserves information set forth in this Annual Information Form represent estimates only. The reserves from the Company's properties have been independently evaluated by D&M in the D&M Report. The D&M Report include a number of assumptions relating to factors such as initial production rates, production decline rates, ultimate recovery of reserves, timing and amount of capital expenditures, marketability of production, future prices of oil, operating costs and royalties and other government levies that may be imposed over the producing life of the reserves. These assumptions were based on price forecasts in use at the date the relevant evaluations were prepared and many of these assumptions are subject to change and are beyond the control of the Company. Actual production and cash flows derived therefrom will vary from these evaluations, and such variations could be material.

These evaluations are based, in part, on the assumed success of exploitation activities intended to be undertaken in future years. The reserves and estimated cash flows to be derived therefrom contained in such evaluations will be reduced to the extent that such exploitation activities do not achieve the level of success assumed in the evaluations. Exploring for, developing or acquiring reserves is capital intensive. To the extent cash flows from operations are insufficient to fund the Company's capital expenditures and external sources of capital become limited or unavailable, Petrominerales' ability to make the necessary capital investments to maintain oil and natural gas reserves will be impaired. Costs to find and develop or acquire additional reserves also depend on success rates, which vary over time.

Canadian GAAP requires that management apply certain accounting policies and make certain estimates and assumptions, which affect reported amounts in the consolidated financial statements of the Company. The accounting policies may result in non-cash charges to net income and write-downs of net assets in the financial statements. Such non-cash charges and write-downs may be viewed unfavorably by the market and result in an inability to borrow funds and/or may result in a decline in the trading price of the common shares. Under Canadian GAAP, the net amounts at which petroleum costs on a property or project basis are carried are subject to a ceiling-test, which is based upon estimated future net cash flow from reserves. The carrying value is assessed to be recoverable when the sum of the undiscounted cash flows expected from the production of proved reserves, the lower of cost and market of unproved properties and the cost of significant development projects exceeds the carrying value. When the carrying value is greater than the undiscounted cash flows, an impairment loss is recognized to the extent that the carrying value of assets exceeds the sum of the discounted cash flows expected from the production of proved and probable reserves, the lower of cost and market of unproved properties and the cost of significant development projects. A decline in the net value of oil properties could cause capitalized costs to exceed the cost ceiling, resulting in a charge against earnings. IFRS will replace GAAP for Canadian publicly accountable enterprises for financial periods ending after January 1, 2011. For further information see "*Changes to Accounting Policies, including the Adoption of International Financial Reporting Standards*".

### **Reliance on Third Party Operators and Key Personnel**

To the extent that the Company is not the operator of its properties, as is the case in Colombia where Ecopetrol operates the Company's production at Orito and Neiva, the Company will be dependent upon other third party operators for the timing of activities and will be largely unable to control the activities of such operators. In addition, the Company's success depends, to a significant extent, upon management and key employees. The loss of key employees could have a negative effect on the Company. Attracting and retaining additional key personnel will assist in the expansion of the Company's business. The Company faces significant competition for skilled personnel. There is no assurance that the Company will successfully attract and retain personnel required to continue to expand its business and to successfully execute its business strategy.

### **Political and Regulatory**

The Company is subject to extensive governmental and environmental approvals and regulations in its operating jurisdictions. Delays in obtaining regulatory approvals could result in project delays and an inability to meet contractual obligations. Changes to these regulations could increase the costs of conducting business in these jurisdictions. The Company is also subject to changing and extensive tax laws, the effects of which cannot be predicted. Among other things, the Company and PCL are subject to regulatory filings with respect to the repatriation of funds to its shareholders which must be complied with to avoid sanctions. Legal requirements are frequently changed and subject to interpretation, and the Company is unable to predict the ultimate cost of compliance with these requirements or their effect on its operations. Existing laws or regulations, as currently interpreted or reinterpreted in the future, or future laws or regulations may change in the future and materially adversely affect the Company's results of operations and financial condition.

Petrominerales is conducting exploration and development activities in Colombia and Peru, and is dependent on receipt of government approvals or permits to develop its properties. Based on past performance, Petrominerales believes that the government of Colombia supports the exploration and development of its oil properties by foreign companies. Nevertheless, there is no assurance that future political conditions in Colombia will not result in the government adopting different policies respecting foreign development and ownership of oil and gas, environmental protection and labour relations. This may affect the Company's ability to undertake exploration and development activities in respect of present and future properties, as well as its ability to raise funds to further such activities. Any delays in receiving government approvals or permits or no objection certificates may delay the Company's operations or may affect the status of the Company's contractual arrangements or its ability to meet its contractual obligations.

### **Global Economic Conditions**

Market events and conditions, including disruptions in the international credit markets and other financial systems and the deterioration of global economic conditions, may cause significant volatility to commodity prices. These conditions worsened in 2008 and continued in 2009, causing a loss of confidence in the broader U.S. and global credit and financial markets and resulting in the collapse of, and government intervention in, major banks, financial institutions and insurers and creating a climate of greater volatility, less liquidity, widening of credit spreads, a lack of price transparency, increased credit losses and tighter credit conditions. Notwithstanding various actions by governments, concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions caused the broader credit markets to further deteriorate and stock markets to decline substantially. Although economic conditions improved towards the latter portion of 2009 and through 2010, these factors may impact the performance of the global economy going forward.

### **Environmental**

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and natural gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach of applicable environmental legislation may result in the imposition of fines and penalties, some of which may be material.

Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require the Company to incur costs to remedy such discharge. In certain areas where the Company operates, spills, releases and other environmental and safety issues can also occur as a result of sabotage and damage to the pipelines. Depending on the cause and severity of an environmental incident, the Company's reputation may also be adversely affected, which could limit our ability to obtain permits and implement our future plans. Although we believe that the Company is in material compliance with current applicable environmental regulations, no assurance can be given that environmental laws will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise have a material adverse effect on our business, financial condition, results of operations and prospects. Additionally, although the Company currently not a party to any material environmental litigation, there can be no assurance that the Company will not become subject to such legal proceedings in the future, which may have a material adverse effect on our business, financial condition, results of operations and prospects.

## **Climate Change**

The future implementation or modification of greenhouse gas regulations in the jurisdictions in which the Company operates could have a material impact on the nature of oil and natural gas operations. Given the evolving nature of the debate related to climate change and the control of greenhouse gases and resulting requirements, it is not possible to predict the impact on our operations and financial condition.

## **Financial Resources**

The Company's cash flow from operations may not be sufficient to fund its ongoing activities and implement its business plans. From time to time the Company may enter into transactions to acquire assets or the shares of other companies. These transactions along with the Company's ongoing operations may be financed partially or wholly with debt, which may increase the Company's debt levels above industry standards. Depending on future exploration and development plans, the Company may require additional financing, which may not be available or, if available, may not be available on favourable terms. Failure to obtain such financing on a timely basis could cause the Company to forfeit or forego various opportunities that would otherwise be beneficial to the Company and its shareholders. As at December 31, 2010, the Company has positive cash flows from operations, cash of \$723.3 million and an undrawn \$150 million credit facility.

## **International Operations**

International operations are subject to political, economic and other uncertainties, including but not limited to, risk of terrorist activities, revolution, border disputes, expropriation, renegotiations or modification of existing contracts, import, export and transportation regulations and tariffs, taxation policies, including royalty and tax increases and retroactive tax claims, exchange controls, limits on allowable levels of production, currency fluctuations, labour disputes and other uncertainties arising out of foreign government sovereignty over the Company's international operations. The Company's operations may also be adversely affected by applicable laws and policies of Colombia and Peru, the effect of which could have a negative impact on the Company.

To help mitigate the risks associated with operating in foreign jurisdictions, the Company seeks to operate in regions where the petroleum industry is a key component of the economy and government policy encourages investment in oil and gas exploration and development. Some countries in which the Company may operate may be considered politically and economically unstable. However, Petrominerales believes that management's experience operating both in Colombia and in other international jurisdictions helps reduce these risks.

## **Security**

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

## **Foreign Currency and Fiscal Matters**

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

There are no significant restrictions on the repatriation of capital and distribution of earnings from Colombia and Peru to foreign entities. There can be no assurance, however, that restrictions on repatriation of capital or distributions of earnings from Colombia and Peru will not be imposed in the future. Amendments to current taxation laws and regulations which alter tax rates and/or capital allowances could have a material adverse impact on Petrominerales. Petrominerales also has a subsidiary that is incorporated in a different tax jurisdiction.

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

**Changes to Accounting Policies, including the Adoption of International Financial Reporting Standards (“IFRS”)**

IFRS will replace GAAP for Canadian publicly accountable enterprises for financial periods ending after January 1, 2011. While IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences that are being evaluated. The implementation of IFRS may result in significant adjustments to our financial statements, which could negatively impact our business. As discussed in the Company’s December 31, 2010 Management Discussion and Analysis, 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, decommissioning liabilities, convertible debentures 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 financial statement impact of these standards is currently in the final stages of review. The precise impact on the consolidated financial statements cannot be reasonably determined at this time; however, 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.

<b>Accounting Policy Area</b>	<b>Impact of Policy Adoption</b>
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>• The Company does not expect to recognize impairment on its assets on the IFRS opening balance sheet</li> </ul>

<p>Exploration and Evaluation Expenditures (“IFRS 6”)</p>	<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 category</li> <li>• On transition, the Company expects the exploration and evaluation asset balance, to primarily consist of undeveloped land, to be between \$80 and \$90 million. IFRS 6 will also require additional disclosure in the notes to the financial statements</li> </ul>
<p>Property, Plant, and Equipment (“IAS 16”)</p>	<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>• Petrominerales will choose and apply the cost model to account for its property, plant and equipment after transition to IFRS</li> </ul>
<p>Share-Based Payments (“IFRS 2”)</p>	<ul style="list-style-type: none"> <li>• There are two main differences that will have an effect on how the Company accounts for share-based payments. The first difference is that share based awards are amortized using graded vesting (under Canadian GAAP the Company used straight-line vesting). Graded vesting requires that each instalment of an award be accounted for as a separate arrangement with its own distinct fair value measurement and service life, which will result in an accelerated amount of expense per award in comparison to Canadian GAAP. The second difference requires that share-based payment transactions be measured on the number of awards expected to vest at the end of each reporting period. These amounts are adjusted prospectively if subsequent information indicates that the initial estimates were not accurate.</li> <li>• Some impact expected on transition and we will implement the graded vesting expense method in future periods.</li> </ul>
<p>Convertible debt (“IFRS 32”)</p>	<ul style="list-style-type: none"> <li>• Under Canadian GAAP, the 2016 Notes were classified as a compound financial instrument, whereby the instrument was bifurcated into debt and equity components. The equity portion was recognised at its fair value. Under IFRS, the conversion feature (the equity portion under Canadian GAAP) of the 2016 Notes is considered a derivative liability, and is required to be fair valued at each reporting period.</li> <li>• No impact is expected on transition. However, for our third and fourth quarter 2010 comparative numbers, we will be required to reclassify the \$97 million Canadian GAAP equity portion of the 2016 Notes issued on August 25<sup>th</sup> of 2010 to a derivative liability. Under IFRS, the changes in the fair value of the derivative liability will be recognized in net income for each comparative quarter and in future periods.</li> </ul>
<p>Decommissioning Liabilities (“IAS 37”)</p>	<ul style="list-style-type: none"> <li>• IFRS and Canadian GAAP contain the same basic principles of accounting for decommissioning liabilities except under IFRS the Company will be required to use a risk-free rate for discounting the cash outflows of the related liability, which differs from Canadian GAAP that required the use of a credit-adjusted risk-free rate.</li> </ul>

	<ul style="list-style-type: none"> <li>• Some impact expected on transition and in future periods. On transition, the change in discount rate used is expected to increase the amount of the liability and retained earnings between \$8 to \$12 million on adoption of IFRS, than would have been recognized under Canadian GAAP.</li> </ul>
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The related impact of these significant changes to IFRS is expected to result in an increase in deferred income tax liabilities between \$6 to \$10 million on initial adoption of IFRS.

### **Legal Systems**

The Company is governed by the laws of Canada. PCL and PBC, which directly or indirectly own substantially all of the Company's assets, are governed by the laws of Bermuda and carry on all of their material operations in Colombia and Peru. Accordingly, the Company is subject to the legal systems and regulatory requirements of a number of jurisdictions with a variety of requirements and implications for shareholders of the Company. International exploration and development activities may require protracted negotiations with host governments, national oil companies and third parties. Foreign government regulations may favour or require the awarding of drilling contracts to local contracts or require foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction. If a dispute arises with foreign operations, the Company may be subject to the exclusive jurisdiction of foreign courts or may not be successful in subjecting foreign persons, especially foreign oil ministries and national oil companies, to the jurisdiction of Canada or Bermuda.

Colombia and Peru may have a less developed legal system than jurisdictions with more established economies, which may result in risks such as: (i) effective legal redress in the courts of such jurisdictions, whether in respect of a breach of law or regulation or in an ownership dispute, being more difficult to obtain; (ii) a higher degree of discretion on the part of governmental authorities; (iii) the lack of judicial or administrative guidance on interpreting applicable rules and regulations; (iv) inconsistencies or conflicts between and within various laws, regulations, decrees, orders and resolutions; or (v) relative inexperience of the judiciary and courts in such matters. In certain jurisdictions the commitment of local business people, government officials and agencies and the judicial system to abide by legal requirements and negotiated agreements may be more uncertain, creating particular concerns with respect to licenses and agreements for business. These may be susceptible to revision or cancellation and legal redress may be uncertain or delayed. There can be no assurance that joint ventures, licenses, license applications or other legal arrangements will not be adversely affected by the actions of government authorities or others and the effectiveness of and enforcement of such arrangements in these jurisdictions cannot be assured.

### **Ability to Pay Dividends**

Any future dividends will be reviewed by the board of directors and adjusted from time to time to reflect current business conditions. The ability of the Company to pay dividends and the actual amount of such dividends will be dependent upon, among other things, the earnings, capital requirements and financial conditions of the Company, the satisfaction of applicable solvency test in the ABCA, compliance with the Company's credit facility and other relevant factors. A number of the risk factors contained herein set forth risks that, if they materialize, could reduce the Company's cash flows and, consequently, amounts available for the payment of dividends on the Petrominerales Shares.

### **Cost of New Technologies**

The oil industry is characterized by rapid and significant technological advancements and introductions of new products and services utilizing new technologies. Other oil companies may have greater financial, technical and personnel resources that allow them to enjoy technological advantages and may in the future

allow them to implement new technologies before the Company does. There can be no assurance that the Company will be able to respond to such competitive pressures and implement such technologies on a timely basis or at an acceptable cost. One or more of the technologies currently utilized by the Company or implemented in the future may become obsolete. In such case, the Company's business, financial condition and results of operations could be materially adversely affected. If the Company is unable to utilize the most advanced commercially available technology, the Company's business, financial condition and results of operations could be materially adversely affected.

### **Conflicts of Interest**

Certain of the directors of the Company may have associations with other oil companies or with other industry participants with whom the Company conducts business. The directors of the Company are required by applicable corporate law to act honestly and in good faith with a view to the Company's best interests and to disclose any interest which they may have in any project or opportunity to the Company.

### **Relationship with Petrobank**

Through the Management Services Agreement, the Technical Services Agreement, the Joint Operating Agreement, the Option Agreement, the Technology License Agreement and the commonality of certain directors, officers and advisors, the Company has a close relationship with Petrobank and its affiliates, particularly with respect to management and heavy oil technology. The interests of Petrobank may not always be aligned with the Company's shareholders. To the extent Petrobank is unable to fulfill its obligations under these agreements, this could have an adverse effect on the Company's operations and results.

## **DIVIDEND POLICY**

Petrominerales has adopted a dividend policy in respect of the Petrominerales Shares targeting expected quarterly payments of \$0.125 per Petrominerales Share. The quarterly dividend was paid by the Company in respect of the second, third and fourth quarters of 2010. The declaration and payment of dividends will be at the discretion of the Board, which will consider the earnings, capital requirements and financial conditions of the Company, the satisfaction of applicable solvency test in the Company's governing corporate statute, the ABCA, compliance with the Company's credit facility and other relevant factors.

## **CAPITAL STRUCTURE**

### **Common Shares**

The Company is authorized to issue an unlimited number of Petrominerales Shares. As at December 31, 2010, Petrominerales had 103,391,878 Petrominerales Shares issued and outstanding. As at the date of this Annual Information Form, Petrominerales had 103,672,718 Petrominerales Shares issued and outstanding. The holders of Petrominerales Shares are entitled to vote at all meetings of the Company's shareholders, receive any dividend declared by the Board of Directors on the Shares from time to time and receive the Company's remaining property and assets upon its dissolution.

### **Convertible Notes**

On August 25, 2010, Petrominerales completed the issuance of 2016 Notes having an aggregate principal amount of \$550 million. The 2016 Notes mature on August 25, 2016, provided that the holders have a one time right to require the Company to repay the 2016 Notes on August 25, 2013. On repayment of the 2016 Notes on such date or at maturity, the Company can elect to satisfy the repayment of the principal amount of the 2016 Notes in cash or through the issuance of Petrominerales Shares. The 2016 Notes have an annual

coupon of 2.625%, with interest payable semi-annually, and are convertible into Petrominerales Shares at a conversion price of \$34.746 per share, subject to adjustment of the conversion price on the occurrence of certain events such as payment of dividends, special distributions to shareholders or a change of control of the Company.

### **Bank Debt**

On December 30, 2009, Petrominerales entered into an agreement for a secured bank loan with a borrowing base of \$150 million. The loan is secured with the assets of the Company, is reviewed semi-annually with the lender and matures on December 31, 2013. As at December 31, 2010 and as at the date of this AIF, the loan is undrawn.

The Company also has lines of credit available in Colombia totalling \$32.9 million. Advances under the facility are collateralized by a promissory note provided by the Company. At December 31, 2010, the Company had letters of credit totalling \$25.4 million outstanding to guarantee work commitments under exploration blocks.

### **SHAREHOLDER RIGHTS PLAN**

On December 17, 2010, the shareholders of the Company approved a shareholder rights plan agreement between the Corporation and Computershare Trust Company of Canada. The Rights Plan provides the Board of Directors and the shareholders more time to fully consider any unsolicited take-over bid for the Company. It will also allow more time for the Board of Directors to pursue, if appropriate, other alternatives to maximize shareholder value. The Rights Plan has an initial term that expires at the annual meeting of shareholders of the Company to be held in 2011 unless terminated earlier. The Rights Plan may be extended for an additional three years after 2011 by resolution of shareholders at such meeting.

The rights issued under the Rights Plan become exercisable only when a person, including any party related to it, acquires or announces its intention to acquire 20% or more of the Petrominerales Shares without complying with the "Permitted Bid" provisions of the Rights Plan or without approval of the Board of Directors. Should such an acquisition occur, each right would, upon exercise, entitle a rightsholder, other than the acquiring person and related persons, to purchase Petrominerales Shares at one half of the prevailing market price at the time.

The issuance of the rights will not in any way alter the financial condition of Petrominerales. The issuance is not of itself dilutive, will not affect reported earnings per Petrominerales Share and will not change the way in which shareholders would otherwise trade Petrominerales Shares. By permitting holders of rights to acquire Petrominerales Shares at a discount to market value, the rights may cause substantial dilution to a person or group that acquires 20% or more of the common shares of Petrominerales other than by way of a Permitted Bid or other than in circumstances where the rights are redeemed or the Board of Directors waives the application of the Rights Plan.

A potential bidder can avoid the dilutive features of the Rights Plan by making a bid that conforms to the requirements of a Permitted Bid. To qualify as a Permitted Bid, a take-over bid must be made for all Petrominerales Shares and must be open for 60 days after the bid is made. If at least 50% of the Petrominerales Shares held by persons independent of the bidder are deposited or tendered pursuant to the bid and not withdrawn, the bidder may take up and pay for such shares. The bid must then remain open for a further period of 10 clear business days on the same terms.

The requirements of a Permitted Bid enable each shareholder to make two separate decisions. First, a shareholder will decide whether the bid or any competing bid is adequate on its own merits. In making this

decision the shareholder need not be influenced by the likelihood that the bid will succeed. If there is sufficient support such that at least 50% of the independently held Petrominerales Shares have been tendered, a shareholder who has not already tendered to that bid will have a further 10 business days to decide whether to tender to the bid.

A copy of the Rights Plan has been filed as a “Security holder document” on the Company’s SEDAR profile at [www.sedar.com](http://www.sedar.com).

### **MARKET FOR SECURITIES**

The Petrominerales Shares are listed on the TSX under the symbol “PMG”. The following table shows the range of high and low prices per share as at the close of market and total monthly volume of common shares traded on the TSX from January 1, 2010 to December 31, 2010.

<b>Month</b>	<b>Price per Common Share (Cdn\$)</b>					<b>Volume</b>
	<b>Open</b>	<b>High</b>	<b>Low</b>	<b>Close</b>		
<b>2010</b>						
January	19.5	23.42	19.49	22.72		4,140,000
February	22.7	29.95	22.09	27.9		5,458,700
March	28.84	35	27.74	33.32		7,711,900
April	33.5	34.05	31.11	32.5		3,958,500
May	32.12	32.85	22.32	26.65		7,618,000
June	26.15	28.98	23.62	24.85		5,698,000
July	23.85	31.88	23.75	29.12		5,888,400
August	30.49	30.99	24	24.75		15,743,700
September	25.08	27.8	23.6	24.95		11,354,200
October	25.03	26.76	24.55	26.13		7,802,000
November	26.04	30.44	26.04	30.2		13,713,000
December	30.75	34.77	30.34	33.16		7,824,600

## EXECUTIVE OFFICERS, KEY EMPLOYEES AND DIRECTORS

### Executive Officers and Key Employees

The following table provides the names and municipalities of residence of the Company's executive officers as well as their positions with the Company and principal occupations for the previous five years.

<b>Name and Municipality of Residence</b>	<b>Position Held</b>	<b>Principal Occupation in the Past Five Years</b>
<b>Rubén Cano</b> Bogotá, Colombia	Vice President of Services and Logistics	Vice President of Services and Logistics since May 2010. Prior thereto, Mr. Cano served in different positions with the Company since 2007.
<b>Jeffrey Chant</b> Calgary, Alberta Canada	Vice President of Organizational Development	Mr. Jeff Chant joined Petrominerales as Vice President of Organizational Development in September 2010. Mr. Chant is President and Administrative Director of Arbinger Canada, and through Arbinger has worked with Petrominerales since 2008. Mr. Chant studied social sciences, business, theology, education and psychology, as well as management studies at Harvard Business School and the Tuck School of Business at Dartmouth.
<b>Andrea Hatzinikolas</b> Calgary, Alberta Canada	Assistant Corporate Secretary and General Counsel	Assistant Corporate Secretary and General Counsel of the Company since November 2009, Assistant Corporate Secretary and General Counsel of Petrobank since August 2008 and Corporate Secretary of PetroBakken since October 2009. From February 2007 to August 2008, Ms. Hatzinikolas was General Counsel of Petrobank. From 2003 to 2007, she was an associate at a national law firm.
<b>Allen Knight</b> Calgary, Alberta Canada	Vice President, New Ventures	Vice President, New Ventures of the Company since May 2010. Mr. Knight joined Petrobank in November, 2008 as the Vice President of New Ventures. Prior to joining Petrobank, Mr. Knight was President of Golden Eagle Energy Inc. (a private oil and gas company) from September 2005 to January 2008 and Teal Energy Inc. (a private company) from September 1998 to September 2005.
<b>Erik Lyngberg</b> Calgary, Alberta Canada	Vice President, Exploration	Senior Vice President, Exploration of the Company since May 2010. Prior thereto, Vice President Exploration of the Company since August 2008 and Chief Geologist of the Company since July 2007; Chief Geologist to Petrobank since 2001. Prior to 2001, Mr. Lyngberg held various exploration positions with a number of Calgary based exploration companies beginning with Shell Canada Limited in 1984.
<b>Alastair Macdonald</b> Pembroke, Bermuda	Corporate Secretary and Director	Corporate Secretary and Director of the Company since April 2006; Corporate Secretary of PCL and predecessor companies since September 1996; Chief Executive Officer of Western Isles Ltd. (formerly Triathlon Ltd.), a financial advisory company from November 1996 to present.

<b>Name and Municipality of Residence</b>	<b>Position Held</b>	<b>Principal Occupation in the Past Five Years</b>
<b>Tannya E. Morales</b> Bogotá, Colombia	Vice President, Finance	Vice President, Finance of the Company since May 2010. Prior thereto, Corporate Controller of the Company since May 2006 and Colombian Finance Director of Petrobank since March 2004. Ms. Morales held various positions with EnCana Corporation including Finance Manager Ecuador, International Accounting Manager, and Corporate Financial Advisor from July 1998 to December 2003.
<b>Corey C. Ruttan</b> Calgary, Alberta, Canada	President and Chief Executive Officer	President and Chief Executive Officer of the Company since May 2010. Prior thereto, Vice President, Finance and Chief Financial Officer of the Company since May 2006; Senior Vice President and Chief Financial Officer of Petrobank from November 2008 to May 2010; Executive Vice President and Chief Financial Officer of PetroBakken from October 2009 to May 2010; Vice President Finance and Chief Financial Officer of Petrobank from May 2007 to November 2008; Vice President Finance of Petrobank from May 2006 to May 2007; Director of Corporate Finance and Investor Relations of Petrobank from July 2003 to May 2007.
<b>Lorne Saina</b> Bogotá, Colombia	Vice President, Operations	Vice-President, Operations of the Company since September 2010. Prior to joining the Company, Mr. Saina was Manager of Operations for Talisman Peru from September 2007 to September 2010 and Manager of Operations for First Calgary Operations, based in Algeria, from early 2004 to September 2007.
<b>John (Jack) F. Scott</b> Bogotá, Colombia	Chief Operating Officer and Country Manager, Colombia	Chief Operating Officer and Country Manager, Colombia, since May 2010. Prior thereto, Executive Vice President and Country Manager, Colombia since May 2007. Prior to joining Petrominerales, Mr. Scott served as VP Engineering for Eurogas Corporation, involved in the development of the Castor Underground Gas Storage project offshore Spain and the development of properties offshore Tunisia. Prior to joining Eurogas Mr. Scott was self employed, involved in project development in a variety of international oil and gas projects. From 1992 to 1999 he held various positions with companies operating in Cuba including three years as Premier Oil's in-country representative managing the office and operations in Cuba.
<b>Kelly Sledz</b> Calgary, Alberta Canada	Chief Financial Officer	Chief Financial Officer since May 2010. Prior thereto, Finance Manager of the Company since January 2009. Prior to joining Petrominerales, Mr. Sledz was Vice President Finance of MegaWest Energy Corp. from February 2007 to December 2008 and Controller of First Calgary Petroleum Ltd. from February 2004 to February 2007.
<b>John D. Wright</b> Calgary, Alberta, Canada	Chairman of the Board of Directors and Strategic Advisor	Chairman of the Board and Strategic Advisor to the Company since May 2010. Prior thereto, President, Chief Executive Officer and Director of the Company from May 2006 to May 2010. President and Director of PCL and predecessor companies since May 22, 2002. Mr. Wright is also the President, Chief Executive Officer and Director of Petrobank since March 2000 and the Chief Executive Officer and Chairman of the Board of PetroBakken since October 2009.

## **Biographies**

**Rubén Cano** has been with the Company since 2007 and was named as Vice President of Services and Logistics in May 2010. Mr. Cano has more than 15 years of experience in the industry, supervising the logistics, coordination and transportation of operating materials, services and production. Mr. Cano obtained an undergraduate degree in 1978 and a certificate in Business Administration in 1985.

**Jeff Chant** joined Petrominerales as Vice President of Organizational Development in September 2010. Mr. Chant is President and Administrative Director of Arbinger Canada, and through Arbinger has worked with Petrominerales since 2008. Mr. Chant studied social sciences, business, theology, education and psychology, as well as management studies at Harvard Business School and the Tuck School of Business at Dartmouth.

**Andrea Hatzinikolas** is the Assistant Corporate Secretary and General Counsel of the Company. Ms. Hatzinikolas joined Petrobank as General Counsel in January 2007. Ms. Hatzinikolas has also been the Corporate Secretary of PetroBakken since October 2009. Prior to joining Petrobank, Ms. Hatzinikolas was an associate in a large law firm in Calgary, with a practice focusing on securities and corporate law. Ms. Hatzinikolas received her Bachelor of Commerce degree from the University of Alberta in 1999 and Bachelor of Laws degree in 2003. Ms. Hatzinikolas is a member of the Law Society of Alberta and the Canadian Bar Association.

**Allen Knight** joined Petrominerales in May 2010. Prior to joining Petrominerales, Mr. Knight was involved with Petrominerales while working at Petrobank as the Vice President of New Ventures since November 2008. Prior to joining Petrobank, Mr. Knight was President of Golden Eagle Energy Inc. (a private oil and gas company) from September 2005 to January 2008, Teal Energy Inc. (a private company) from September 1998 to September 2005 and Equitus Financial Services (advisor on merger and acquisitions) from October 1996 to January 1998. From January 1993 to October 1996 Mr. Knight held various positions within Morgan Hydrocarbons including Vice President Marketing. Prior to 1993, Mr. Knight worked in various acquisition and corporate finance positions. Mr. Knight graduated from the University of Alberta with a Bachelor of Science degree in Engineering and obtained his Masters of Business Administration from the University of Calgary in 1990.

**Erik Lyngberg** was appointed Senior Vice President, Exploration in May 2010, was Vice President, Exploration since August 2008 and was Chief Geologist since July 2007. Mr. Lyngberg has been with Petrobank since February 2001. During this time he has been extensively involved in each of Petrobank's business units, including the initial drilling phases at Orito and Neiva in Colombia. Prior thereto, Mr. Lyngberg was a Senior Geologist for Newport Petroleum Corp/Hunt Oil from November 1998 to January 2001, Geologist for HCO Energy/Pinnacle Resources from February 1997 to July 1998, Geologist for Westcoast Petroleum/Numac Energy from 1991 to 1997, and a Geologist for Shell Canada from 1985 to 1991. Mr. Lyngberg has a Master's Degree in Geology from the University of British Columbia, as well as a Bachelor's degree from the University of British Columbia.

**Alastair Macdonald** is the Company's Corporate Secretary and has been a Director of the Company since April 2006 and has been Corporate Secretary of PCL and predecessor companies since September 1996. He has been the Chief Executive Officer of Western Isles Ltd., a financial advisory company from September 2007 to Present; and was Chief Executive Officer of Triathlon Ltd., a financial advisory company, from September 1996 to September 2007.

**Tannya E. Morales** was appointed Vice-President, Finance in May 2010 and previously served as the Company's Corporate Controller since May 2006. She held positions with EnCana Corporation and its predecessors Alberta Energy Company and Pacalta Energy Ltd. including Finance Manager (Ecuador), and International Accounting Manager and Corporate Financial Advisor (Canada) from July 1998 to December

2003. She was Finance and Administrative Director of Rhone Poulenc Rorer in Ecuador from July 1997 to July 1998 and served as Assistant Controller at Occidental Petroleum from January 1988 to July 1997. She was a public accountant with Arthur Andersen & Co. between 1986 and 1988. Ms. Morales obtained her C.P.A. designation in 1989 and a Master's degree in Business Administration from the University San Francisco in 1996.

**Corey C. Ruttan** was appointed President and Chief Executive Officer of the Company in May 2010 and previously was the Vice President Finance and Chief Financial Officer of the Company since May 2006. Mr. Ruttan was the Senior Vice President and Chief Financial Officer of Petrobank Energy and Resources Ltd. and has held various positions with Petrobank since March 2000 including Chief Financial Officer, Vice President Finance, Director of Corporate Finance and Investor Relations, Director of Corporate Finance and Manager of Corporate Finance. He also served as Executive Vice President and Chief Financial Officer of PetroBakken Energy Ltd. from October 2009 to May 2010. Mr. Ruttan previously served as Vice President of Caribou Capital Corp. from June 1999 to March 2000; Manager Financial Reporting of Pacalta Resources Ltd. from May 1997 to June 1999; and articulated with KPMG from September 1994 to May 1997. Mr. Ruttan obtained his Bachelor of Commerce degree majoring in Accounting from the University of Calgary in 1994 and obtained his Chartered Accountant designation in 1997.

**Lorne Saina** joined Petrominerales in September 2010 as Vice President, Operations based in Bogota, Colombia. He has over thirty years of Petroleum Experience in both Canadian and International settings of increasing magnitude. Prior to joining Petrominerales Mr. Saina was Operations Manager for Talisman Peru for three years based in Lima. Prior to that, Mr. Saina was Operations Manager for First Calgary Petroleums based in the Sahara desert of Algeria and this was preceded by an Operations Manager role in Sudan with Talisman for two years. Mr Saina has solid experience of increasing responsibility in the areas of Production Operations and Optimization, as well as strong Drilling and Completions experience in Western Canada. Mr. Saina graduated from the University of Alberta in 1980 with a Bachelors degree in Petroleum Engineering and is a Professional Engineer as a member of APEGGA.

**John (Jack) F. Scott** is the Company's Chief Operating Officer and Country Manager, Colombia. Mr. Scott joined Petrominerales in May 2007 as Executive Vice President and Country Manager, Colombia. Prior to joining Petrominerales, Mr. Scott served as VP Engineering for Eurogas Corporation, involved in the development of the Castor Underground Gas Storage project offshore Spain and the development of properties offshore Tunisia. Prior to joining Eurogas Mr. Scott was self employed, involved in project development in a variety of international oil and gas projects. From 1992 to 1999 he held various positions with companies operating in Cuba including three years as Premier Oil's in-country representative managing the office and operations in Cuba. He began his engineering career with Amoco Canada Petroleum Company Ltd. and later Westcoast Petroleum Ltd. (a total of ten years) moving to progressively senior engineering positions. Mr. Scott graduated from McGill University in 1980 with a Bachelor of Mechanical Engineering degree and is a member of the Association of Professional Engineers, Geologists and Geophysicists of Alberta.

**Kelly Sledz** is the Company's Chief Financial Officer and is a Chartered Accountant with over 15 years work experience in accounting, tax and finance. Mr. Sledz joined Petrominerales in January 2009 as Finance Manager, and has held management positions at two other publicly listed oil and gas companies, First Calgary Petroleums Ltd. and Mega West Energy Corp. Prior to working in the industry, Mr. Sledz spent a number of years in public accounting at KPMG in Calgary focusing on oil and gas clients and international clients in Belgium. Mr. Sledz also holds a Chartered Financial Analyst designation and obtained his Bachelor of Commerce from the University of Alberta in 1995.

**John D. Wright** is the Chairman of the Board of Directors and Strategic Advisor of the Company. Mr. Wright served as President, Chief Executive Officer and a Director of Petrominerales from May 2006 to May

2010. Mr. Wright has served as the President, Chief Executive Officer and a Director of Petrobank since March 2000 and Chief Executive Officer and Chairman of the Board of PetroBakken since October 2009. Previously, Mr. Wright was the General Manager of Alberta Energy Company's Ecuadorian operations from May to December 1999; President and Chief Executive Officer of Pacalta Resources Ltd. from May 1996 to June 1999; Executive Vice President and Chief Operating Officer of Morgan Hydrocarbons Inc. from December 1993 to April 1996; and Vice President Production of Morgan Hydrocarbons Inc. from 1989 to 1993. Mr. Wright graduated from the University of Alberta in 1981 with a Bachelor of Science degree in Petroleum Engineering and became a Chartered Financial Analyst charterholder in 1986.

## **Directors**

The following table provides the names and municipalities of residence of the Company's directors together with brief biographies, the date they were first appointed to the Company's Board of Directors and their principal occupation for the previous five years.

<b>Name and Municipality of Residence</b>	<b>Director Since</b>	<b>Principal Occupation in the Past Five Years</b>
<b>Alastair Macdonald</b> <sup>(2)</sup> Pembroke, Bermuda	April 2006	Corporate Secretary and Director of the Company since April 2006; Corporate Secretary of PCL and predecessor companies since September 1996; Chief Executive Officer of Western Isles Ltd., a financial advisory company from September 2007 to Present; Chief Executive Officer of Triathlon Ltd., a financial advisory company from September 1996 to September 2007.
<b>Kenneth R. McKinnon</b> <sup>(1)(2)</sup> Calgary, Alberta, Canada	May 2006	Director of Petrobank Energy and Resources Ltd. since March 2000 and Director of PetroBakken since October 2009. Mr. McKinnon holds the position of Vice President Legal and General Counsel of Critical Mass Inc., a website design company.
<b>Jerald L. Oaks</b> <sup>(1)</sup> Greenwood Village, Colorado, USA	May 2006	Director of Petrobank Energy and Resources Ltd. since September 1993, Professional Engineer, President of Oaks Resources Management Inc. since June 1986.
<b>Ernesto Sarpi</b> <sup>(3)</sup> Naples, Italy	May 2006	Self-employed consultant since 2004; Manager of New Ventures of ENI SpA. Agip Div. from November 1999 to May 2004.
<b>Enrique Umaña-Valenzuela</b> <sup>(1)</sup> Bogotá, Colombia	May 2006	Trade and investment consultant since May 2005, Director of Sociedades Bolivar since March 2006, President of Coinvertir - Invest in Colombia Corporation from July 1997 to April 2005.
<b>John D. Wright</b> <sup>(3)</sup> Calgary, Alberta, Canada	May 2006	President, Chief Executive Officer and Director of Petrobank Energy and Resources Ltd. since March 2000 and Chief Executive Officer and Chairman of the Board of PetroBakken since October 2009.
<b>Geir Ytreland</b> <sup>(2)(3)</sup> Droebak, Norway	May 2006	Self-employed consultant since April 2000; General Manager Norsk Hydro from March 1993 to March 2000; Project Manager for development of the East Timor petroleum industry since January 2004.

### **Notes:**

1. Member of the Audit Committee.
2. Member of Compensation Committee.
3. Member of the Reserves Committee

## **Biographies**

For a biography of each of Mr. Wright and Mr. Macdonald see "*Executive Officers, Key Employees and Directors — Executive Officers and Key Employees*".

**Kenneth R. McKinnon:** Mr. McKinnon has been a director of Petrominerales since May 2006. He has also served as a director of Petrobank since March 2000 and a director of PetroBakken since November 2009, and was Corporate Secretary of Petrobank from November 1997 to February 2005 and Vice President, Finance and Chief Financial Officer from November 1997 to March 2000. Mr. McKinnon has held the position of Vice President Legal and General Counsel of Critical Mass Inc. since March 2000. Mr. McKinnon has served on the Board of Governors of the University of Calgary since September 2008 and as a member of its Governance and Human Resources Committee since June 2010, and as a director and chairman of the Governance and Compensation Committee of Alberta Innovates – Technology Futures since January 2010. Mr. McKinnon holds an ICD.D designation as a certified corporate director.

**Jerald L. Oaks:** Mr. Oaks was one of the original founders of Petrobank and has been a Director of Petrobank since September 1993. He is currently President and founder of Oaks Resources Management Inc., which provides oil and gas property management and technical services for institutional and private oil and gas interest owners. Mr. Oaks received a Bachelor of Science degree in Petroleum Engineering from the University of Texas at Austin in 1958. Mr. Oaks has 48 years of oil and gas experience including various engineering roles at Phillips Petroleum Company working in Texas, Venezuela, Algeria, Libya and Colombia. In 1973, Mr. Oaks was a founder of Taiga Energy, Inc. which specialized in tight gas development, primarily in the Uintah and Piceance Basins of Colorado and Utah. In 1980, Mr. Oaks was a founder and President of Petrobank Operating Company, a gas producing and development company specializing in new technology development for gas production, which drilled and operated 200 gas wells with extensive lease holdings in Pennsylvania. Mr. Oaks is a registered Professional Engineer (Texas) and a member of the Society of Petroleum Engineers and American Institute of Mining and Metallurgical Engineers.

**Ernesto Sarpi:** Mr. Sarpi is currently a self-employed consultant. From 1999 to 2004, Mr. Sarpi was Business Manager Americas & Far East, Agip Division, of ENI Group. Prior thereto, Mr. Sarpi was Portfolio and Joint Venture Manager, Agip UK Ltd. from 1995 to 1999; General Manager, Agip Africa Algerian Branch from 1993 to 1994; Manager Negotiations International Exploration, Agip SpA from 1991 to 1993 and General Manager, Agip Energy and Natural Resources (Nigeria) from 1988 to 1991. Mr. Sarpi obtained a Doctor in Geological Sciences degree from the University of Naples in 1961 and a Ph.D. in Geology from Columbia University in 1967.

**Enrique Umaña-Valenzuela:** Mr. Umaña-Valenzuela, a citizen and resident of Colombia, has been in private practice as a trade and investment consultant and has also been involved in family land developing activities since May 2005. Mr. Umaña-Valenzuela acted as President of the investment promotion agency of Colombia, Coinvertir, from 1997 to April 2005 and as a part-time legal representative from May 2005 to December 2005. Prior thereto, Mr. Umaña-Valenzuela was in private practice as a trade and investment consultant from 1995 to 1997. Mr. Umaña-Valenzuela acted as International Adviser to the Minister of Defense in Colombia and later as Vice Minister of Defense in 1995. Prior thereto, Mr. Umaña-Valenzuela acted as Deputy Chief of Mission of the Colombian Embassy and later as Chargé d'Affaires in Washington, D.C. in late 1994; as Minister Counselor of the Colombian Embassy of Colombia from 1991 to 1994; as Director of the Colombian Government Trade Bureau in New York City from 1983 to 1991; and as Financial Vice President of the Bogotá Telephone Company from 1982 to 1983. Mr. Umaña-Valenzuela is a Director of Sociedades Bolivar S. A. and a member of its Audit Committee, and a member of the Overseeing Committee of the Colombian Hydrocarbons Investment Fund, Phases I, II and III, and of the Colombian Forestry Investment Fund. Mr. Umaña-Valenzuela is also a member of the International Advisory Council of the Americas Society in New York City. Mr. Umaña-Valenzuela obtained a Bachelor of Arts degree in Economics and International Relations from Columbia University in 1962.

**Geir Ytreland:** Mr. Ytreland is a geologist, with more than 26 years experience in the international petroleum industry. From January 2004 he was the project manager for the undertaking: “Assistance in developing the management of the petroleum sector in East Timor”, a project financed by the government of

Norway and intended to develop the East Timor government's management and administration of the petroleum sector in that nation. Mr. Ytreland completed this assignment in May 2006 and has continued working as an independent energy and geology consultant in Oslo, Norway. Mr. Ytreland has also worked as a geoscientist and explorationist for Unocal (13 years) and Norsk Hydro (7 years) in Southeast Asia, Africa, Europe, United States, the Middle East and Latin America. He was General Manager for Norsk Hydro in Venezuela from 1995 to 2000. Since 2000 he has been an independent consultant and prior to taking up the position in East Timor he was a consultant for Saudi Aramco in Dhahran, Saudi Arabia. Mr. Ytreland holds a Master of Science degree in geology from the University of Bergen in Norway.

### **Share Ownership of Executive Officers and Directors**

As at March 30, 2011, Petrominerales had 103,672,718 Shares issued and outstanding. As at December 31, 2010, the directors and executive officers of the Company as a group beneficially owned or exercised control or direction over 3,937,030 Shares of the Company, representing approximately 3.8% of the common shares issued and outstanding as at March 30 31, 2011.

### **Conflicts of Interest**

Certain of the directors of the Company may have associations with other oil companies or with other industry participants with whom the Company conducts business. The directors of the Company are required by applicable corporate law to act honestly and in good faith with a view to the Company's best interests and to disclose any interest which they may have in any project or opportunity to the Company.

Specifically, each of Mr. John Wright, Kenneth McKinnon and Jerald Oaks are directors of the Company and directors of Petrobank. Corey Ruttan, the President and Chief Executive Officer of the Company, is also a director of Petrobank. The Company has certain ongoing contractual arrangements with Petrobank. See "*Risk Factors – Relationship with Petrobank*" and "*Interests of Management and Others in Material Transactions*". Any conflicts involving the above directors and officers with respect to the transactions between Petrobank and Petrominerales will be dealt with in accordance with the provisions of the ABCA, including, as applicable, through notices of conflict, abstention of voting and/or the formation of independent committees.

## **AUDIT COMMITTEE**

### **Composition of the Audit Committee**

The Audit Committee is scheduled to meet no less than four times each year and will hold additional meetings as circumstances otherwise warrant. The Audit Committee is comprised of Messrs. McKinnon (Chairman), Oaks and Umaña-Valenzuela. All of the members of the Audit Committee are considered independent within the meaning of MI 52-110.

All members of the Audit Committee are financially literate, as defined in MI 52-110. The Audit Committee has a defined *Mandate and Terms of Reference* and is responsible for reviewing and overseeing the external audit function, recommending the external auditor and the terms of such appointment or discharge, reviewing external auditor reports and significant findings and reviewing and recommending for approval to the Board of Directors of the Company all public financial disclosure information such as financial statements, management's discussion and analysis, annual information forms and prospectuses.

### **Charter of the Audit Committee**

Please refer to Appendix "C" to this Annual Information Form for the full text of the *Mandate and Terms of Reference* of the Audit Committee.

## **Relevant Education and Experience of the Audit Committee Members**

The following is a brief summary of the education or experience of each member of the Audit Committee that is relevant to the performance of his responsibilities as a member of the Audit Committee, including any education or experience that has provided the member with an understanding of the accounting principles used by the Company to prepare the annual and interim financial statements of the Company.

<b>Name of Audit Committee Member</b>	<b>Relevant Education and Experience</b>
<b>Kenneth R. McKinnon</b>	Mr. McKinnon has been Vice President Legal Affairs and General Counsel of Critical Mass Inc. since September 2000 and is also a director and member of the Audit Committee of Petrobank and PetroBakken. Over this time he gained experience in analyzing financial statements and he has an understanding of internal controls and procedures for financial reporting and has experience supervising persons engaged in the preparation, analysis and evaluation of financial statements. He has gained an understanding of Audit Committee functions through his involvement with Petrobank and other public corporations. Mr. McKinnon obtained his Bachelor of Commerce degree from the University of Calgary in 1980 and obtained his Bachelor of Laws degree from Queens University in 1983.
<b>Jerald Oaks</b>	Mr. Oaks received a Bachelor of Science degree in Petroleum Engineering from the University of Texas at Austin in 1958. Mr. Oaks has 48 years of oil and gas experience including various engineering roles at Phillips Petroleum Company working in Texas, Venezuela, Algeria, Libya and Colombia. In 1973, Mr. Oaks was a founder of Taiga Energy, Inc. which specialized in tight gas development, primarily in the Uintah and Piceance Basins of Colorado and Utah. In 1980, Mr. Oaks was a founder and President of Petrobank Operating Company, a gas producing and development company specializing in new technology development for gas production, which drilled and operated 200 gas wells with extensive lease holdings in Pennsylvania. Mr. Oaks is a registered Professional Engineer (Texas) and a member of the Society of Petroleum Engineers and American Institute of Mining and Metallurgical Engineers.
<b>Enrique Umaña-Valenzuela</b>	Mr. Umaña-Valenzuela, a citizen and resident of Colombia, has been in private practice as a trade and investment consultant and has also been involved in family land developing activities since May 2005. Mr. Umaña-Valenzuela acted as President of the investment promotion agency of Colombia, Coinvertir, from 1997 to April 2005 and as a part-time legal representative from May 2005 to December 2005. Prior thereto, Mr. Umaña-Valenzuela was in private practice as a trade and investment consultant from 1995 to 1997. Mr. Umaña-Valenzuela acted as International Adviser to the Minister of Defense in Colombia and later as Vice Minister of Defense in 1995. Prior thereto, Mr. Umaña-Valenzuela acted as Deputy Chief of Mission of the Colombian Embassy and later as Chargé d'Affaires in Washington, D.C. in late 1994; as Minister Counselor of the Colombian Embassy of Colombia from 1991 to 1994; as Director of the Colombian Government Trade Bureau in New York City from 1983 to 1991; and as Financial Vice President of the Bogotá Telephone Company from 1982 to 1983. Mr. Umaña-Valenzuela is a Director of Sociudades Bolivar S. A., of Bancafe International in Miami, and a member of the Overseeing Committee of the Colombian Hydrocarbons Investment Fund, Phase I and Phase II, and of the Colombian Forestry Investment Fund. Mr. Umaña-Valenzuela is also a member of the International Advisory Council of the Americas Society in New York City. Mr. Umaña-Valenzuela obtained a Bachelor of Arts degree in Economics and International Relations from Columbia University in 1962.

## **Audit Committee Oversight**

At no time since the commencement of the Company's most recently completed financial year, has a recommendation of the Audit Committee to nominate or compensate an external auditor not been adopted by the Company.

## **Pre-approval Policies and Procedures**

The Audit Committee also pre-approves all non-audit services to be conducted by the external auditors and ensures that management has effective internal control systems, investigates any recommendations for improvement of internal controls and meets at least annually with the Company's external auditors without management present and at least quarterly with management present. The Company does not have internal auditors and given the size of the Company, the Company considers this to be practical and appropriate.

## **External Audit Fees**

Deloitte & Touche LLP was engaged by the Company on January 12, 2007. For the years ended December 31, 2010 and 2009, Deloitte & Touche LLP and its affiliates were paid \$391,000 and \$293,400, respectively, as categorized below.

	<u>2010</u>	<u>2009</u>
Audit fees	\$202,100	\$218,100
Audit-related fees <sup>(1)</sup>	188,900	75,300
Tax fees	-	-
Total	<u>\$391,000</u>	<u>\$293,400</u>

### **Notes:**

1. Audit related fees in 2010 relate to quarterly interim reviews and costs related to the Company's Colombian Stock Exchange application. Audit related fees in 2009 fees relate to quarterly interim reviews and prospectus fees related to Petrominerales' secondary share offering in April 2009.

## **CEASE TRADE ORDERS, BANKRUPTCIES, PENALTIES OR SANCTIONS**

Except as disclosed herein, to the knowledge of the Company:

- (a) no director or executive officer of the Company is as at the date hereof or was within the 10 years prior to the date hereof, a director, chief executive officer or chief financial officer of any company that, while the director or executive officer was acting in such capacity, was subject to any cease trade order or similar order or any order that denied the relevant company from access to exemptions securities legislation that was in effect for a period of more than 30 consecutive days and (i) was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer, or (ii) was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer but resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer;
- (b) no director or executive officer of the Company and no security holder holding a sufficient number of securities of the Company to affect materially the control of the Company, has been subject to (i) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority, or (ii) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision; and
- (c) no director or executive officer of the Company and no security holder holding a sufficient number of securities of the Company to affect materially the control of the Company, or a personal holding company of any such persons, is or has been within the 10 years preceding the date of this Annual Information Form, a director or executive officer of any company, that while that person was acting in such a capacity, or within a year of that person ceasing to act in that capacity, became bankrupt,

made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

Corey C. Ruttan entered into a settlement agreement with the Alberta Securities Commission (“ASC”) on May 3, 2002 in respect of an insider trading violation relating to a May 17, 2000 trade. Mr. Ruttan cooperated completely in resolving the matter with the regulators. The settlement resulted in Mr. Ruttan paying an administrative penalty of \$10,000, representing a return of profits, and the costs of the proceeding in the amount of \$3,925. For a period of one year, Mr. Ruttan agreed to cease trading in securities and to not act as a director or officer of a public company. These restrictions expired on May 3, 2003. Mr. Ruttan is a Chartered Accountant in good standing.

Mr. John D. Wright is a director of Canadian Energy Exploration Inc. (“CEE”) (formerly TALON International Energy, Ltd.), a reporting issuer listed on the TSX Venture Exchange. A cease trade order (the “ASC Order”) was issued on May 7, 2008 against CEE by the ASC for the delayed filing of CEE’s audited annual financial statements and management’s discussion and analysis for the year ended December 31, 2007 (“Annual Filings”). The Annual Filings were filed by CEE on SEDAR on May 8, 2008. As a result of the Order, the TSX Venture Exchange suspended trading in CEE’s shares on May 7, 2008. In addition, on June 4, 2009 the British Columbia Securities Commission (“BCSC”) issued a cease trade order (the “BCSC Order”) against CEE for the failure of CEE to file its audited annual financial statements and management’s discussion and analysis for the year ended December 31, 2008 and its unaudited interim financial statements and management’s discussion and analysis for the three months ended March 31, 2009.

CEE made application to the ASC and BCSC for revocation of the ASC Order and the BCSC Order. The ASC and the BCSC have issued revocation orders dated October 14, 2009 and November 30, 2009, respectively, granting full revocation of compliance-related cease trade orders issued by the ASC and the BCSC in respect of CEE.

### **PRINCIPAL SHAREHOLDER**

The following table shows information concerning the securities of the Company directly or indirectly beneficially owned by each person or company who, as at the date of this Annual Information Form, owned of record, or who, to the knowledge of the Company, owned beneficially or exercised control or direction over, directly or indirectly, more than 10% of any class or series of voting securities of the Company.

<b>Name</b>	<b>Number of Common Shares Outstanding</b>	<b>Number of Common Shares Owned</b>	<b>Type of Ownership</b>	<b>Percentage Owned</b>
Fidelity Management & Research Company, Pyramis Global Advisors, LLC, Pyramis Global Advisors Trust Company Strategic Advisers Incorporated FIL Limited	103,676,927	17,873,381	Beneficial	17.24%

### **LEGAL PROCEEDINGS**

As of the date hereof, except as disclosed below, there are no outstanding legal proceedings or legal proceedings known to be contemplated to which the Company is a party or in respect of which any of the properties of the Company are subject that are anticipated to be material to the Company.

Petrominerales currently has a dispute with the 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 ANH has indicated their view that exploitation areas under the Corcel Contract should be combined for the purposes of determining when the high price participation payment 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 the high price participation payment 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 requested additional payments aggregating to \$68.9 million to date. Although cumulative production from the Block was 12.6 million barrels to December 31, 2010, none of Petrominerales’ individual 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 high price participation payment is required once each exploitation area has cumulatively produced more than five million barrels of oil.

### **INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

Except as disclosed herein, no director, executive officer, or person or company that is the direct or beneficial owner of, or who exercises control or direction over, more than 10 percent of the common shares and no associate or affiliate of any of the foregoing has, or has had, any material interest in any transaction prior to the date hereof or any proposed transaction that has materially affected or will materially affect the Company.

Each of Mr. John Wright, Kenneth McKinnon and Jerald Oaks are directors of the Company and directors of Petrobank. Corey Ruttan, the President and Chief Executive Officer of the Company, is also a director of Petrobank.

Prior to the Reorganization on December 31, 2010, Petrominerales had a Technical Services Agreement with Petrobank, for items such as geological, geophysical, and engineering services provided by Petrobank to the Company. All charges were based on cost plus an administrative fee, of no more than five percent. These costs totalled \$4.6 million for the year ended December 31, 2010 (2009 - \$1.3 million). For further information see “*Relationship with Petrobank*”.

The Company and Petrobank entered into a management services agreement (the “**Management Services Agreement**”) dated June 9, 2006, and effective May 1, 2006 which provides that Petrobank will provide the Company with administrative services and office space. The Management Services Agreement automatically renews annually unless one months’ notice is given by either party prior to the commencement of the next term. The fee was based on a negotiated value of services provided. Costs under this agreement totalled \$1.6 million for the year ended December 31, 2010 (2009 - \$1.3 million). The Management Services Agreement may be terminated by either party upon 30 days’ notice and payment by the Company of all fees and expenses owing under the Management Services Agreement.

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

## **AUDITORS, TRANSFER AGENT AND REGISTRAR**

The auditors of the Company are Deloitte & Touche LLP, Chartered Accountants, 3000 Scotia Centre, 700 - 2<sup>nd</sup> Street SW, Calgary, Alberta, T2P 0S7.

The transfer agent and registrar for the Petrominerales Shares is Computershare Trust Company of Canada, at its principal offices in Calgary, Alberta and Toronto, Ontario, where transfers of securities may be recorded.

## **INTERESTS OF EXPERTS**

Deloitte & Touche LLP, Chartered Accountants, are the Company's auditors and as such have prepared an opinion with respect to the Company's consolidated financial statements as at and for the fiscal year ended December 31, 2010. Deloitte & Touche LLP is independent in accordance with the Rules of Professional Conduct as outlined by the Institute of Chartered Accountants of Alberta.

Information relating to reserves in this Annual Information Form was calculated by D&M as an independent qualified reserves evaluator. The principals of D&M, individually or as a group, neither own nor expect to receive any of Petrominerales' securities, directly or indirectly.

## **MATERIAL CONTRACTS**

Except as disclosed below, the Company has not entered into any material contracts that are not disclosed or otherwise entered in the ordinary course of business.

On August 25, 2010, the Company and Norsk Tillitsmann ASA, as Loan Trustee on behalf of the holders of the 2016 Notes, entered into a loan agreement (the "**Loan Agreement**") with respect to the private placement of the 2016 Notes. See "*Capital Structure – Convertible Notes*". The Loan Agreement may be found on SEDAR at [www.sedar.com](http://www.sedar.com).

Effective November 19, 2010, the Corporation and Computershare Trust Company of Canada entered into the shareholder rights plan agreement. The Rights Plan may be found on SEDAR at [www.sedar.com](http://www.sedar.com). See "*Shareholder Rights Plan*".

## **ADDITIONAL INFORMATION**

Additional information relating to the Company may be found on SEDAR at [www.sedar.com](http://www.sedar.com).

Additional information, including information as to directors' and officers' remuneration and indebtedness, principal holders of the Company's securities, options to purchase securities and interests of insiders in material transactions, will be available in the Management Proxy Circular of the Company to be provided for the annual and special meeting of the shareholders of the Company to be held on May 12, 2011. Additional financial information is also provided in the Company's consolidated financial statements and Management's Discussion and Analysis for the year ended December 31, 2010 which are available on the Company's website at [www.petrominerales.com](http://www.petrominerales.com), and in the Annual Report of the Company for the year ended December 31, 2010, to be available on SEDAR at [www.sedar.com](http://www.sedar.com).

**APPENDIX “A”**

**FORM 51-101F3**

**REPORT OF MANAGEMENT AND DIRECTORS  
ON OIL AND GAS DISCLOSURE**

Management of Petrominerales Ltd. (the “Company”) are responsible for the preparation and disclosure of information with respect to the Company’s oil and gas activities in accordance with securities regulatory requirements. This information includes reserves data which are estimates of proved reserves and probable reserves and related future net revenue as at December 31, 2010, estimated using forecast prices and costs.

Independent qualified reserves evaluators have evaluated the Company’s reserves data. The report of the independent qualified reserves evaluators is presented herein and will be filed with securities regulatory authorities concurrently with this report.

The Reserves Committee of the Board of Directors of the Company has:

- (a) reviewed the Company’s procedures for providing information to the independent qualified reserves evaluators;
- (b) met with the independent qualified reserves evaluators to determine whether any restrictions affected the ability of the independent qualified reserves evaluators to report without reservation, to inquire whether there had been any disputes between the previous independent qualified reserves evaluator, and
- (b) reviewed the reserves data with management and the independent qualified reserves evaluators.

The Reserves Committee of the Board of Directors has reviewed the Company’s procedures for assembling and reporting other information associated with oil and gas activities and has reviewed that information with management. The Board of Directors has, on the recommendation of the Reserves Committee, approved:

- (a) the content and filing with securities regulatory authorities of Form 51-101F1 containing reserves data and other oil and gas information;
- (b) the filing of Form 51-101F2 which is the report of the independent qualified reserves evaluators on the reserves data, and
- (c) the content and filing of this report.

Because the reserves data are based on judgements regarding future events, actual results will vary and the variations may be material.

(signed) “*Corey Ruttan*”

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Corey Ruttan,  
President and Chief Executive Officer

(signed) “*John (Jack) Scott*”

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John (Jack) F. Scott,  
Chief Operating Officer and Country Manager,  
Colombia

(signed) “*Ernesto Sarpi*”

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Ernesto Sarpi,  
Director and Member of the Reserves  
Committee

(signed) “*Geir Ytreland*”

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Geir Ytreland,  
Director and Member of the Reserves  
Committee

March 31, 2011

**APPENDIX “B”**

**FORM 51-101F2  
REPORT ON RESERVES DATA BY  
INDEPENDENT QUALIFIED RESERVES EVALUATOR**

To the Board of Directors of Petrominerales Colombia Ltd. (the “Company”):

1. We have evaluated the Company’s reserves data as at December 31, 2010. The reserves data are estimates of proved reserves and probable reserves and related future net revenue as at December 31, 2010, estimated using forecast prices and costs.
2. The reserves data are the responsibility of the Company’s management. Our responsibility is to express an opinion on the reserves data based on our evaluation.

We carried out our evaluation in accordance with standards set out in the Canadian Oil and Gas Evaluation Handbook (the “COGE Handbook”) prepared jointly by the Society of Petroleum Evaluation Engineers (Calgary Chapter) and the Canadian Institute of Mining, Metallurgy & Petroleum (Petroleum Society).

3. Those standards require that we plan and perform an evaluation to assure that reserves estimates are free of material misstatement. An evaluation also includes assessing whether the reserves data are in accordance with principles and definitions presented in the COGE Handbook.
4. The following table sets forth the estimated future net revenue (before deduction of Canadian income taxes) in thousands of United States dollars (M U.S.\$) for proved-plus-probable reserves, estimated using forecast prices and costs and calculated using a discount rate of 10 percent, included in the reserves data of the Company evaluated by us for the year ended as of December 31, 2010, and identifies the respective portions thereof that we have evaluated and reported to Company’s management:

Independent Qualified Reserves Evaluator	Description and Effective Date of Evaluation	Location of Reserves	Net Present Value of Future Net Revenue (before Canadian Income Tax, Discounted at 10 Percent)			
			Audited (M U.S.\$)	Evaluated (M U.S.\$)	Reviewed (M U.S.\$)	Total (M U.S.\$)
DeGolyer and MacNaughton	Appraisal Report as of December 31, 2010 on Certain Properties in Colombia for Petrominerales Colombia Ltd. dated February 23, 2011	Colombia	Not Applicable	1,861,451	Not Applicable	1,861,451

5. In our opinion, the reserves and revenue evaluated by us have, in all material respects, been determined and are in accordance with the COGE Handbook, consistently applied. We express no opinion on the reserves data that we reviewed but did not evaluate.
6. We have no responsibility to update our report referred to in paragraph 4 for events and circumstances occurring after the report preparation date.
7. Because the reserves data are based on judgments regarding future events, actual results will vary and the variations may be material.

Executed as to our report referred to above:

DeGolyer and MacNaughton, Dallas, Texas, USA, dated February 23, 2011.

Submitted,

(signed) "*DeGolyer and MacNaughton*"

DeGolyer and MacNaughton

## APPENDIX “C”

### AUDIT COMMITTEE CHARTER

#### **PETROMINERALES LTD. AUDIT COMMITTEE OF THE BOARD OF DIRECTORS MANDATE AND TERMS OF REFERENCE**

##### A. PURPOSE

The primary function of the Audit Committee is to assist the board of directors (the “**Board of Directors**” or “**Board**”) of Petrominerales Ltd. (“**Petrominerales**” or the “**Company**”) in fulfilling its responsibilities by reviewing: the financial reports and other financial information provided by Petrominerales to any regulatory body or the public; the Company’s systems of internal controls regarding preparation of those financial statements and related disclosures that management and the Board have established; and, the Company’s auditing, accounting and financial reporting processes generally. Consistent with this function, the Audit Committee should encourage continuous improvement of, and should foster adherence to, the Company’s policies, procedures and practices at all levels. The Audit Committee’s primary objectives are:

- To assist directors in meeting their responsibilities in respect of the preparation and disclosure of the financial statements of the Company and related matters;
- To provide for open communication between directors and external auditors;
- To enhance the external auditor’s independence;
- To increase the credibility and objectivity of financial reports, and
- To strengthen the role of the outside directors by facilitating in-depth discussions between directors on the Audit Committee, management and external auditors.

##### B. COMPOSITION

- (a) The Audit Committee shall be comprised of three or more directors as determined by the Board of Directors, none of whom are members of management of Petrominerales and all of whom are “unrelated directors” (as such term is used in the Report of the Toronto Stock Exchange on Corporate Governance in Canada) and “independent” (as such term is used in Multilateral Instrument 52-110 — Audit Committees (“**MI 52-110**”) unless the Board shall have determined that the exemption contained in Section 3.6 of MI 52-110 is available and has determined to rely thereon.
- (b) All of the members of the Audit Committee shall be “financially literate” (as defined in MI 52-110) unless the Board shall determine that an exemption under MI 52-110 from such requirement in respect of any particular member is available and has determined to rely thereon in accordance with the provisions of MI 52-110.
- (c) The members of the Audit Committee shall be elected by the Board of Directors at the annual organizational meeting of the Board of Directors and remain as members of the Audit Committee until their successors shall be duly elected and qualified.
- (d) Unless a Chair is elected by the full Board of Directors, the members of the Audit Committee may designate a Chair by majority vote of the full Audit Committee membership.

C. MEETINGS

- (a) The Audit Committee shall meet at least four times annually, or more frequently as circumstances dictate. As part of its mandate to foster open communication, the Audit Committee should meet at least annually with management and the external auditors in separate executive sessions to discuss any matters that the Audit Committee or each of these groups believe should be discussed privately. The Audit Committee or at least its Chair should meet with the external auditors and management quarterly to review the Company's financial statements consistent with Section III.2 below. The Chief Financial Officer may, at the discretion of the Audit Committee, be present at meetings of the Audit Committee and may be excused from all or part of any such meetings by the Chairman.
- (b) Minutes of all meetings of the Audit Committee shall be taken and the Audit Committee shall report the results of its meetings and reviews undertaken and any associated recommendations to the Board of Directors.
- (c) A quorum for meetings of the Audit Committee shall be a majority of its members, and the rules for calling, holding, conducting and adjourning meetings of the Audit Committee shall be the same as those governing the Board.

D. RESPONSIBILITIES AND DUTIES

To fulfill its responsibilities and duties, the Audit Committee shall:

***Documents/Reports Review***

- (d) Review and update this Charter, as conditions dictate.
- (e) Review the financial statements, prospectuses, MD&A, annual information forms ("AIF") and all public disclosure containing audited or unaudited financial information (including, without limitation, annual and interim press releases and any other press releases disclosing earnings or financial results) before release and prior to Board approval where required.
- (f) Review the reports to management prepared by the external auditors and management's responses.
- (g) Review of significant auditor findings during the year, including the status of previous audit recommendations.
- (h) Be satisfied with and periodically assess the adequacy of procedures for the review of corporate disclosure that is derived or extracted from the financial statements.

***External Auditors***

- (i) Be directly responsible for overseeing the work of the external auditors, including the resolution of disagreements between management and the external auditors regarding financial reporting.
- (j) Recommend to the Board the external auditors to be nominated for appointment by the shareholders.
- (k) Recommend to the Board the terms of engagement of the external auditor, including their compensation and a confirmation that the external auditors shall report directly to the Audit Committee.

- (l) On an annual basis, review and discuss with the auditors all significant relationships the auditors have with the Company to determine the auditors' independence.
- (m) Review the performance of the external auditors and approve any proposed discharge of the external auditors when circumstances warrant.
- (n) When there is to be a change in auditors, review the issues related to the change and the information to be included in the required notice to securities regulators of such change.
- (o) Periodically consult with the external auditors, without the presence of management, about internal controls and the fullness and accuracy of the Company's financial statements.
- (p) Consider, in consultation with the external auditor, the audit scope and plan of the external auditor.
- (q) Pre-approve the completion of any non-audit services by the external auditors and determine which non-audit services the external auditor is prohibited from providing and the Audit Committee may delegate to one or more independent members of the Audit Committee the authority to pre-approve non-audit services, provided that such member(s) reports to the Audit Committee at the next scheduled meeting such pre-approval and the member(s) complies with such other procedures as may be established by the Audit Committee from time to time.

***Financial Reporting Processes***

- (r) In consultation with the external auditors and management, review the integrity of the Company's financial reporting processes, both internal and external.
- (s) Consider judgments concerning the appropriateness of the Company's accounting policies.
- (t) Consider and approve, if appropriate, major changes to the Company's auditing and accounting principles and practices as suggested by the external auditors or management.
- (u) Review risk management policies and procedures of the Company (i.e., hedging, litigation and insurance).
- (v) Establish a procedure for:
  - (i) the receipt, retention and handling of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, and
  - (ii) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.
- (w) Approve management recommendations of appointment of individuals to senior financial reporting positions within the Company.

***Process Improvement***

- (x) Establish regular and separate systems of reporting to the Audit Committee by management and the external auditors regarding any significant judgments made in management's preparation of the financial statements and the view of each group as to appropriateness of such judgments.

- (y) Following completion of the annual audit, review separately with management and the external auditors any significant difficulties encountered during the course of the audit, including any restrictions on the scope of work or access to required information.
- (z) Review with external auditors their assessment of internal controls, their written reports containing recommendations for improvement, and management's response and follow-up to any identified weaknesses. The Audit Committee shall also review annually with the external auditors their plan for their audit and, upon completion of the audit, their reports upon the financial statements.

***Ethical and Legal Compliance***

- (aa) Ensure that management has the proper review system in place to ensure that the Company's financial statements, reports and other financial information disseminated to regulatory organizations and the public satisfy legal requirements.
- (bb) On at least an annual basis, review with the Company's counsel and/or management, any legal matters, compliance with applicable laws and regulations, or inquiries received from regulators or government agencies that could have a significant impact on the organization's financial statements.
- (cc) Conduct and authorize investigations into any matters within the Audit Committee's scope of responsibilities. The Audit Committee shall be empowered to retain, and to set and pay compensation for any independent counsel and other professionals to assist in the conduct of any investigation.
- (dd) Perform any other activities consistent with this Charter, the Company's charter documents, governing law and any applicable rules, regulations, policies or laws as the Audit Committee or the Board of Directors deems necessary or appropriate.