



# PETROMINERALES

PRESS RELEASE

## PETROMINERALES REPORTS CAPYBARA SUCCESS AND FIRST QUARTER RESULTS HIGHLIGHTED BY FUNDS FLOW FROM OPERATIONS OF US\$181.8 MILLION

Calgary, Canada – May 11, 2011 - Petrominerales Ltd. (“Petrominerales” or the “Company”) (TSX: PMG) is pleased to announce first quarter results highlighted by funds flow from operations of US\$181.8 million (US\$1.76 per share). Production increased 23 percent quarter-over-quarter, averaging 40,802 barrels of oil per day (“bopd”). We grew our industry leading operating netbacks to US\$69.34 per barrel, a 36 percent increase over 2010, consistent with the movement of world oil prices. Our balance sheet remains strong with a US\$566.1 million net working capital surplus and undrawn bank facilities at March 31, 2011. This financial flexibility gives us the strength to continue to execute our business plan of aggressive exploration and development in Colombia and Peru.

### FINANCIAL & OPERATING HIGHLIGHTS

The following table provides a summary of Petrominerales’ financial and operating results for the three month periods ended March 31, 2011 and 2010. Consolidated financial statements with Management's Discussion and Analysis (“MD&A”) are now available on the Company’s website at [www.petrominerales.com](http://www.petrominerales.com) and will also be available on the SEDAR website at [www.sedar.com](http://www.sedar.com).

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

Three months ended March 31,	2011	2010	% change
<b>Financial</b> (US \$millions, except where noted)			
Crude oil revenue	349.7	247.8	41
Funds flow from operations <sup>(1)</sup>	181.8	140.1	30
Per share – basic (\$)	1.76	1.42	24
– diluted (\$)	1.49	1.34	11
Net income, adjusted <sup>(1)(2)</sup>	75.8	93.4	(19)
Per share – basic (\$)	0.73	0.95	(23)
– diluted (\$)	0.60	0.90	(33)
Net income	36.8	93.4	(61)
Per share – basic (\$)	0.35	0.95	(63)
– diluted (\$)	0.34	0.90	(62)
Expenditures on PP&E and E&E	149.5	111.7	34
Total assets	1,958.6	866.5	126
Net working capital surplus <sup>(1)</sup>	566.1	44.4	1,175
Common shares, end of period (000s)	103,678	98,935	5
Fully diluted common shares, end of period (000s) <sup>(3)</sup>	127,147	108,381	17
<b>Operations</b>			
Operating netback (US\$/bbl) <sup>(1)</sup>			
Brent benchmark price	104.89	76.75	37
WTI benchmark price	94.61	79.08	20
Realized crude oil sales price <sup>(4)</sup>	88.54	64.65	37
Royalties	11.50	7.12	62
Production expenses	7.70	6.48	19
Operating netback <sup>(1)</sup>	69.34	51.05	36
Crude oil production (bopd)	40,802	38,199	7
Crude oil production sold (bopd)	39,688	38,462	3

## Footnotes to Financial & Operating Highlights Table

- (1) Non-IFRS measure. See “Non-IFRS Measures” section within MD&A.
- (2) Net income has been adjusted for the effects of the loss on the derivative financial liability of \$39.0 million (2010 – nil).
- (3) Consists of the sum of common shares, stock options, deferred common shares, incentive shares and potential shares issuable on conversion of convertible debentures outstanding as at the period-end date.
- (4) Net of transportation and excludes revenue from purchased oil.

## Highlights and Significant Transactions during the First Quarter

(Quarterly comparisons are first quarter 2011 compared to the first quarter of 2010 unless otherwise noted)

- We increased crude oil production to 40,802 bopd, a 23 percent gain over the fourth quarter 2010 and a 7 percent rise over the first quarter of 2010.
- We recorded funds flow from operations of \$181.8 million, or \$1.76 per basic share, 30 and 24 percent increases over 2010.
- Net income of \$36.8 million included a \$39.0 million non-cash loss from new accounting under IFRS for our convertible bond and the full amount of a four-year Colombian equity tax of \$27.7 million. Net income adjusted for these two items was \$103.5 million in the quarter, an 11 percent increase over the prior year.
- Our operating netbacks increased to \$69.34 per barrel in the quarter, a 42 percent increase quarter-over-quarter and a 36 percent increase over the first quarter of 2010, primarily due to higher world oil prices.
- We drilled seven exploration wells in the quarter and made significant discoveries that included Yatay on our Guatiquia Block, Mantis and Yenac-3 on our Casimena Block and Heliconia on our heavy oil acreage.
- Tested Capybara-2 well at rates of over 4,000 bopd of 29 degree API oil.
- Our balance sheet remains strong. We ended the quarter with a working capital surplus of over \$566.1 million.

## OPERATIONAL UPDATE

Production averaged 40,802 bopd in the first quarter of 2011. This was up 7,660 bopd, or 23 percent, from the fourth quarter of 2010. The increase was mainly due to our Yatay and Mantis successes in January, offset by our Candelilla-2 and 3 wells being offline for workovers and transportation limitations that were experienced throughout the Llanos Basin. The limitations experienced in the quarter were mainly a result of increased production in the country, delays in the expansion and repairs of certain pipelines, a limited fleet of oil trucks and road restrictions over the holiday season.

Production averaged 39,776 bopd in the month of April. Production was five percent lower than March mainly due to production from certain wells being off-line due to workovers, including Corcel-E1, Yenac-2, Mantis-1 and Candelilla-3. Corcel-E1 and Yenac-2 were brought back on production in early May. The Mantis-1 well is expected to be back on production by mid-May. On May 4, 2011, the electric submersible pump (“ESP”) in our Candelilla-2 well failed. Before the failure, the well was producing over 5,500 bopd. We have initiated a pump replacement and expect to have the well back on production by the end of this week.

## Deep Llanos Basin (Corcel, Guatiquia and South Block 31), Colombia

On our Guatiquia Block, we completed drilling our Candelilla-5 well on February 8, 2011, to a total measured depth of 12,170 feet. Candelilla-5 targeted the Guadalupe formation that is currently producing in Candelilla-4. The well was put on production March 9, 2011 at an average rate of 2,500 bopd.

Following the Candelilla-5 completion in March, we commenced drilling operations on the Azalea-1 exploration well, which targeted a separate structure immediately southwest of our Candelilla discovery. The well reached total depth of 12,170 feet measured depth on April 8, 2011. Well logs indicate 47 feet of potential net oil pay. We cased the well as a potential oil producer and in our first test of a Lower Sand 3 interval we measured 120 bopd of 24 degree API oil on natural flow, through a half inch choke with wellhead pressure of six PSI. This zone represents 10 feet of net pay. Based on the productivity index experienced during testing, we expect that this zone could be produced at over 1,000 bopd with the installation of a properly sized pump. We plan to test up to three additional formation intervals in the well, the next being the Lower Sand 1 formation. The rig is currently moving to the Camoruco location, to drill the next exploration well in the northeast portion of the Corcel Block.

On March 9, 2011, we completed drilling Guatin-1 on our Corcel Block. The exploration well was drilled to a total measured depth of 13,402 feet. Well logs indicate 23 feet of potential net oil pay and we cased the well as a potential oil producer. While initiating the first test in the Lower Sand 3 formation the testing string became stuck. We conducted a fishing operation without success, and as a result, we will need to drill a side-track of this well to assess the exploration discovery.

We plan to move the drilling rig operating on our Central Llanos blocks to drill the Cobra-1 exploration location on our Corcel Block. We can then use this rig to drill the Guatin side-track and potentially additional wells in the Deep Llanos depending on timing and availability of locations.

We began drilling operations on our Macapay-1 exploration well in the northeast part of the Corcel Block on March 25, 2011. The well reached total measured depth of 13,772 feet on May 5, 2011. Well logs indicate 30 feet of potential net oil pay in the Lower Sand 1 formation. We are completing the well as a potential oil producer and expect results in June. Following Macapay, the rig will move to Babaco-1, our first exploration location on Block 31.

Production from Candelilla and Yatay is currently being handled through temporary production facilities ("Percheron Facility") built on the Guatiquia Block. We installed flow-lines between the Percheron Facility and our Corcel central processing facility and we expect to tie-in the light oil production by the end of the second quarter. In addition, we have begun construction of a central processing facility in the northeast part of the Corcel Block that will initially be able to handle up to 40,000 barrels of fluid per day in the third quarter. The northeast facility is currently 25 percent complete.

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

On our Mapache block, we drilled the Disa-1 well during March to a total measured depth of 8,210 feet. Based on hydrocarbon shows while drilling, we cased the well as a potential oil producer. We are mobilizing a new completions rig to conduct a testing program on the well and expect results by the end of June.

Following Disa-1, the drilling rig moved to the Capybara-2 location on our Castor Block. We drilled the well to total depth of 11,880 feet. Well logs indicate that the well is located 68 feet up-structure from the initial Capybara-1 discovery well and there is 25 feet of potential net oil pay. We completed the well with an ESP and have tested at rates of over 4,000 bopd of 29 degree API oil at a 10 percent water cut. We plan to install production facilities on the Block and have the well on production by the end of May. We now plan to move the rig to the Corcel Block to drill our Cobra-1 exploration prospect. To continue our Central Llanos program, we plan to contract an additional rig that will start with the Zacay and Pisingo exploration prospects on our Casimena Block at the end of the second quarter.

On our Casanare Este Block, we recently completed the acquisition of a 116 square kilometre 3D seismic survey, which is currently being processed.

## **Llanos Basin Heavy Oil Blocks (Rio Ariari, Chiguiro Oeste, Chiguiro Este), Colombia**

We have one drilling rig operating on our heavy oil acreage. The fifth well in our nine-well Rio Ariari exploration drilling program, Heliconia-1, was drilled to a total depth of 5,300 feet in March. Well logs indicate 15 feet of net oil pay in the Mirador formation. During well testing we had very encouraging initial results that averaged 176 bopd of nine degree heavy API oil at 94 percent water cut over three days of testing. The Heliconia well is located 2.1 kilometres northwest of our Mochelo discovery.

Following Heliconia, we recently completed drilling and casing the Acanto-1 exploration well. Well logs indicate 52 feet of potential net hydrocarbon pay in the Mirador Formation. We are planning a multi-zone testing program and expect to have results in late June. The rig is now moving to our Chiguiro Este Block to drill our Azulejo-1 exploration prospect.

Based on very positive results to date from our conventional Rio Ariari exploration program we plan to expand our heavy oil exploration effort with a stratigraphic drilling program that is expected to begin during the fourth quarter of 2011 and continue into 2012. We have provisionally identified 34 locations consisting of 22 exploration locations and 12 step-out locations to existing discoveries. The step-out locations will help define the lateral extent of some of our existing discoveries while providing stratigraphic control for two initial horizontal wells, one at Mochelo and a second location to be defined based upon ongoing exploration well results. These wells will determine horizontal well deliverability and help move us one step closer to a large scale commercial development.

On February 15, 2011, a 369 square kilometre 3D seismic program began on the west half of Rio Ariari block covering our recent drilling activity. The acquisition portion of this 3D survey is expected to finish during the third quarter. This data along with the stratigraphic drilling program will delineate the arial extent of our existing exploration successes and help define our next phase of exploration drilling on the Rio Ariari Block.

## **Block 126, Peru**

We are moving forward with our three well exploration program on Block 126 which is expected to commence during the third quarter of 2011. We have contracted a drilling rig and are in the process of securing the remaining key equipment. We have initiated construction on the Nueva Italia logistics base and expect to begin drilling operations on the first well of the program, La Colpa-2, in the fourth quarter of 2011.

## **Blocks 114 and 131, Peru**

Petrominerales holds a 30 percent working interest in blocks 114 and 131. On Block 131, the operator has initiated a 300 kilometre 2D seismic program and the first well could be drilled in 2012. On Block 114, the next exploration phase anticipates one exploration well being drilled by the end of 2012. The operator is responsible for our share of the costs under the current seismic exploration phase, as well as our share of costs for the first exploration well on each block.

## **Block 161 and 141, Peru**

Block 161, situated in east central Peru, is 1.2 million acres in size and is owned 80 percent by Petrominerales. Current commitments, to be completed by June 2012, include the acquisition of 350 kilometres of new 2D seismic data and an updated geological and geophysical report incorporating existing geological data and reprocessed seismic. Block 141, situated in southern Peru, is 1.3 million acres in size and is owned 80 percent by Petrominerales. Current commitments, to be completed by July 2012, include the acquisition, processing and interpretation of 300 kilometres of 2D seismic.

Environmental Impact Assessment studies (“EIA”s) are currently underway in advance of the seismic programs.

## COLOMBIA STOCK EXCHANGE LISTING

We are continuing to move forward with our listing process on the Bolsa de Valores de Colombia (“BVC”). We have obtained resolution and approval on the main questions central to our listing application and we in the process of submitting current documentation to the Colombian regulator.

## OUTLOOK

Our 2011 capital program will position us to be one of the most active explorers in Colombia, drilling up to 37 exploration wells, focusing on higher impact exploration opportunities, plus up to an additional 12 stratigraphic wells on our heavy oil acreage. We will also continue to invest in our future with plans to acquire over 1,600 square kilometres of high quality 3D seismic to provide us further opportunities to grow our multi-year prospect inventory, which currently sits at over 100 drilling locations.

## ANNUAL GENERAL MEETING

Our annual meeting of shareholders will be held May 12, 2011, at 10:00 a.m. Bogotá time (9:00 a.m. Calgary time, 11:00 a.m. Eastern Time) at the Radisson Royal Bogotá Hotel, Millennium Room, Calle 113 No. 7 – 65, Bogotá, Colombia. For those unable to attend in person, the meeting and a comprehensive corporate presentation following the meeting will be webcast live and can be accessed using the following web address:

<http://www.segmentoactivo.net/clientes/petrominerales/12052011/>

## About Petrominerales

Petrominerales is a Latin America-based exploration and production company producing oil in Colombia with 15 exploration blocks covering a total of 2.0 million acres in the Llanos and Putumayo Basins and five exploration blocks in Peru covering a total of 9.5 million gross (5.4 million net) acres in the Ucayali and Titicaca Basins.

**Forward-Looking Statements.** *Certain information provided in this press release constitutes forward-looking statements. Specifically, this press release contains forward-looking statements relating to the Company’s future exploration and development activities, future transportation capacity in the Llanos basin, timing for bringing wells on production and the Company’s reserves. The forward-looking statements are based on certain key expectations and assumptions, including expectations and assumptions concerning the availability of capital, the success of future drilling and development activities, the performance of existing wells, the performance of new wells, prevailing commodity prices and economic conditions, the availability of labour and services, the ability to transport and market our production, timing of completion of infrastructure and transportation projects, weather and access to drilling locations. The reader is cautioned that assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be incorrect. Actual results achieved during the forecast period will vary from the information provided herein as a result of numerous known and unknown risks and uncertainties and other factors. You can find a discussion of those risks and uncertainties in our Canadian securities filings. Such factors include, but are not limited to: general economic, market and business conditions; fluctuations in oil prices; the results of exploration and development drilling, recompletions and related activities; timing and rig availability; availability of transportation and offloading capacity, outcome of exploration contract negotiations; fluctuation in foreign currency exchange rates; the uncertainty of reserve estimates; changes in environmental and other regulations; risks associated with oil and gas operations; and other factors, many of which are beyond the control of the Company. There is no representation by Petrominerales that actual results achieved during the*

*forecast period will be the same in whole or in part as those forecast. Except as may be required by applicable securities laws, Petrominerales assumes no obligation to publicly update or revise any forward-looking statements made herein or otherwise, whether as a result of new information, future events or otherwise.*

**Non-IFRS Measures.** *This press release contains financial terms that are not considered measures under International Financial Reporting Standards (“IFRS”), such as funds flow from operations, adjusted net income, funds flow per share, net working capital surplus and operating netback. These measures are commonly utilized in the oil and gas industry and are considered informative for management and shareholders. We evaluate our performance and that of our business segments based on cash flow from operations and adjusted net income. Funds flow from operations is a non-IFRS term that represents cash generated from operating activities before changes in non-cash working capital and the derivative liability loss. Adjusted net income is determined by adding back any losses or deducting any gains on the derivative liabilities. Management considers funds flow from operations, funds flow per share, adjusted net income and adjusted net income per share important as they help evaluate performance and demonstrate the Company’s ability to generate sufficient cash to fund future growth opportunities and repay debt. Net working capital surplus includes current assets less accounts payable, accrued liabilities, income taxes payable and the principal amount of convertible debentures (when they are out of the money and not repayable in shares at maturity) and is used to evaluate the Company’s financial leverage. Operating netback is determined by dividing oil sales less royalties, transportation and operating expenses by sales volume of produced oil. Management considers operating netback important as it is a measure of profitability per barrel sold and reflects the quality of production. Funds flow from operations, funds flow per share, net income adjusted for derivative effects, net working capital surplus and operating netbacks may not be comparable to those reported by other companies nor should they be viewed as an alternative to cash flow from operations, net income or other measures of financial performance calculated in accordance with IFRS.*

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