



Q1 2011 Financial Report



PETROMINERALES

Petrominerales reported solid first quarter results, increasing quarter-over-quarter production and funds flow from operations by 23 percent and 19 percent respectively. Compared to the first quarter of 2010, production and funds flow from operations increased 7 percent and 30 percent respectively.

FINANCIAL & OPERATING HIGHLIGHTS

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

Three months ended March 31,	2011	2010	% change
Financial			
(\$millions, except where noted)			
Crude oil revenue	349.7	247.8	41
Funds flow from operations ⁽¹⁾	181.8	140.1	30
Per share – basic (\$)	1.76	1.42	24
– diluted (\$)	1.49	1.34	11
Adjusted net income ^{(1) (2)}	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 (deficit) ⁽¹⁾	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) ⁽³⁾	127,147	108,381	17
Operations			
Operating netback (\$/bbl) ⁽¹⁾			
Brent benchmark price	104.89	76.75	37
WTI benchmark price	94.61	79.08	20
Realized crude oil price ⁽⁴⁾	88.54	64.65	37
Royalties	11.50	7.12	62
Production expenses	7.70	6.48	19
Operating netback ⁽¹⁾	69.34	51.05	36
Crude oil production (bopd)	40,802	38,199	7
Crude oil sold (bopd)	39,688	38,462	3

⁽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 could be produced 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 Copybara-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 Copybara-1 discovery well and there is 45 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. 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 are 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 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/>

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") is dated May 11, 2011 and should be read in conjunction with the unaudited condensed interim consolidated financial statements and accompanying notes of Petrominerales Ltd. ("Petrominerales" or the "Company") as at and for the three months ended March 31, 2011, MD&A for the three months ended March 31, 2010, and the audited consolidated financial statements as at and for the year ended December 31, 2010. Additional information for the Company, including the Annual Information Form ("AIF") can be found on SEDAR at www.sedar.com or at www.petrominerales.com. All amounts are in United States dollars, unless otherwise stated and all tabular amounts are in millions of United States dollars, except per share amounts or as otherwise noted.

Petrominerales Ltd. ("Petrominerales" or the "Company") is an international oil and gas company involved in the exploration, development and production of crude oil in Colombia and Peru. Petrominerales is incorporated in Alberta, Canada and is a public company listed on the Toronto Stock Exchange. The Company's head office is located at 1900, 111 – 5th Avenue S.W., Calgary, Alberta, Canada, T2P 3Y6.

Effective December 31, 2010, the Company completed a re-organization (the "Reorganization") whereby the legal jurisdiction of the parent company of the group changed from the Bahamas to Alberta, Canada. In addition, on December 31, 2010, the Company's former controlling shareholder, Petrobank Energy and Resources Ltd. ("Petrobank") distributed its 65 percent ownership in Petrominerales to its shareholders.

IFRS

This reporting period is Petrominerales' first under International Financial Reporting Standards (IFRS). As such, the accounting policies of the Company have been adjusted to comply with IFRS beginning with the balance sheet as at January 1, 2010. A comprehensive summary of all of the significant changes, including reconciliations of Canadian GAAP financial statements to those prepared under IFRS, is presented in Note 23 "First Time Adoption of IFRS" of the Company's unaudited March 31, 2011 condensed interim financial statements.

Adopting IFRS did not impact the cash the Company generated. However, the adoption of IFRS had an impact on the Company's statement of financial position (or balance sheet) and statement of income and comprehensive income (or income statement). Previously reported net income for the first quarter of 2010 is \$20.0 million higher under IFRS as shown in the following reconciliation:

Three months ended March 31, 2010	
Net income under Canadian GAAP	73.4
Depletion and depreciation	11.6
Deferred taxes	7.0
Foreign exchange loss	1.7
Interest and accretion	(0.2)
Stock-based compensation	(0.1)
Net income under IFRS	93.4

Net income for the three months ended March 31, 2011 was \$36.8 million under IFRS. The significant IFRS accounting adjustments impacting net income due to the IFRS conversion were the \$39.0 million loss on financial derivative liability and lower depletion due to the use of proved plus probable reserves. Under IFRS, the conversion feature embedded in our 2016 convertible debentures is accounted for as a financial derivative liability. As a result, increases in the Company's stock price generate a derivative loss.

FINANCIAL REVIEW

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

Average Daily Crude Oil Production and Sales Volumes (bopd)	Three months ended March 31,		
	2011	2010	Change
Guatiquia	20,112	20,972	(4%)
Corcel	10,654	11,251	(5%)
Neiva	4,121	2,620	57%
Orito	1,949	3,064	(36%)
Casimena	3,966	-	100%
Others	-	292	(100%)
Total production	40,802	38,199	7%
Inventory changes and other	(1,130)	263	-%
Sales volumes of produced oil	39,672	38,462	3%
Purchased oil	16	-	100%
Sales volumes	39,688	38,462	3%

Production for the first quarter increased seven percent primarily due to drilling successes on our Casimena and Neiva acreage offset by natural production declines at Corcel and Orito.

Guatiquia production decreased four percent mainly due to natural declines on the Candelilla field and work-overs on the Candelilla-2 and 3 wells that resulted in each well being offline for approximately 40 days in the quarter. The decline in the Candelilla field was offset by the Yatay discovery that came on production January 4, 2011 at approximately 10,000 bopd.

Corcel production decreased five percent due to natural declines and the Corcel-E1 well being offline, offset by production additions from the Caruto discovery that came on production at the end of November 2010.

Neiva production increased 57 percent due to the success of our development drilling program.

Orito production decreased 36 percent due to certain wells being shut-in for repairs to the gas-lift system and natural declines. No wells have been drilled in the field since mid-2009; however, we plan to restart our 2011 drilling program on the Orito block in May 2011.

Casimena production is from our Yenac discovery made in April 2010 and our Mantis discovery made in January 2011. First quarter production from the Block increased 180 percent from the fourth quarter of 2010 with the additions of the Yenac-2, Yenac-3 and Mantis-1 wells. The Yenac-1 well has been shut-in since mid-December and is expected to be placed back on production in the last half of 2011, once an exploitation license is obtained.

Average Benchmark and Realized Prices

Three months ended March 31,

	2011	2010	Change
Brent (\$/bbl)	104.89	76.75	37%
WTI (\$/bbl)	94.61	79.08	20%
Quality adjustment, pipeline and marketing fees	3.29	(7.48)	-%
Sales price	97.90	71.60	37%
Trucking costs	9.36	6.95	35%
Realized oil price, net of transportation (\$/bbl)	88.54	64.65	37%
Discount as a percentage of WTI	6%	18%	(67%)

The majority of the Company's production is priced in relation to the Colombian Vasconia Blend. Historically the Vasconia Blend prices were correlated with WTI; however, toward the end of 2010, the differential between WTI and Brent crude widened resulting in Vasconia Blend prices being more correlated to Brent. In the first three months of 2011 the Vasconia blend traded at a premium to WTI of \$4.74 per barrel compared to a discount of \$4.17 per barrel in the same period of 2010. In addition, the first quarter oil sales price benefited from marketing activities where the Company was able to sell some February production at March prices, benefiting from the rising oil price environment. Combining these marketing activities and a 37 percent increase in Brent benchmark prices, the first quarter sales price increased 37 percent.

Trucking Costs

The majority of the Company's oil production is trucked to various offloading stations for sale except for the Orito and Neiva fields that are connected to pipelines. Transportation costs increased to \$9.36 per barrel for the quarter, a 35 percent increase. Per barrel trucking costs increased mainly due to higher trucking tariffs paid in the first quarter due to overall demand increase for trucks in Colombia. Demand for trucks has increased due to transportation and offloading capacity limitations experienced in the Llanos Basin. The limitations were mainly a result of increased production in the country, restrictions in trucking capacity, road restrictions over the holiday season, and delays in certain third party pipeline repairs and expansion. Furthermore, due to restricted capacity at certain offloading stations and pipeline segments in the Llanos Basin, the Company's has been required to deliver oil to multiple and sometimes more distant offloading stations, which costs more on a per barrel basis.

Oil Revenue

Crude oil revenue increased 41 percent in the first quarter due to a 37 percent increase in sales prices together with three percent higher sales volumes of produced oil. The following table reconciles the difference in revenue between the three month periods ended March 31, 2010 and 2011.

Oil revenue, March 31, 2010	247.8
Sales volume variance	7.9
Sales price variance	93.9
Oil revenue from third party oil purchases	0.1
Oil revenue, March 31, 2011	349.7
\$ change in revenue	101.9
% change in revenue	41%

Royalties	Three months ended March 31,		
	2011	2010	Change
Royalties	41.1	24.7	66%
\$ per bbl	11.50	7.12	62%
Royalties as a percent of realized oil price	13%	11%	18%

Royalty Framework

Colombian government royalties start at a rate of eight percent until the Company's net production per field exceeds 5,000 bopd and then increase by one percent for each incremental 10,000 bopd of production per field up to a maximum of 25 percent.

In addition, a high price participation payment is applied under certain Colombian exploration contracts when the cumulative production, in an exploitation area under older contracts or cumulatively produced in the entire contract area under newer contracts, exceeds five million barrels. To date, only the Candelilla exploitation area within the Guatiquia Block has reached the five million barrel threshold. The high price participation payment is payable to the Agencia Nacional de Hidrocarburos (National Hydrocarbon Agency) ("ANH") and is calculated as a percentage of the difference between the realized oil price and a threshold oil price set by the ANH, multiplied by a contractual rate. The contractual rate is generally 30 percent for Petrominerales' contracts.

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

Comparative Analysis

Royalties increased 66 percent and royalties per barrel increased 62 percent primarily due to higher production and world oil prices combined with a higher royalty rate on Candelilla production due to high price participation payments.

Royalties as a percentage of revenue increased to 13 percent in the first quarter of 2011 mainly due to the start of high price participation payments on the Candelilla production in the third quarter of 2010. Candelilla royalties increased from nine percent to 15 percent, offset partially by the Yatay discovery in the first quarter of 2011 whose royalty rate was approximately nine percent.

High Price Participation Dispute

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 dispute is currently in a conflict resolution process as provided for in the Corcel Contract. Petrominerales believes that the resolution of this dispute will be in favor of the Company, and accordingly, no additional royalty provision has been made in these financial statements. For more information, refer to the Company's 2011 first quarter financial statements.

Production Expenses	Three months ended March 31,		
	2011	2010	Change
Production expenses	27.5	22.4	23%
\$ per bbl	7.70	6.48	19%

In the first quarter of 2011, production expenses increased 23 percent primarily due to higher production levels and increased per barrel costs. On a per barrel basis production expenses increased 19% to \$7.70 per barrel. The increase is primarily related to higher water handling costs and a tariff increase at Orito by the field operator.

Depletion and Depreciation (“DD&A”) Expenses	Three months ended March 31,		
	2011	2010	Change
DD&A expenses	67.7	48.7	39%
\$ per bbl	18.95	14.07	35%

DD&A expense in the first quarter increased 39 percent due to a three percent sales volumes increase and a 35 percent increase in the per barrel depletion rate. On a per barrel basis, the depletion rate was higher due to higher finding and development costs related to proved plus probable reserves.

General and Administrative Expenses	Three months ended March 31,		
	2011	2010	Change
General and administrative expenses	9.6	5.0	92%
\$ per bbl	2.69	1.44	87%

The increases in general and administrative expenses for the first quarter were primarily due to higher staff levels and their related salary and office costs, inflation in Colombia combined with the appreciation of the Colombian Peso, and some non-recurring donations made in the quarter relating to our Vichituni Foundation for organizations helping with the Colombia flood relief.

Stock-Based Compensation Expenses	Three months ended March 31,		
	2011	2010	Change
Stock-based compensation expenses	6.3	2.6	142%

Stock-based compensation expense is a non-cash expense that is based on the fair value of stock options, deferred common shares and incentive shares granted. The fair value is calculated on grant date and amortized over the vesting period of each option or incentive share tranche, or immediately upon grant of the deferred common shares (“DCS”). The expense increased due to DCS’s granted in the first quarter of 2011 which were required to be expensed immediately and one-time option and incentive share grants in 2010 due to executive appointments and new hires.

Net Finance Expense	Three months ended March 31,		
	2011	2010	Change
Cash interest and standby charges	5.4	1.9	182%
Accretion on convertible debentures	4.0	1.2	233%
Accretion on Colombia equity tax	0.6	-	100%
Accretion on decommissioning liabilities	0.3	0.2	50%
Amortization of deferred financing costs	0.4	0.3	3%
Interest and accretion expense	10.7	3.6	197%
Loss on derivative financial liability	39.0	-	100%
Foreign exchange loss	3.8	2.5	52%
Interest income	(0.6)	-	100%
Net finance expense	52.9	6.1	767%

Interest and Accretion

Cash interest expense and accretion of convertible debentures for the first quarter were higher mainly due to the \$550 million convertible debentures issued on August 25, 2010.

Loss on Derivative Financial Liability

Derivatives are carried at fair value on the balance sheet, with any changes in fair value being recorded to the statement of operations. Under IFRS, the conversion feature of the 2016 convertible debentures issued on August 25, 2010 is classified as a derivative since, if converted, the Company has the option to deliver either 16 million common shares or cash equal to the market value of the 16 million common shares. Since the Company's stock price increased in the quarter, the derivative liability increased by \$39.0 million and an equivalent non-cash derivative loss was recorded.

Foreign Exchange Loss

The Colombian peso appreciation two percent relative to the U.S. dollar in the first quarter, from 1,914:1 at December 31, 2010 to 1,879:1 at March 31, 2011. This change in exchange rates resulted in a \$3.8 million foreign exchange loss primarily on Colombian peso denominated accounts payable. Changes in the Colombian peso exchange rate impact the Company's Colombian peso denominated expenses and expenditures as approximately 65 percent of the Company's expenditures are incurred in Colombian pesos.

Income Tax Expense	Three months ended March 31,		
	2011	2010	Change
Current income tax	46.3	28.0	65%
Deferred income tax (recovery)	0.2	(7.7)	-%
Income taxes	46.5	20.3	129%
Effective tax rate, calculated using pre-equity tax income	42%	18%	133%

The Company's pre-tax income is subject to the Colombian statutory income tax rate of 33 percent. Tax expense increased 129 percent primarily due to the increase in taxable net income in the first quarter of 2011 due to higher sales volumes and prices compared to 2010, combined with a higher effective tax rate. The Company's effective tax rate, calculated using income before taxes and equity tax of \$111.0 million, was 42 percent in the first quarter of 2011. The Company's 2011 effective tax rate is higher than the Colombian statutory income tax rate largely as a result of certain accounting expenses not deductible for tax purposes, including stock-based compensation, the derivative liability loss and interest. In addition, 2011 effective tax rates are higher than 2010 primarily due to repeal from tax legislation of enhanced tax allowances available in prior years for the acquisition of productive fixed assets. The average annual rate in 2010 was 28 percent.

The Company's effective tax rate in any year is a function of the relationship between total tax expense and the amount of earnings before income taxes for the year. The effective tax rate differs from the statutory tax rate as it takes into consideration non-deductible items, adjustments for changes in tax rates and other tax legislation, variation in the estimate of reserves and the differences between the provision and the actual amounts subsequently reported on the tax returns. Significant differences include non-deductible stock-based compensation, non-deductible gains or losses on the derivative financial liability portion of the convertible debenture and non-deductible equity tax, which is classified as an operating expense under IFRS.

Colombia Equity Tax Expense	Three months ended March 31,		
	2011	2010	Change
Colombia Equity tax	27.7	0.5	-

An equity tax is charged on equity capitalization levels in Colombia. The Colombian government approved new legislation in December 2010 that obligates Colombian corporations and branches of foreign corporations to pay an equity tax based on net equity as of January 1, 2011. The rate of tax applicable to Petrominerales is six percent of net equity and is \$33.2 million, payable evenly over four years starting in 2011 (\$2.1 million per quarter). The net present value of the entire liability, estimated at \$27.7 million, was recorded as a liability and expensed in the statement of operations in the first quarter of 2011. Under IFRS, this cost is classified as an operating expense since the tax is not based on income and is not deductible for tax purposes. The discount of \$5.5 million on the liability is being accreted over four years, whereby \$0.6 million was recorded as accretion in net finance expenses on the statement of operations.

Net Income

During the first quarter of 2011, net income decreased 61 percent to \$36.8 million primarily due to a non-cash loss on derivative liabilities, higher income taxes, higher equity taxes as a result of recording the present value of four years worth of equity tax in the first quarter, higher depletion as a result of increased sales volumes and increased finding and development (F&D) costs offset by increased operating netbacks mainly as a result significantly higher commodity prices.

The following table summarizes the changes in net income and net income per share.

Reconciliation of Changes in Net Income	Three months ended March 31,	
		Per share, basic (\$)
Net income, 2010 period	93.4	0.95
Increase (decrease) due to:		
Sales volumes	7.9	0.08
Sales prices	93.8	0.89
Royalties	(16.4)	(0.16)
Operating expenses	(5.1)	(0.05)
Transportation	(9.4)	(0.09)
Purchased oil	0.1	-
Operating netback increase	70.9	0.67
General and administrative expenses	(4.6)	(0.05)
Depletion and depreciation	(19.0)	(0.19)
Loss on derivative liability	(39.0)	(0.40)
Interest and accretion expense	(7.1)	(0.07)
Other ⁽¹⁾	(4.4)	(0.04)
Equity taxes	(27.2)	(0.27)
Income taxes	(26.2)	(0.26)
Net income, 2011 period	36.8	0.34

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

Funds Flow from Operations

During the first quarter of 2011, funds flow from operations increased 30 percent to \$181.8 million primarily due to higher operating netbacks as a result increased commodity prices, offset by higher current income taxes. The following table summarizes the changes in funds flow from operations.

Reconciliation of Changes in Funds Flow from Operations	Three months ended March 31,	
		Per share, Basic (\$)
Funds flow from operations, 2010 period	140.1	1.42
Increase (decrease) due to:		
Sales volumes	7.9	0.08
Sales prices	93.8	0.89
Royalties	(16.4)	(0.16)
Operating expenses	(5.1)	(0.05)
Transportation and other expenses	(9.4)	(0.09)
Purchased oil	0.1	-
Operating netback effect	70.9	0.67
General and administrative expenses	(4.6)	(0.05)
Foreign exchange	(1.3)	(0.02)
Interest expense net of interest income	(2.9)	(0.04)
Taxes	(20.4)	(0.22)
Funds flow from operations, 2011 period	181.8	1.76

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

	Three months ended March 31,		
	2011	2010	Change
Funds flow from operations: Non-IFRS	181.8	140.1	30%
Changes in non-cash working capital including interest payable and taxes payable	(54.9)	(101.4)	(46%)
Cash flow from operating activities: IFRS	126.9	38.7	228%

Capital Expenditures

Three months ended March 31, 2011	Drilling and completions	Facilities and infrastructure	Seismic and other	HSEC	Total
Deep Llanos	35.0	45.0	1.1	0.8	81.9
Central Llanos	11.3	14.3	5.0	0.9	31.5
Heavy Oil	10.1	8.7	3.0	0.2	22.0
Neiva	6.2	4.3	0.1	0.5	11.1
Peru	0.4	0.3	1.3	0.5	2.5
Orito	-	0.1	0.1	0.1	0.3
Foothills	-	0.1	-	0.1	0.2
Total	63.0	72.8	10.6	3.1	149.5
Recorded as:					
Exploration and evaluation					88.0
Property, plant and equipment					61.5

Deep Llanos capital expenditures relate to Corcel, Guatiquia and South Block 31:

- Drilling and completion costs relate to:
 - Corcel Northeast – final drilling costs and completion costs for Cardenal-1 that spud December 6, 2010 and came on production March 29th, drilling costs of Gautin-1 (completion started April 2) and initial drilling costs of Mayapay-1 that spud March 25;
 - Corcel – final drilling costs for Celeste-1 that spud December 9, 2010 and work-over costs for Corcel-C1;
 - Guatiquia – final completion costs for Yatay-1 which came on production January 4th, drilling and completion costs of Candelilla-5, initial drilling cost of the Azalea-1 that spud March 25 and work-over costs for Candelilla-3;
- facilities costs relate to modifying the Corcel central processing facility (“CPF”) to increase fluid handling and installation of flow-lines to connect Guatiquia production to the Corcel CPF;
- infrastructure costs include civil construction costs related to the wells drilled in the quarter and initial locations in the 2011 drilling program; and
- seismic costs relate to the 148 square kilometre Guatiquia 3D seismic acquisition program.

Central Llanos capital expenditures relate to:

- the Casimena Block for final completion costs of Mantis-1 that came on production February 1st and drilling and completion costs for Yenac-3 that came on production March 9th, and the Mapache block for drilling costs of Disa-1 exploration well that spud March 4th (awaiting completion);
- infrastructure costs include civil construction costs for the Casimena block related to the Yenac field and Zacay well, for the Castor Block related to the Capybara-2 well, and for the Mapache block related to the plus Zorro-1, Disa-1 and Paloma-1 exploration wells; and
- seismic costs correspond to the 3D seismic acquisition program for Casanare Este.

Heavy oil capital expenditures relate to:

- the Rio Ariari Block for completion and facilities costs for Borugo-1 drilled in the prior year, drilling and completion costs for Anturo-1, drilling costs for Heliconia-1 (awaiting completion) and initial drilling costs for Acanto-1 spud on March 31;
- infrastructure costs include civil construction costs and related well location costs for the 2011 drilling program on the Rio Ariari and Chiguiro Este blocks; and
- seismic costs relate to the 85 square kilometre 3D seismic program on the Chiguiro Este Block and the 372 square kilometre 3D seismic program on the Rio Ariari Block.

Peru costs relate to our initial three well drilling program that we plan to start in the second half of 2011. Neiva expenditures relate to drilling one well, completion costs for two wells drilled in 2010, work-over costs for two wells, and infrastructure and facilities costs for the block.

SUMMARY OF QUARTERLY RESULTS

	IFRS					CDN GAAP		
	2011	2010				2009		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Financial (\$millions except where noted)								
Crude oil revenue	349.7	250.6	231.5	318.8	247.8	160.6	121.8	104.8
Funds flow from operations	181.8	153.3	128.4	176.0	140.1	106.2	71.7	64.1
Per share – basic (\$)	1.76	1.52	1.29	1.77	1.42	1.08	0.73	0.65
– diluted (\$)	1.49	1.29	1.17	1.68	1.33	1.03	0.71	0.63
Adjusted net income ^{(1) (3)}	75.8	34.6	59.1	95.7	93.4	51.2	26.2	15.3
Per share – basic (\$)	0.73	0.34	0.59	0.96	0.95	0.52	0.27	0.16
– diluted (\$)	0.60	0.33	0.56	0.92	0.90	0.51	0.26	0.15
Net income	36.8	(72.5)	27.2	95.7	93.4	51.2	26.2	15.3
Per share – basic (\$)	0.35	(0.72)	0.27	0.96	0.95	0.52	0.27	0.16
– diluted (\$)	0.34	(0.72)	0.27	0.92	0.90	0.51	0.26	0.15
General and Administrative	9.6	7.8	6.5	5.1	5.0	3.9	2.7	2.7
Capital expenditures	149.5	162.8	119.1	112.7	111.7	82.0	54.0	79.5
Operations								
Operating netback (\$/bbl) ⁽¹⁾								
Brent benchmark price	104.89	87.49	77.02	79.59	76.75	74.51	68.14	58.88
WTI benchmark price	94.61	85.34	76.15	78.06	79.08	76.19	68.19	59.79
Quality adjustment, pipeline and marketing fees	3.29	(4.94)	(3.93)	(7.01)	(7.48)	(9.87)	(7.04)	(5.94)
Crude oil sales price ⁽²⁾	97.90	80.40	72.22	71.05	71.60	66.32	61.15	53.85
Trucking	9.36	6.51	7.68	7.52	6.95	4.57	4.86	5.89
Realized crude oil price	88.54	73.89	64.54	63.53	64.65	61.75	56.29	47.96
Royalties	11.50	12.06	9.09	6.35	7.12	6.76	5.52	4.30
Production expenses	7.70	13.06	7.63	6.25	6.48	7.62	8.02	6.76
Operating netback	69.34	48.77	47.82	50.93	51.05	47.37	42.75	36.90
Crude oil production (bopd)	40,802	33,142	32,667	44,203	38,199	24,555	21,546	21,548
Sales of produced oil (bopd)	39,688	32,138	32,696	49,466	38,462	25,607	21,239	21,390

⁽¹⁾ Non-IFRS measure. See “Non-IFRS Measures” section.

⁽²⁾ Net of transportation and excludes revenue from purchased oil.

⁽³⁾ Net income has been adjusted for the effects of the loss on the derivative financial liability in Q1-2011 of \$39.0 million.

Significant factors influencing quarterly results were:

- Starting in 2011, production increased mainly due to the Yatay discovery that came on production at the beginning of 2011;
- Production in 2010 was higher than 2009 mainly due to the Candelilla discovery that came on production at the beginning of 2010. Second quarter 2010 production averaged 44,203 bopd, higher than other quarters, due to having all three Candelilla wells on production;
- Transportation per barrel increased in the first quarter of 2011 primarily due to higher trucking tariffs;
- Starting in the third quarter of 2010, our royalty rate per barrel increased due to the start of high price participation payments on Candelilla production in August 2010;
- Fourth quarter 2010 operating costs were higher primarily due to a historical cost adjustment at Orito, excluding this adjustment operating costs would have been \$8.15 per barrel; and
- Capital expenditures have been increasing, consistent with the Company’s growing operations and drilling programs.

LIQUIDITY AND CAPITAL RESOURCES

Based on the Company's financial position and liquidity at March 31, 2011, and projected future cash flows, management expects to be able to fund its working capital and capital project needs, and meet its other obligations including debt repayments. At March 31, 2011, Petrominerales had cash and cash equivalents of \$645.9 million, a working capital surplus of \$566.1 million and an undrawn \$150 million reserve-based credit facility. The Company believes it is well positioned financially with significant available credit capacity, assets that are providing strong production growth and operating netbacks, along with an extensive inventory of exploration prospects. Petrominerales' assets provide significant funds flow from operations and are the Company's largest source of liquidity. The Company has a history of generating positive funds flow from operations and recorded funds flow from operations of \$181.8 million in the first quarter of 2011.

CASH REQUIREMENTS

The following table provides a summary of consolidated liquidity and capital commitments based on existing commitments and debt obligations (including accrued interest):

Type of Obligation	Total	< 1 Year	1-3 Years	Thereafter
Trade and other payables	298.0	298.0	-	-
Income taxes payable	37.1	37.1	-	-
Equity tax payable	33.2	8.3	16.6	8.3
Convertible debenture interest ⁽¹⁾	79.4	14.5	28.8	36.1
Decommissioning liabilities	95.0	0.4	-	94.6
Exploration contracts ⁽²⁾	81.7	37.5	42.9	1.3
Storage and transportation contracts	16.6	8.4	8.2	-
Pipeline investment ⁽³⁾	71.1	71.1	-	-
Office lease	7.6	2.0	4.1	1.5
Total	719.7	477.3	100.6	141.8

- (1) Includes the cash interest due on the \$550 million convertible debenture due in 2016 and assumes the full amount will be converted in 2016 into shares and not repaid in cash.
- (2) Pursuant to exploration contracts, the Company has work commitments totaling \$81.7 million to be completed during the next three years. The work commitments are normal course of business activities that include property costs, acquisition and processing of seismic data and drilling exploration wells. The Company has issued letters of credit totaling \$26.6 million to guarantee the obligations under these exploration contracts.
- (3) The company owns 9.65 percent of the Oleducto Bicentenario de Colombia pipeline project ("OBC"). The pipeline will be built in three phases, of which the Company has committed up to the first phase. Phase one of the project will connect Llanos Basin production from Araguaney to Banadia. This phase is expected to cost approximately \$1.0 billion (\$96.5 million net) and add approximately 120,000 bopd (11,580 bopd net) of offloading capacity by the first quarter of 2012. Ultimately, phases two and three of the project are expected to be completed by the end of 2013 and will add a further 330,000 bopd of gross takeaway capacity at a total incremental gross cost of approximately \$4.4 billion. Petrominerales has an option to participate in phases two and three.

INVESTMENT LIQUIDITY

At March 31, 2011, cash equivalents of \$632.7 million were invested in high credit quality banks with maturities ranging up to 45 days. The investments have been made primarily between three different international banks.

CREDIT FACILITIES & DEBT

Petrominerales has a reserve-based credit facility with a \$150 million borrowing base that is undrawn. The borrowing base is reviewed with the lender semi-annually.

The Company has a \$550 million of convertible debentures outstanding that mature on August 25, 2016, and bear an annual coupon rate of 2.625% payable semi-annually. The debentures are convertible into common shares of the Company at the option of the holder at a conversion price of \$34.31 per share, subject to the adjustment for dividends.

Petrominerales maintains local operating lines of credit in Colombia of \$41.2 million that are primarily used to issue letters of credit to support exploration commitments. At March 31, 2011, letters of credit issued against the Colombian operating lines of credit totaled \$25.5 million. The Company also has \$1.1 million in letters of credit issued in Peru for Block 126.

The Company is in compliance with the covenants contained in its credit facility and convertible debenture agreements. The credit facility contains financial covenants to maintain a ratio of bank debt to trailing twelve month earnings before interest, tax, depletion, depreciation and amortization under 3.0 times and to maintain a current ratio greater than 1.0 time (current assets divided by current liabilities less unused bank debt and the liability portion of convertible debentures). The convertible debentures have financial covenants to maintain a ratio of book value of equity to total assets of at least 30 percent and to limit the amount of security and encumbrances the Company has on the book value of its total assets to 35 percent.

SOURCES OF CASH

The Company's cash flow from operating, investing and financing activities are summarized in the following table as derived from Petrominerales consolidated statement of cash flow.

	Three months ended March 31,		
	2011	2010	Change
Cash from operating activities			
Funds flow from operations	181.8	140.1	30%
Change in non-cash working capital, including interest payable and income taxes payable	(54.9)	(101.4)	46%
Cash provided by operating activities	126.9	38.7	228%
Cash used by investing and financing activities			
Expenditures on PP&E and E&E	(149.5)	(111.7)	34%
Pipeline investment	(28.5)	-	(100%)
Dividends paid	(13.4)	-	(100%)
Issuance of commons shares	1.9	1.9	-%
Other	(14.9)	23.3	-%
	(204.3)	(86.5)	136%
Change in cash and cash equivalents	(77.4)	(47.8)	62%
Cash and cash equivalents, beginning of period	723.3	63.0	
Cash and cash equivalents, end of period	645.9	15.2	

- Funds flow from operations increased due primarily to higher sales volumes and higher prices.
- See earlier Capital Expenditures section for explanation on cash used for expenditures on PP&E and E&E.
- Petrominerales initiated a quarterly dividend payment of Cdn.\$0.125 per share starting in the second quarter of 2010. On December 31, 2010, the Company declared a dividend of \$13.4 million that was paid January 15, 2011. On March 31, 2011, the Company declared a dividend of \$13.4 million that was paid April 15, 2011. Petrominerales' strategy is to execute a diversified exploration focused business plan that provides opportunity for growth while offering a dividend yield to shareholders.

COMMON SHARES

The aggregate number of Petrominerales common shares, stock options, deferred common shares and incentive shares outstanding at May 11, 2011 was 110,897,292 (common shares – 103,725,608, stock options – 6,142,077, deferred common shares – 173,836, incentive shares – 855,771).

TRANSACTIONS WITH RELATED PARTIES

On December 31, 2010, the Company's former controlling shareholder, Petrobank Energy and Resources Ltd. ("Petrobank") distributed its 65 percent ownership in Petrominerales to its shareholders. The Company was party to a Management Services Agreement with Petrobank providing for certain services, including executive, corporate, legal, administration, financial, treasury, accounting, information technology, human resources support and office space for Petrominerales employees located in Calgary, Alberta. As a result of the distribution of shares on December 31, 2010, the companies are no longer related.

RISKS AND UNCERTAINTIES

There have been no significant changes in the three months ended March 31, 2011 to the risks and uncertainties identified in the MD&A for the year ended December 31, 2010.

Sensitivities

The Company's earnings and cash flow are sensitive to changes in the price of crude oil. The following factors demonstrate the expected impact on annualized before tax cash flow:

Change of:		(millions)
WTI	\$1.00/bbl WTI reference price (assuming 40,000 bopd)	\$12.6
Crude oil	1,000 bopd of production @ \$100/bbl WTI	\$26.8

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company's management made judgments, assumptions and estimates in the preparation of these financial statements. Actual results may differ from those estimates, and those differences may be material. The basis of presentation and the Company's significant accounting policies can be found in the notes to the condensed interim consolidated financial statements. The following discussion highlights significant changes to critical accounting policies and estimates from those disclosed in the Company's MD&A for the year ended December 31, 2010, as a result of the adoption of IFRS.

Exploration and Evaluation Assets

The decision regarding technical feasibility and commercial viability of exploration and evaluation assets involves a number of assumptions, such as estimated reserves, commodity price forecasts, expected production volumes and discount rates, all of which are subject to material changes in the future.

Opening Balance Sheet – Full Cost Pool

On transition to IFRS, our full cost pool under Canadian GAAP was allocated to our IFRS areas based on estimated proved reserve values. The estimate of proved reserve values required a number of assumptions and estimates, including quantities of reserves, expected production volumes, future commodity prices, discount rates as well as future development and operating costs. The resulting fair value estimates may not necessarily be indicative of the amounts that may be realized or settled in a current market transaction, nor do they represent costs historically spent.

Reserve Estimates

Under IFRS, estimates of reserves at the area level, rather than the country cost centre level, can have a significant impact on net income, as they are a key component in the calculation of DD&A. A downward revision in our estimate of reserve quantities could result in a higher DD&A charge to earnings. Furthermore, DD&A is calculated using proved and probable reserve estimates.

Reserve estimates can have a significant impact on net income and the carrying value of capital assets. The process of estimating reserves requires significant judgment based on available geological, geophysical, engineering, and economic data, projected rates of production, estimated commodity price forecasts and the timing of future expenditures, all of which are subject to interpretation and uncertainty. Reserve estimates impact net income

through depletion expense and the application of impairment tests. Revisions or changes in reserve estimates can have either a positive or a negative impact on net income and can impact the carrying amount of capital assets.

Creditors also use reserve estimates to assess the allowable borrowing base under secured credit facilities. Changes to the reserve estimates can result in borrowing base increases or decreases, which could impact the Company's financial position.

Asset Impairments

For impairment testing, the assessment of facts and circumstances is a subjective process that often involves a number of estimates and is subject to interpretation. Also, the testing of assets or Cash Generating Units ("CGU") for impairment, as well as the assessment of potential impairment reversals, requires estimates of an asset's or CGU's recoverable amount. The estimate of a recoverable amount requires a number of assumptions and estimates, including quantities of reserves, expected production volumes, future commodity prices, discount rates as well as future development and operating costs. These assumptions and estimates are subject to change as new information becomes available and changes in any of the assumptions, such as a downward revision in reserves, a decrease in commodity prices or an increase in costs, could result in an impairment of an asset's or CGU's carrying value.

Derivative Liabilities

The 2016 Convertible Debentures, if converted by the holder, may be settled in cash or common shares at the option of the Company. The potential for a cash payment at maturity results in a derivative liability. As a result of measuring the liability for the potential payment related to the conversion feature under the 2016 convertible debenture agreements at fair value under IFRS, fluctuations in the estimated fair value will affect the derivative liability gains and losses that are recognized. The fair value of the liability fluctuates, as it is based on assumptions for the risk-free interest rate, the period end share price as well as the volatility of the share price.

Deferred Income Taxes

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

Contingencies

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

CHANGES IN ACCOUNTING POLICIES

As of January 1, 2013, Petrominerales will be required to adopt IFRS 9, "Financial Instruments", which is the result of the first phase of the IASB's project to replace IAS 39, "Financial Instruments: Recognition and Measurement". The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and

fair value. The adoption of this standard should not have a material impact on the Company's consolidated financial statements.

REGULATORY POLICIES

Certification of Disclosures in Interim Filings

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

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

During the quarter ended March 31, 2011, there has been no change in the Company's ICFR that has materially affected, or is reasonably likely to materially affect, the Company's ICFR. The Company has continually had in place systems relating to DC&P and ICFR and will continue to monitor such procedures as the Company's business evolves.

OUTLOOK

Our long term objective is to focus on delivering exploration success building net asset value, and generating attractive total returns for shareholders through the following strategies:

- Material growth in reserves through the execution of a balanced, diversified exploration drilling program;
- Maintain a multi-year drilling inventory of exploration prospects by continually adding to our land position and acquiring high quality 3D seismic over those lands;
- Produce reserves in an economical and best in class approach;
- Leadership in oil and gas exploration using technology, innovation and continued respect for the health and safety of our employees, emphasis on industry leading environmental performance and meaningful dialogue with our stakeholders;
- Internally funded growth through cash flow generation from our established assets; and
- Providing a dividend yield to investors.

The key challenges that need to be effectively managed to enable our growth are commodity price volatility, government permits and approvals, environmental regulations and competitive pressures within our industry. Additional detail regarding the impact of these factors on our 2010 results is discussed in the Risk section of our Annual Information Form ("AIF") for the year ended December 31, 2010.

In addition to the plans discussed in this MD&A, please see the Company's first quarter 2011 Operational Update.

Forward-Looking Statements. *Certain information provided in this report constitutes forward-looking statements. The words "anticipate", "expect", "project", "estimate", "forecast" and similar expressions are intended to identify such forward-looking statements. Specifically, this report contains forward-looking statements relating to the timing of capital projects, financial results, results of operations and participation in and timing of costs of the OBC. The forward looking information is based on key expectations and assumptions made by Petrominerales, including assumptions concerning the success of future drilling activities, the performance of existing wells, prevailing commodity prices, availability of labour and services, receipt of required permits and regulatory approvals and performance of expected activities by industry partners. 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. A discussion of those risks and uncertainties can be found in the Company's 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, 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; reliance on partners in respect of the OBC bid process and construction of the OBC 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 report 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, adjusted net income 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. 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 current portion of 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, adjusted net income, 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.*

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)

(Millions of United States dollars)

As at,	Note	March 31, 2011	December 31, 2010	January 1, 2010
			(Note 23)	(Note 23)
ASSETS				
Current assets				
Cash and cash equivalents		\$ 645.9	\$ 723.3	\$ 63.0
Trade and other receivables	20	243.7	155.6	47.5
Income tax receivable		-	4.3	8.5
Crude oil inventory		11.6	6.1	1.4
		901.2	889.3	120.4
Non-current assets				
Other assets	7	25.2	25.3	26.5
Exploration and evaluation assets	8	289.6	264.9	84.2
Property, plant and equipment	9	709.1	648.1	489.0
Pipeline investment	11	28.5	-	-
Goodwill	10	5.0	5.0	-
		1,057.4	943.3	599.7
Total assets		\$ 1,958.6	\$ 1,832.6	\$ 720.1
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Trade and other payables		\$ 298.0	\$ 309.1	\$ 106.9
Income taxes payable		37.1	-	-
Convertible debentures	15	-	-	76.8
		335.1	309.1	183.7
Non-current liabilities				
Deferred tax liabilities	17	104.2	104.0	25.2
Long-term portion of equity tax	17	20.3	-	-
Convertible debentures	15	441.8	437.8	-
Derivative financial liability	15	279.2	240.2	-
Decommissioning liabilities	16	39.7	34.9	16.3
Total liabilities		1,220.3	1,126.0	225.2
Shareholders' equity				
Equity component of convertible debentures	15	-	-	10.4
Common shares	12	304.5	301.9	197.7
Share-based payment reserve	12	27.0	21.3	9.9
Retained earnings		406.8	383.4	276.9
		738.3	706.6	494.9
Total liabilities and shareholders' equity		\$ 1,958.6	\$ 1,832.6	\$ 720.1

Commitments and Contingencies (Note 22)

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (UNAUDITED)

(Millions of United States dollars, except per share amounts)

Three months ended March 31,	Note	2011	2010
			(Note 23)
Revenues			
Oil		\$ 349.7	\$ 247.8
Royalties		(41.1)	(24.7)
		308.6	223.1
Operating Expenses			
Production		27.5	22.4
Transportation		33.5	24.1
Purchased oil		0.1	-
Depletion and depreciation	9	67.7	48.7
General and administrative		9.6	5.0
Colombia equity tax	17	27.7	0.5
Stock-based compensation	12	6.3	2.6
		172.4	103.3
Net finance expense	6	(52.9)	(6.1)
Income before taxes		83.3	113.7
Income taxes	17	(46.5)	(20.3)
Net income and comprehensive income		\$ 36.8	\$ 93.4
Net income per share			
Basic	13	\$ 0.35	\$ 0.95
Diluted	13	\$ 0.34	\$ 0.90

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

(Millions of United States dollars)

	Note	Common Shares	Equity Component of Convertible Debentures	Share- Based Payment Reserve	Retained Earnings	Total
Balance January 1, 2010	23	\$ 197.7	\$ 10.4	\$ 9.9	\$ 276.9	\$ 494.9
Net income and comprehensive income		-	-	-	143.8	143.8
Conversion of convertible debentures	15	92.1	(10.4)	-	-	81.7
Dividends	12	-	-	-	(37.3)	(37.3)
Exercise of stock options, deferred common shares and incentive shares	12	12.1	-	(2.5)	-	9.6
Stock-based compensation	12	-	-	13.9	-	13.9
Balance December 31, 2010	23	\$ 301.9	\$ -	\$ 21.3	\$ 383.4	\$ 706.6
Net income and comprehensive income		-	-	-	36.8	36.8
Dividends	12	-	-	-	(13.4)	(13.4)
Exercise of stock options, deferred common shares and incentive shares	12	2.6	-	(0.6)	-	2.0
Stock-based compensation	12	-	-	6.3	-	6.3
Balance March 31, 2011		\$ 304.5	\$ -	\$ 27.0	\$ 406.8	\$ 738.3

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOW (UNAUDITED)

(Millions of United States dollars)

Three months ended March 31,	Note	2011	2010
			(Note 23)
Operating Activities			
Net income for the period		\$ 36.8	\$ 93.4
Adjustments for non-cash items:			
Depletion and depreciation	9	67.7	48.7
Deferred taxes	17	0.2	(7.7)
Accretion of convertible debentures	15	4.0	1.2
Unwinding of discounts		0.9	0.2
Stock-based compensation	12	6.3	2.6
Unrealized loss on derivative financial liability	15	39.0	-
Amortization of other assets		1.3	1.7
Colombian equity tax expense	17	27.7	-
Colombian equity tax payable	17	(2.1)	-
		181.8	140.1
Changes in non-cash working capital	21	(94.5)	(125.7)
Current income tax expense	17	46.3	28.0
Cash income taxes paid		(4.9)	(4.5)
Interest and standby expense	6	5.4	1.9
Cash interest paid		(7.2)	(1.1)
		126.9	38.7
Financing Activities			
Dividends paid	12	(13.4)	-
Issuance of common shares – net of costs	12	1.9	1.9
Financing costs	7	(0.8)	-
		(12.3)	1.9
Investing Activities			
Expenditures on property, plant and equipment	9	(88.0)	(66.1)
Expenditures on exploration and evaluation			
Assets	8	(61.5)	(45.6)
Expenditures on other assets	7	(0.2)	(1.1)
Pipeline investment	11	(28.5)	-
Changes in non-cash working capital	21	(13.8)	24.4
		(192.0)	(88.4)
Decrease in cash and cash equivalents		(77.4)	(47.8)
Cash and cash equivalents, beginning of period		723.3	63.0
Cash and cash equivalents, end of period		\$ 645.9	\$ 15.2
Cash and cash equivalents consist of:			
Cash		\$ 13.2	\$ 2.6
Cash equivalents		\$ 632.7	\$ 12.6

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three months ended March 31, 2011 and 2010

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

NOTE 1 – REPORTING ENTITY

Petrominerales Ltd. (“Petrominerales” or the “Company”) is an international oil and gas company involved in the exploration, development and production of crude oil in Colombia and Peru. Petrominerales is incorporated in Alberta, Canada and is a public company listed on the Toronto Stock Exchange. The Company’s head office is located at 1900, 111 – 5th Avenue S.W., Calgary, Alberta, Canada, T2P 3Y6.

Effective December 31, 2010, the Company completed a re-organization (the “Reorganization”) whereby the legal jurisdiction of the parent company of the group changed from the Bahamas to Alberta, Canada. In addition, on December 31, 2010, the Company’s former controlling shareholder, Petrobank Energy and Resources Ltd. (“Petrobank”) distributed its 65 percent ownership in Petrominerales to its shareholders.

NOTE 2 – BASIS OF PRESENTATION

Statement of Compliance

These condensed interim consolidated financial statements have been prepared in accordance with IAS 34 ‘Interim Financial Reporting’ (“IAS 34”) using accounting policies consistent with the International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board and Interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”). These standards and interpretations have been described in Note 3. Previously, the Company prepared its annual and interim consolidated financial statements in accordance with Canadian Generally Accepted Accounting Principles (“GAAP”). Refer to Note 23 for the significant adjustments relating to the transition to IFRS.

Since this is the first period for which the Company has adopted IFRS, these condensed interim consolidated financial statements include the Company’s annual consolidated financial statements for December 31, 2010 prepared in accordance with IFRS.

In addition, the Company’s disclosures included in these financial statements exceed the minimum requirements under IAS 34. The Company has elected to exceed the minimum requirements in order to present the Company’s accounting policies in accordance with IFRS and the additional disclosures required under IFRS, which also highlight the changes from the Company’s 2010 annual consolidated financial statements prepared in accordance with Canadian GAAP. In 2012 and beyond, the Company may not provide the same amount of disclosure in future interim consolidated financial statements as the reader will be able to rely on the annual consolidated financial statements which will be prepared in accordance with IFRS.

The approval date by the Company’s Board of Directors for issuance of these condensed interim consolidated financial statements is May 11, 2011.

Basis of Measurement

These financial statements have been prepared on the historical cost basis except for derivative financial instruments and share-based payment transactions, which are measured at fair value, as explained in Note 3 – Significant Accounting Policies. The comparative figures presented in these consolidated financial statements are in accordance with IFRS and have not been audited.

The consolidated financial statements have been prepared on a going concern basis.

Functional and Presentation Currency

These financial statements are presented in United States dollars which is both the functional and the presentation currency of the consolidated financial statements, and all amounts are presented in millions except when otherwise indicated.

Significant Accounting Estimates and Judgements

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the statements of financial position as well as the reported amounts of revenues, expenses, and cash flows during the periods presented. Such estimates relate primarily to unsettled transactions and events as of the date of the financial statements. Actual results could differ materially from estimated amounts.

Specific amounts and disclosures affected by estimates and assumptions are: (i) amounts recorded for depletion and depreciation expense and amounts used for impairment test calculations are based on estimates of crude oil reserves and future costs required to develop those reserves on a Cash Generating Unit (“CGU”) basis; (ii) stock-based compensation is based upon expected volatility and option life estimates; (iii) decommissioning liabilities and the related accretion are based on estimates of abandonment costs, timing of abandonment, inflation and interest rates; (iv) the provision for income taxes is based on judgements in applying income tax law and estimates on the timing, likelihood and reversal of temporary differences between the accounting and tax bases of assets and liabilities; (v) the amounts allocated to the assets and liabilities acquired from the PanAndean business combination are based on estimates of the fair value of exploration assets acquired; (vi) the derivative liability and liability components of the convertible debentures are based on estimates of expected volatility; and (vii) the amounts recorded for contingencies are based on estimates of the probability of outcomes and estimates of the future cash flows.

NOTE 3 –SIGNIFICANT ACCOUNTING POLICIES

Consolidation

These consolidated condensed interim financial statements include the accounts of Petrominerales and its subsidiaries listed in the following table:

Subsidiary	Country of Incorporation	Ownership Interest	
		March 31, 2011	December 31, 2010
Petrominerales Ltd.	Alberta, Canada	100%	100%
Petro International Ltd.	Bahamas	100%	100%
Petrominerales Bermuda Ltd.	Bermuda	100%	100%
Inversiones Sol del Sur SAS	Colombia	100%	100%
Petrominerales Orito Ltd.	Bermuda	100%	100%
Petrominerales Colombia Ltd.	Bermuda	100%	100%
Petrominerales Peru Ltd.	Bahamas	100%	100%
Pan Andean Ltd.	Ireland	100%	100%
Petrominerales Peru SA	Peru	100%	100%

Intercompany balances and transactions are eliminated on consolidation. Interests in jointly controlled assets are accounted for using the proportionate consolidation method, whereby Petrominerales' proportionate share of revenues, expenses, assets and liabilities are included in the accounts. Inter-company transactions and balances are eliminated upon consolidation.

Foreign Currency Translation

The United States dollar is the functional currency of the Company and its subsidiaries. Monetary assets and liabilities denominated in a currency other than the functional currency are translated at the exchange rate in effect at the balance sheet date. Non-monetary assets, liabilities, revenues and expenses are translated at transaction date exchange rates. Exchange gains or losses are included in the determination of net income as foreign exchange loss.

Exploration and Evaluation (E&E) Assets

All costs directly associated with the exploration and evaluation of crude oil and gas reserves are initially capitalized on an area-by-area basis. Exploration and evaluation costs are those expenditures for an area where technical feasibility and commercial viability has not yet been determined.

When an area is determined to be technically feasible and commercially viable, the accumulated costs are transferred to property, plant and equipment. When an area is determined not to be technically feasible and commercially viable or the Company decides not to continue with its activity, the unrecoverable costs are charged to net income as exploration and evaluation expense.

Property, Plant & Equipment (PP&E)

All costs directly associated with the development of crude oil and gas reserves are capitalized on an area-by-area basis. Crude oil asset include expenditures for areas where technical feasibility and commercial viability has been determined. These costs include proved property acquisitions, development drilling, completion, gathering and infrastructure, asset retirement costs and transfers from exploration and evaluation assets. Critical spares include inventory for future PP&E and E&E expenditures on crude oil assets and are valued at the lower of cost and net realizable value.

Costs accumulated within each area are depleted using the unit-of-production method based on proved plus probable reserves using estimated future prices and costs. Costs subject to depletion include estimated future costs to be incurred in developing proved and probable reserves. Costs of major development projects are excluded from the costs subject to depletion until they are available for use. For divestitures of properties, a gain or loss is recognized in net income. Exchanges of properties are measured at fair value, unless the transaction lacks commercial substance or fair value cannot be reliably measured. Where the exchange is measured at fair value, a gain or loss is recognized in net income.

Maintenance and Repairs

Expenditures related to renewals or betterments that improve the productive capacity or extend the life of an asset are capitalized. Maintenance and repairs are expensed as incurred.

Impairment

E&E and PP&E costs are accumulated in cash-generating units ("CGU's") on the basis of geographical area having regard to the operational infrastructure (such as pipelines, facilities and sales points) of the area, and are the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. The Company currently has four CGU's, Llanos, Neiva, Orito and Peru.

At the end of each reporting period, Petrominerales assesses the CGU's for circumstances that indicate that the assets may be impaired. If any such indication of impairment exists, the Company makes an estimate of its recoverable amount. A CGU's recoverable amount is the higher of its fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU's group exceeds its recoverable amount, the asset or CGU is considered impaired and is written-down.

For impairment losses identified based on a CGU, or group of CGU's, the loss is allocated on a pro rata basis to the assets within the CGU(s). This is first completed by reducing the carrying amount of any goodwill allocated to the CGU or group of CGU's and then, reducing the carrying amount of the other assets of the CGU, or group of CGUs, on a pro rata basis. The impairment loss is recognized as an expense in the statement of operations.

Where the circumstances that gave rise to an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, so that the revised carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGU) in prior years. A reversal of an impairment loss is recognized immediately in the statement of operations.

Corporate and Other Property, Plant and Equipment

Other tangible non-current assets are stated at historical cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated life of the asset.

For impairment test purposes, corporate assets are allocated to each of the CGU's on the basis of proportionate future net revenue consistent with the recoverable amount.

Goodwill

Goodwill is recorded on a business acquisition when the purchase price is in excess of the fair values assigned to assets acquired and liabilities assumed. Goodwill is not amortized and an impairment test is performed annually to evaluate the carrying value. To test for impairment, goodwill is allocated to each of the Company's CGUs, or groups of CGUs, that are expected to benefit from the acquisition and tested as described above in the Company's Impairment policy. Impairment losses are recognized, when identified, in the statement of operations and cannot be reversed.

Capitalization of Borrowing Costs

Borrowing costs directly relating to the acquisition, construction or production of a capital project under construction for a substantial period of time (the Company defines this time period as being greater than one year) are capitalized and added to the project cost during construction until such time that the assets are substantially ready for their intended use. Where funds are borrowed specifically to finance a project, the amount capitalized represents the actual borrowing costs incurred less interest income earned. Any income generated from short-term investments reduces the related total capitalized borrowing costs. The Company did not capitalize any borrowing costs under IFRS in 2010 or during the first quarter of 2011.

Decommissioning Liabilities

The Company recognizes the estimated fair value of decommissioning liabilities associated with PP&E and E&E assets as a liability in the period in which they are incurred, normally when the asset is purchased or developed. The fair value is capitalized and amortized over the same period as the underlying asset. The Company estimates the liability based on the estimated costs to abandon and reclaim the wells and well sites that are required to be abandoned under the terms of oil and gas contracts. Wells and well sites that the Company has acquired, constructed, drilled, completed workovers on, or performed enhancements to, are included in the estimate. This estimate is evaluated on a periodic basis and any adjustment to the estimate is applied prospectively. The change in net present value of the future retirement obligation due to the passage of time is expensed as unwinding of the discount. Actual retirement obligations settled during the period reduce the decommissioning liability.

Revenue Recognition

Revenues from the sale of crude oil are recognized when title passes to the customer and delivery has taken place.

Earnings Per Share

The Company computes basic earnings per share using net income divided by the weighted-average number of common shares outstanding.

The Company computes diluted earnings per share using net income adjusted for interest expense on the convertible debentures, if dilutive, divided by the weighted-average number of diluted common shares

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outstanding. The Company uses the treasury stock method in computing the weighted-average number of diluted common shares outstanding. This method assumes that the proceeds on exercise of in-the-money stock options, deferred common shares and incentive shares are used to repurchase the Company's common shares at the average market price during the relevant period. The number of diluted common shares outstanding also reflects the potential dilution that would occur if the convertible debentures were converted into common shares at the beginning of the period, or when they were issued.

Stock-Based Compensation

The Company accounts for stock-based compensation using the fair-value method of accounting for stock options, deferred common shares and incentive shares (collectively referred to as "Rights") granted to directors, officers, employees and consultants using the Black-Scholes option-pricing model. Stock-based compensation expense is recorded and reflected as stock-based compensation expense over the vesting period with a corresponding amount reflected in the share-based payments reserve. Stock-based compensation expense is calculated as the estimated fair value for the related Rights at the time of grant and amortized over their vesting period. When Rights are exercised, the associated amounts previously recorded in the share-based payments reserve are reclassified to common share capital.

The Company has incorporated an estimated forfeiture rate for Rights that will not vest as is required by IFRS 2 – Share Based Payments. No expense is recognized for Rights that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of the Rights are modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where a Right is cancelled, any expense not yet recognized for the award is recognized immediately since it is treated as if the Right had vested on the date of cancellation. However, if a new award is substituted for the cancelled award and designated as a replacement award on the grant date, the cancelled and new awards are treated as a modification of the original award, as described in the previous paragraph.

Income Taxes

The Company accounts for income taxes using the liability method. Under this method, the Company records a deferred tax asset or liability to reflect any difference between the accounting and tax bases of assets, liabilities, unused tax losses and unused tax credits, using substantively enacted income tax rates. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in net income in the period in which the change occurs. Deferred tax assets are only recognized to the extent it is more likely than not that sufficient future taxable income will be available to allow the deferred tax asset to be realized.

Cash and Cash Equivalents

Cash and cash equivalents include investments and deposits with a maturity of three months or less when purchased.

Crude Oil Inventory

Crude oil inventory consists of crude oil in transit or in storage tanks at the balance sheet date and is valued at the lower of cost, using the weighted average cost method and net realizable value. Costs include direct and indirect expenditures incurred in bringing the crude oil to its existing condition and location.

Financial Instruments

Non-derivative Financial Instruments

Non-derivative financial instruments include cash and cash equivalents, trade and other receivables, trade and other payables, and the liability portion of the convertible debenture. Non-derivative financial instruments are recognized initially at fair value plus any directly attributable transaction costs, except for financial assets and liabilities at fair value through profit or loss whereby any directly attributable transaction costs are expensed as incurred. Subsequent to initial recognition, non-derivative financial instruments are designated into one of the following categories and measured as described below. Interest, dividends, losses and gains relating to financial assets and liabilities are recognized in net income and within operations in the statement of cash flows.

(i) Held to Maturity Investments

Subsequent to the initial recognition, held to maturity investments are measured at amortized cost using the effective interest method, less any impairment losses. The Company does not have any held to maturity investments.

(ii) Available-For-Sale Assets

Subsequent to the initial recognition, available-for-sale assets are measured at fair value and changes therein, other than impairment losses, and foreign currency differences on available-for-sale monetary items are recognized directly to equity in other comprehensive income ("OCI"). When an investment is derecognized, the cumulative gain or loss in equity ("OCI") is transferred to profit or loss. The Company does not have any available for sale assets.

(iii) Financial Assets and Liabilities at Fair Value Through Profit or Loss

The Company's investment in the OBC Pipeline is a financial asset recorded at fair value through profit or loss. Subsequent to the initial recognition, these financial instruments are measured at fair value, and changes therein are recognized in profit or loss.

The Company has designated cash and cash equivalents at fair value. Cash and cash equivalents are comprised of cash on hand, term deposits held with banks, and other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management, whereby management has the ability and intent to net bank overdrafts against cash, are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(iv) Other

The Company's trade and other receivables, trade and other payables, the liability portion of the convertible debentures and equity taxes, are classified as other non-derivative financial instruments. Subsequent to the initial recognition, other non-derivative financial instruments are measured at amortized cost using the effective interest method, less any impairment losses.

Derivative financial instruments

The conversion features associated with convertible debentures whereby the Company can elect to repay the equivalent fair value of the instrument in cash upon conversion are a derivative liability. Derivative liabilities are recorded upon recognition and subsequently at each balance sheet date at fair value, with changes in fair value being recognized in the statement of operations.

Compound financial instruments

Compound financial instruments issued by the Company consist of convertible debt that can be converted to common shares at the option of the Company, and the number of shares to be issued does not vary with the changes in their fair value, and the Company cannot elect to repay the equivalent fair value of the instrument in cash upon conversion.

The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. Subsequent to initial recognition, the liability component is measured at amortized cost using the effective interest method.

The equity component a compound financial instrument is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. The equity component is not remeasured subsequent to initial recognition.

Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects. Dividends to the equity holders are recognized against equity, net of any tax benefit.

NOTE 4 – CHANGES IN ACCOUNTING POLICIES

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on the Company:

As of January 1, 2013, Petrominerales will be required to adopt IFRS 9, "Financial Instruments", which is the result of the first phase of the IASB's project to replace IAS 39, "Financial Instruments: Recognition and Measurement". The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. The adoption of this standard should not have a material impact on the Company's consolidated financial statements.

NOTE 5 – SEGMENTED INFORMATION

IFRS 8 requires operating segments be identified on the basis of internal reports about components of the Company that are regularly reviewed by the executive officers of the Company to allocate resources to the segments and to assess their performance.

The Company's reportable and geographical segments are Colombia, Peru and Other. Other activities include the Company's corporate offices in Canada and Colombia. The accounting policies used for the reportable segments are the same as the Company's accounting policies.

For the purposes of monitoring segment performance and allocating resources between segments, the Company's executive officers monitor the tangible, intangible and financial assets attributable to each segment. All assets are allocated to reportable segments. The following tables show information regarding the Company's reportable segments.

Three Months ended March 31, 2010	Colombia	Peru	Other	Total
Revenue	247.8	-	-	247.8
Depletion and depreciation	48.7	-	-	48.7
Income before finance expense	123.3	-	(3.5)	119.8
Interest and accretion expense	1.6	-	2.0	3.6
Income tax expense	20.3	-	-	20.3
Net income	98.7	-	(5.3)	93.4
E&E and PP&E expenditures	106.2	5.5	-	111.7

Year Ended December 31, 2010	Colombia	Peru	Other	Total
Total assets	1,047.9	51.8	732.9	1,832.6
Total liabilities	508.2	32.3	585.5	1,126.0

Three Months ended March 31, 2011	Colombia	Peru	Other	Total
Revenue	349.7	-	-	349.7
Depletion and depreciation	67.7	-	-	67.7
Income before finance expense	137.6	-	(1.4)	136.2
Net finance expense	5.7	-	47.2	52.9
Income tax expense	46.5	-	-	46.5
Net income	82.6	-	(45.8)	36.8
E&E and PP&E expenditures	147.2	2.3	-	149.5
Total assets	1,230.9	55.0	672.7	1,958.6
Total liabilities	570.9	35.5	613.9	1,220.3

NOTE 6 – NET FINANCE EXPENSE

Three Months ended March 31,

	2011	2010
Cash interest and standby charges	5.4	1.9
Accretion on convertible debentures	4.0	1.2
Accretion on Colombia equity tax	0.6	-
Unwinding of discount of decommissioning liability	0.3	0.2
Amortization of deferred financing costs	0.4	0.3
Total interest expense and accretion	10.7	3.6
Loss on derivative financial liability	39.0	-
Foreign exchange loss	3.8	2.5
Interest income	(0.6)	-
Total net finance expense	52.9	6.1

NOTE 7 – OTHER ASSETS

	Prepaid Pipeline Tariffs	Deferred Charges	Total Other Assets
Balance at January 1, 2010	21.2	5.3	26.5
Additions	3.8	0.1	3.9
Less: amortization	(3.8)	(1.3)	(5.1)
Balance at December 31, 2010	21.2	4.1	25.3
Additions	0.2	0.8	1.0
Less: amortization	(0.8)	(0.3)	(1.1)
Balance at March 31, 2011	20.6	4.6	25.2

Costs invested in the Monterrey crude oil offloading facility are treated as prepaid pipeline tariffs for the first 24 million barrels delivered to the facility. The costs are being amortized using the unit-of-production method based on the barrels of oil delivered to the facility since it was commissioned in 2009. Deferred charges consist of costs related to the \$150 million secured credit facility that are being amortized using the straight-line method over the term of the credit facility agreement.

NOTE 8 – EXPLORATION AND EVALUATION ASSETS

Balance at January 1, 2010	84.2
Additions	167.3
Decommissioning liability additions, net of transfers to PP&E	4.9
Acquisitions of PanAndean (Note 9)	32.0
Transfer to property, plant and equipment	(23.5)
Balance at December 31, 2010	264.9
Additions	61.5
Decommissioning liability additions, net of transfers to PP&E	1.5
Transfer to property, plant and equipment	(38.3)
Balance at March 31, 2011	289.6

Exploration and evaluation assets are made up of the Company's exploration and evaluation projects currently in progress. For the three months ended March 31, 2011, \$38.3 million was transferred to property plant and equipment (see Note 9) in respect of successful wells. The Company does not hold any tangible exploration assets.

NOTE 9 – PROPERTY, PLANT AND EQUIPMENT

	Critical spares	Crude oil assets	Corporate and other	Total
Cost at January 1, 2010	21.2	784.6	7.0	812.8
Additions	8.4	322.1	8.6	339.1
Decommissioning liability additions, including transfers from E&E	-	13.3	-	13.3
Transfers from E&E	-	23.5	-	23.5
Cost at December 31, 2010	29.6	1,143.5	15.6	1,188.7
Accumulated depreciation and depletion	-	(319.2)	(3.5)	(322.7)
Depreciation and depletion for the period	-	(215.0)	(2.9)	(217.9)
Carrying value, December 31, 2010	29.6	609.3	9.2	648.1

	Critical spares	Crude oil assets	Corporate and other	Total
Cost at December 31, 2010	29.6	1,143.5	15.6	1,188.7
Additions	18.1	68.5	1.4	88.0
Decommissioning liability movement, including transfers from E&E	-	3.0	-	3.0
Transfers from E&E	-	38.3	-	38.3
Cost at March 31, 2011	47.7	1,253.3	17.0	1,318.0
Accumulated depreciation and depletion	-	(534.2)	(6.4)	(540.6)
Depreciation and depletion for the period ⁽¹⁾	-	(67.3)	(1.0)	(68.3)
Carrying value, March 31, 2011	47.7	651.8	9.6	709.1

⁽¹⁾ Depreciation and depletion that was recognized in inventory during the period was \$0.6 million.

Corporate and other assets are comprised of mainly computer equipment and office furniture and fixtures.

NOTE 10 – BUSINESS COMBINATION

On April 14, 2010, Petrominerales acquired 100 percent of the issued and outstanding common shares of PanAndean Resources plc (“PanAndean”) for \$29.6 million in cash by way of Scheme of Arrangement under U.K. Law. At the acquisition date, PanAndean was a public company listed on the AIM exchange with exploration stage properties in Colombia and Peru. This acquisition was completed to facilitate Petrominerales’ strategy to increase its presence in Peru and build on existing acreage in the Ucayali Basin. As such, goodwill consists largely of the strategic benefit that an increased presence in the Ucayali Basin of Peru will bring to the Company. None of the goodwill recognized is expected to be deductible for income tax purposes. The Company incurred \$1.2 million of costs related to the acquisition that have been expensed in the statement of operations.

The statement of operations includes PanAndean’s results of operations since April 14, 2010. These amounts have not been disclosed separately, nor have the amounts been disclosed as though the acquisition had occurred in January 1, 2010, as the amounts are not significant since PanAndean has no production or revenue.

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

Consideration paid net of cash acquired	Amount
Cash paid	29.6
Cash acquired	(0.8)
Total consideration paid net of cash acquired	28.8

Assets acquired and liabilities assumed	Amount
Financial assets	0.5
Exploration and evaluation	32.0
Goodwill	5.0
Financial liabilities	(0.3)
Deferred tax liability	(8.4)
Total net assets acquired	28.8

NOTE 11 – PIPELINE INVESTMENT

The Company owns 9.65 percent of the common shares of Oleoducto Bicentenario de Colombia pipeline project (“OBC”). The pipeline will be built in three phases, of which the company has committed up to the first phase. Phase one of the project is expected to cost approximately \$1.0 billion (\$96.5 million net) and add approximately 120,000 bopd (11,580 bopd net) of offloading capacity during the first quarter of 2012. Ultimately, phases two and three of the project are expected to be completed by the end of 2013 and will add a further 330,000 bopd of gross takeaway capacity at a total incremental gross cost of approximately \$4.4 billion. Petrominerales has an option to participate in phases two and three.

NOTE 12 – SHARE CAPITAL

Authorized

The Company is authorized to issue an unlimited number of common shares with no par value.

Common Shares

Issued, outstanding and fully paid	Number	Amount
Balance at January 1, 2010	98,610,917	\$ 197.7
Exercise of stock options	1,764,899	9.6
Exercise of deferred common shares	25,625	-
Exercise of incentive shares	2,947	-
Share issuance for dividends attributable to exercised deferred common shares	123	-
Conversion of convertible debentures	2,987,367	92.1
Transfer from share-based payments reserve related to stock options and deferred common shares exercised	-	2.5
Balance at December 31, 2010	103,391,878	301.9
Exercise of stock options	280,691	2.0
Exercise of incentive shares	5,608	-
Transfer from share-based payments reserve related to stock options, incentive shares and deferred common shares exercised	-	0.6
Balance at March 31, 2011	103,678,177	\$ 304.5

Dividends

Petrominerales initiated a quarterly dividend payment of Cdn.\$0.125 per share starting with the second quarter of 2010. The total amount of dividends declared in the first quarter of 2011 was \$13.4 million, which was paid on April 15, 2011. The total amount of dividends declared in 2010 was \$37.3 million, of which \$13.4 million was paid on January 15, 2011 for the dividend declared on December 31, 2010.

Share-based Payment Reserves

Changes in Share-based Payment Reserves	Amount
Balance at January 1, 2010	9.9
Stock-based compensation	13.9
Transfer to common shares related to stock options exercised	(2.5)
Balance at December 31, 2010	21.3
Stock-based compensation	6.3
Transfer to common shares related to stock options exercised	(0.6)
Balance at March 31, 2011	27.0

Stock Options

The Company has established a stock option plan for directors, officers, employees and consultants. The plan allows for the issuance of up to 10 percent of the outstanding shares of the Company. The exercise price can be no less than the market price of the Company's stock on the date of the grant. Stock option terms are determined by the Company's Board of Directors but typically, options vest evenly over a period of four years from the date of grant and expire between five and 10 years after the date of grant.

The following is a continuity of stock options outstanding:

	Stock Options	Weighted- Average Exercise Price (Cdn.\$)
Balance at January 1, 2010	6,046,182	7.98
Granted	2,823,300	27.27
Exercised	(1,764,899)	5.51
Forfeited and cancelled	(339,431)	11.92
Balance at December 31, 2010	6,765,152	16.47
Granted	83,780	36.20
Exercised	(280,691)	7.33
Forfeited	(177,276)	10.96
Balance at March 31, 2011	6,390,965	17.16

The following summarizes information about stock options outstanding as at March 31, 2011:

Stock Options Outstanding				Stock Options Exercisable	
Range of Exercise Prices (Cdn.\$)	Number	Weighted- Average Remaining Contractual Life (Years)	Weighted- Average Exercise Price (Cdn.\$)	Number	Weighted- Average Exercise Price (Cdn.\$)
3.11 – 6.94	1,176,960	3.87	4.38	593,148	4.14
6.95 – 11.78	1,311,265	3.42	8.54	112,229	8.31
11.79 – 24.07	1,357,920	5.24	16.74	167,437	14.63
24.08 – 28.10	1,674,900	5.55	26.76	144,825	27.82
28.11 – 36.95	869,920	4.18	30.55	82,050	30.24
	6,390,965	4.55	17.16	1,099,689	11.23

Deferred Common Share Compensation Plan

The Company has a deferred common share plan whereby it may grant deferred common shares to its directors, officers and employees. The plan allows holders to receive one common share upon payment of \$0.05 per share. The deferred common shares vest after three years or upon the recipient leaving the Company, and expire 10 years from the date of grant. Up to 0.5 million deferred common shares have been approved for issuance under this plan.

Deferred Common Share Continuity	Number
Balance at January 1, 2010	97,844
Granted	59,171
Exercised	(25,625)
Balance at December 31, 2010	131,390
Granted	42,446
Exercised	-
Balance at March 31, 2011	173,836

Incentive Share Plan

The Company has established an incentive share plan for directors, officers and employees. The plan allows the holder to receive one common share upon the vesting and payment of Cdn. \$0.05 per share exercise price. The terms of the incentive shares granted are determined by the Company's Board of Directors but typically, incentive shares vest evenly over a period of four years from the date of grant and expire between five and 10 years after the date of grant. Up to three million incentive shares have been approved for issuance under this plan.

Incentive Share Continuity	Number
Balance at January 1, 2010	34,130
Granted	838,036
Exercised	(2,947)
Forfeitures and cancellations	(16,600)
Balance at December 31, 2010	852,619
Granted	41,458
Exercised	(5,608)
Forfeitures and cancellations	(15,115)
Balance at March 31, 2011	873,354

At March 31, 2011, there were 170,606 incentive shares exercisable (December 31, 2010 – 142,150) with a remaining contractual life of nine years (December 31, 2010 – nine years).

Stock-Based Compensation

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

Three Months Ended,	2011		2010	
Risk free interest rate		2.25%		2.25%
Market Price	Cdn.\$	36.20	Cdn.\$	28.95
Dividend rate		1.40%		0%
Expected life – options and incentive shares (years)		3.0 – 4.0		3.0 – 4.0
Expected life – deferred common shares (years)		8.0		8.0
Forfeiture rate – options		5%		6%
Expected volatility		37.1%		42.5%
Fair value of stock options granted	Cdn.\$	7.74	Cdn.\$	9.24
Fair value of deferred common shares granted	Cdn.\$	34.79	Cdn.\$	28.99
Fair value of incentive shares granted	Cdn.\$	35.79	Cdn.\$	27.85

Expected volatility was determined based on options market transactions for the period within which the grant date of the relevant plan falls. The fair value is adjusted for the expected rates of early cancellation. Management is responsible for all inputs and assumptions in relation to the model, including the determination of expected volatility.

Share-based compensation expense for the three months ended March 31, 2011 totalled \$6.3 million (2010 – \$2.6 million).

NOTE 13 – EARNINGS PER SHARE

The following table summarizes the weighted average number of common shares used in calculating basic and diluted earnings per share. Net income after tax is used to determine earnings per share. No adjustments were required to net income in the first quarter of 2011 as the effect of the convertible debentures was anti-dilutive. The anti-dilutive shares excluded for the convertible debentures were 16.0 million for the 3 month period ended March 31, 2011.

Three months ended March 31,	2011		2010	
Net income adjustments				
Net income, basic		36.8		93.4
Interest and accretion expense on Petrominerales' convertible debentures		-		2.0
Tax effect		-		(0.7)
Net income, diluted		36.8		94.7
Weighted average common share adjustments				
Weighted average common shares outstanding, basic		103,580,646		98,734,202
Effect of stock options, deferred common shares and incentive shares		3,892,808		3,456,363
Effect of convertible debentures		-		2,987,367
Weighted average common shares outstanding, diluted		107,473,454		105,177,932

NOTE 14 – BANK DEBT

At March 31, 2011, the Company had an undrawn \$150 million secured credit facility. The facility is secured against all assets of the Company, is reviewed semi-annually with the lender and expires on December 30, 2013.

The Company also has lines of credit available in Colombia totalling \$41.2 million. Advances under the facility are collateralized by a promissory note provided by the Company. At March 31, 2011, the Company had letters of credit totalling \$26.6 million outstanding to guarantee work commitments under exploration blocks. Letters of credit issued against the Colombian operating line of credit (\$25.5 million) reduce the amounts available under the facility.

NOTE 15 – CONVERTIBLE DEBENTURES

2010 Convertible Debentures

The 2010 convertible debentures were originally issued for \$100 million on December 6, 2007 and classified as a compound financial instrument. In 2008, \$18.3 million principal value of the debentures was repurchased by the Company. On the expiry date, December 6, 2010, the remaining convertible debentures, having a principal amount of \$81.7 million, were converted into 2,987,367 common shares at the contractual conversion rate of US\$27.3485 per share. On the date of conversion, both the principal and equity components of the convertible debentures totalling \$92.1 million, were transferred to share capital. The accretion recorded in 2010 related to these debentures was \$4.9 million.

2016 Convertible Debentures

On August 25, 2010, Petrominerales issued \$550 million of convertible debentures maturing on August 25, 2016 that have an annual coupon rate of 2.625 percent. The debentures are convertible into common shares of Petrominerales at a conversion price of US\$34.3147 per share, subject to adjustment for dividends. If converted, the Company has the option to deliver a total of 16,028,116 common shares or cash equal to the market value of the 16,028,116 common shares based on the weighted average share price for the 20 trading day period following the conversion notice. In addition, the debenture holders have a one-time put option right of prepayment of the debentures for 100 per cent of the par value plus accrued interest on August 25, 2013. The debenture holders must exercise their put option within a 30 day period between June 10 and July 10, 2013.

On issuance, the 2016 debenture was split between the liability and the conversion feature (which has been classified as a derivative liability under IFRS). The amount of the liability portion was determined by subtracting transaction costs and the fair value of the conversion feature from the principal amount of the bonds. The US\$550 million issuance proceeds resulted in \$432 million being classified as a liability and \$101 million being classified as a derivative financial liability. The fair value of the conversion feature is estimated every balance sheet date with changes in the fair value estimate between periods recognized in the statement of operations as finance expense. The following table summarizes the accounting of the 2016 convertible debentures:

	Liability	Derivative Liability	Total
Issuance of convertible debenture on August 25, 2010 (net of \$17.0 of issuance costs)	\$ 432.2	\$ 101.1	\$ 533.3
2010 accretion	5.6	-	5.6
2010 derivative loss	-	139.1	139.1
Balance at December 31, 2010	437.8	240.2	678.0
2011 accretion	4.0	-	4.0
2011 derivative loss	-	39.0	39.0
Balance March 31, 2011	\$ 441.8	\$ 279.2	\$ 721.0

The liability portion is measured at amortized cost and will accrete up to the principal balance at maturity using the effective interest rate method. The accretion and the interest paid are expensed as a finance expense in the consolidated statement of operations. The derivative financial liability is measured at fair value through profit or loss, with changes to the fair value being recorded in finance expense.

The fair value of the derivative financial liability is determined using a binomial valuation model and the following assumptions were used:

	March 31, 2011	December 31, 2010	August 25, 2010
Risk free interest rate	2.77%	2.61%	2.14%
Expected life (years)	5.4	5.6	6.0
Expected volatility	42.4%	46.5%	37.5%
Market price	\$37.88	\$33.34	\$23.48
Conversion price	\$34.31	\$34.75	\$34.75

NOTE 16 – DECOMMISSIONING LIABILITIES

The total decommissioning and restoration obligations were estimated by management based on the estimated costs to reclaim and abandon the wells, well sites and certain facilities based on the Company's contractual requirements. Changes to decommissioning and restoration obligations were as follows:

As at,	March 31, 2011	December 31, 2010
Decommissioning liabilities, beginning of period	34.9	16.3
Obligations incurred	3.8	18.5
Unwinding of discount	0.3	0.1
Change in estimates	0.7	-
Decommissioning liabilities, end of period	39.7	34.9

The obligations have been calculated using an inflation rate of four percent and discount risk-free rate of four percent per annum. The majority of these obligations are expected to be paid before the end of the related incremental production contract (IPC), approximately 12 years in the future, or are required to be abandoned under the terms of the exploration contract; and are expected to be funded from the Company's general resources available at the time of settlement. The total undiscounted amount of estimated cash flows required to settle the obligations at March 31, 2011 is \$95.0 million (2010 – \$86.8 million).

NOTE 17 – TAXES

Income Taxes

The provision for income taxes differs from the amount that would have been expected by applying statutory corporate income tax rates to income before taxes. The Company does not pay tax in the Bahamas. The principal reasons for this difference are as follows:

Period ended,	March 31, 2011	March 31, 2010
Income before taxes	83.3	113.7
Statutory income tax rate in Colombia	33%	33%
Expected tax expense	27.5	37.6
Increase (decrease) in income tax provision resulting from:		
Non-deductible derivative loss	12.9	-
Non-deductible equity tax expense	9.1	-
Non-deductible convertible debenture costs	2.5	0.7
Non-deductible expenses	0.4	-
Enhanced tax allowances	-	(8.1)
Stock-based compensation	2.1	0.9
Change in estimates and others	(8.0)	(10.8)
Current and deferred income tax expense	46.5	20.3
Consisting of:		
Current income tax expense	46.3	28.0
Deferred tax expense	0.2	(7.7)
Tax Expense	46.5	20.3

Deferred Taxes

The components of the Company's Colombian deferred tax assets and liabilities arising from temporary differences are as follows:

As at,	March 31, 2011		December 31, 2010		January 1, 2010	
	Deferred Tax Assets	Deferred Tax Liabilities	Deferred Tax Assets	Deferred Tax Liabilities	Deferred Tax Assets	Deferred Tax Liabilities
Loss carry forwards	-	-	0.6	-	0.7	-
Property plant and equipment	-	127.2	-	122.8	-	35.2
Decommissioning obligations	13.1	-	11.6	-	5.3	-
Decommissioning liability	9.9	-	6.6	-	4.0	-
	23.0	127.2	18.8	122.8	10.0	35.2
Valuation allowance	-	-	-	-	-	-
Net deferred tax liability		104.2		104.0		25.2

Included in the net deferred tax liability is a \$8.4 million liability relating to Peru.

Equity Taxes

Period ended,	March 31, 2011	March 31, 2010
Equity tax expense	27.7	0.5

Equity taxes are based on equity levels in Colombia. The Colombian government approved new legislation in December 2010 that obligated Colombian corporations and branches of foreign corporations to pay an equity tax based on net equity as of January 1, 2011. The rate of tax applicable to Petrominerales was six percent of net equity and was \$33.6 million, that is payable evenly over four years starting in 2011 (\$2.1 million per quarter). The net present value of the liability of \$27.7 million was recorded on January 1, 2011, of which \$20.3 million is classified as long term. This tax expense is classified as an operating expense in the statement of operations since it is not based on income.

NOTE 18 – RELATED PARTY TRANSACTIONS

Until December 31, 2010, Petrobank Energy and Resources Ltd. (“Petrobank”) was the controlling shareholder of Petrominerales. As a result of the Petrobank Reorganization described in Note 1, the companies are no longer related.

During 2010 the Company was party to a Management Services Agreement whereby Petrobank provided certain services including executive, legal, administration, financial, treasury, accounting, information technology, human resources, and office space for Petrominerales employees located in Calgary, Alberta. Amounts paid to Petrobank under this agreement totalled \$0.8 million in the first quarter of 2010 and were recorded as general and administrative expense.

NOTE 19 – CAPITAL MANAGEMENT

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

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

	March 31, 2011	December 31, 2010	January 1, 2010
Bank debt ⁽¹⁾	-	-	-
Working capital surplus	566.1	580.2	13.5
Convertible debentures – principal amount ⁽²⁾	550.0	550.0	81.7
Common share capital	304.5	301.9	197.7

⁽¹⁾ Petrominerales has an undrawn revolving credit facility with a \$150 million borrowing base and a Colombian operating line of credit of \$41.2 million.

⁽²⁾ The debentures mature August 25, 2016, are convertible into common shares at \$34.31 per share and have an annual coupon of 2.625 percent, payable semi-annually in cash or common shares.

The Company monitors leverage and adjusts its capital structure based on the ratio of net debt to cash flow from operations before non-cash working capital. This ratio is calculated as net debt, a non-IFRS measure the Company defines as outstanding bank debt plus the principal amount of convertible debentures, unless the debentures are in-the-money, and working capital deficiency, divided by cash flow from operations before changes in non-cash working capital for the most recent calendar quarter, annualized. At March 31, 2011, net debt was negative since the Company had a working capital surplus. Petrominerales uses the ratio of net debt to cash flow as a key indicator of the Company's leverage and to monitor the strength of the balance sheet. In order to facilitate the management of this ratio, the Company prepares annual budgets, which are updated as necessary depending on varying factors including current and forecast crude oil prices, changes in capital structure, execution of the Company's business plan and general industry conditions. The annual budget is approved by the Board of Directors and updates are prepared and reviewed as required.

The Company is in compliance with the covenants contained in its convertible debenture and credit facility agreements. The credit facility has financial covenants to maintain a ratio of bank debt to trailing twelve month earnings before interest, tax, depletion, depreciation and amortization under 3.0 times and to maintain a current ratio greater than 1.0 (current assets divided by current liabilities less unused bank debt). The convertible debentures have financial covenants to maintain a ratio of equity to total assets of at least 30 percent and to limit the amount of security and encumbrances the Company has on its assets to 35% of the book value of total assets.

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

NOTE 20 – FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

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

The Board of Directors has overall responsibility for the establishment and oversight of the Company's financial risk management framework and monitors risk management activities. The Company identifies and analyzes the risks faced by the Company and may utilize financial instruments to mitigate these risks. The main risks identified by Petrominerales are credit risk, liquidity risk, market risk, foreign currency risk, commodity price risk and interest rate risk.

Credit Risk

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

The following is the Company's accounts receivables breakdown:

	March 31, 2011	December 31, 2010	January 1, 2010
Crude oil customers	233.1	144.6	37.7
Other receivables	6.6	7.0	5.4
Prepaid expenses	4.0	4.0	4.4
Total	243.7	155.6	47.5

Receivables from crude oil customers are normally collected approximately 45 days after the month of production. The Company's policy to mitigate credit risk associated with these balances is to establish marketing relationships with large purchasers, negotiate early payment, obtain credit guarantees and or credit insurance. The Company historically has not experienced any collection issues with its crude oil customers. None of the receivables aged over 90 days are impaired as at March 31, 2011. In determining the recoverability of trade and other receivables, Petrominerales performs a risk analysis considering the type and age of the outstanding receivable and the credit worthiness of the counterparties.

Cash and cash equivalents consist of cash bank balances and short term deposits maturing in less than 90 days. The Company manages the credit exposure related to short term investments by selecting counterparties based on credit ratings and monitors all investments.

The carrying amount of accounts receivable and cash and cash equivalents represent the maximum credit exposure. The Company does not have an allowance for doubtful accounts as at March 31, 2011, and did not provide for any doubtful accounts nor was it required to write-off any receivables during the three months ended March 31, 2011 or 2010.

Liquidity Risk

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

The Company prepares annual capital expenditure budgets, which are monitored regularly and updated as considered necessary. Crude oil production is monitored daily to provide current cash flow estimates and the Company utilizes authorizations for expenditures on projects to manage capital expenditures. To facilitate the capital expenditure program, the Company has a revolving reserve based credit facility, as outlined in Note 14.

The following are the contractual maturities of financial liabilities as at March 31, 2011:

Financial Liability	Total	< 1 Year	1-2 Years	Thereafter
Accounts payable and accrued liabilities	298.0	298.0	-	-
Letters of credit	25.5	9.2	12.6	3.7
Convertible debentures – principal	550.0	-	-	550.0
Total	873.5	307.2	12.6	553.7

Market Risk

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

Foreign Currency Risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in foreign currency exchange rates. The Company is exposed to foreign currency fluctuations as certain expenditures are denominated in Colombian pesos and Canadian dollars. As at March 31, 2011, if the U.S. dollar had appreciated five percent against the Colombian peso with all other variables held constant, net income for the year would have been \$4.9 million higher (2010 – \$5.4 million higher), due primarily to peso denominated accounts payable.

The Company had no forward exchange rate contracts in place as at or during the three months ended March 31, 2011.

Commodity Price Risk

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

During the first quarter of 2011, the Company entered into two marketing arrangements. The first arrangement resulted in 680,304 barrels oil being exposed to the change in Brent benchmark prices from \$114.67 per barrel. The contract settled in mid-April 2011. During the first quarter of 2011, a gain of \$1.9 million was recorded for the fair value of this contract due to Brent price increases. The second arrangement allows a third party to enter into derivative trades on certain barrels of the Company's crude oil. This third party has agreed to share 50 percent of any economic benefits arising from this trading. The Company is not exposed to any losses under this arrangement and recognized revenue of \$1.5 million from this trading during the quarter.

The total gain of \$3.4 million was recorded in the first quarter as oil revenue in the statement of operations.

Interest Rate Risk

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

The Company had no interest rate swap or financial contracts in place as at or during the first quarter of 2011.

Fair Value of Financial Instruments

The Company's financial instruments are classified as cash and cash equivalents, trade and other receivables, trade and other liabilities, bank debt and convertible debentures on the statement of financial position. The carrying value and fair value of these financial instruments at March 31, 2011 is disclosed below by financial instrument category, as well as any related gain and interest expense for the three months ended March 31, 2011:

Financial Instrument	Carrying Value	Fair Value	Interest Expense
<i>Assets Held For Trading</i>			
Cash and cash equivalents ⁽¹⁾	645.9	645.9	
<i>Loans and Receivables</i>			
Accounts receivable	243.7	243.7	
<i>Other Liabilities</i>			
Accounts payable and accrued liabilities	298.0	298.0	
Bank debt	-	-	6.4 ⁽²⁾
Convertible debentures	441.8	721.2 ⁽³⁾	4.0 ⁽⁴⁾
Derivative liability of convertible debenture	279.2		

⁽¹⁾ The effective yield on cash equivalents at March 31, 2011 was 0.31% (December 31, 2010 – 0.31%).

⁽²⁾ Included in net finance expense on the statement of operations. Amount includes interest, commitment and other fees associated with credit facilities and amortization of deferred financing costs of \$0.3 million in relation to the Company's bank debt.

⁽³⁾ The fair value of the convertible debentures debt and derivative liability components are difficult to measure reliably due to lack of active trading information. The Company estimated the fair value of the convertible debentures based on recent market transactions. The principal amount of the convertible debentures at March 31, 2011 was \$550 million.

⁽⁴⁾ Included in finance expense on the condensed interim statement of operations. The non-cash interest expense relating to the accretion of the initial discount and transaction costs that are netted against this liability are included in accretion on convertible debentures on the statement of cash flow. The effective yield of the convertible debentures is 7.0%.

Petrominerales classifies the fair value of financial instruments measured at fair value according to the following hierarchy based on the amount of observable inputs used to value the instrument.

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

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

NOTE 21 – NOTES TO THE CASH FLOW STATEMENT

Changes in Non-Cash Working Capital

Three months ended March 31,	2011	2010
Change in:		
Accounts receivable	(88.1)	(135.9)
Accounts payable and accrued liabilities	(11.1)	37.1
Crude oil inventory	(5.5)	(3.3)
Depletion related to crude oil inventory and other assets	0.6	1.6
	(104.1)	(100.5)
Exclusion of interest payable change	1.9	(0.8)
Exclusion of current portion of equity tax change	(6.1)	-
	(108.3)	(101.3)
Changes relating to:		
Attributable to operating activities	(94.5)	(125.7)
Attributable to investing activities	(13.8)	24.4

NOTE 22 – COMMITMENTS AND CONTINGENCIES

The following is a summary of the Company's contractual commitments as at March 31, 2011:

Type of Obligation	Total	< 1 Year	1-3 Years	Thereafter
Exploration contracts ⁽¹⁾	81.7	37.5	42.9	1.3
Storage and transportation contract	16.6	8.4	8.2	-
Pipeline investment	71.1	71.1	-	-
Office lease	7.6	2.0	4.1	1.5
Total	177.0	119.0	55.2	2.8

⁽¹⁾ Pursuant to exploration contracts, the Company has work commitments totaling \$81.7 million to be completed during the next three years. The work commitments are normal course of business exploration activities that include property costs, acquisition and processing of seismic data and drilling exploration wells. The Company has issued letters of credit totaling \$26.6 million to guarantee the obligations under these exploration contracts.

Contingencies

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

High Price Participation Dispute

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

The ANH has indicated their view that exploitation areas under the Corcel Contract should be combined for the purposes of determining when the high price participation payment is payable. As combined production from all of the Corcel 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 the Corcel Block from April 2009 onwards. Based on their view, the ANH has requested additional payments aggregating to \$69.1 million to date. As at March 31, 2011, although total production from the Block was 14.4 million barrels, none of the individual exploitation areas on the Corcel Block have cumulatively produced more than 5 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 for each individual exploitation area, once it has cumulatively produced five million or more barrels of oil.

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

NOTE 23 - FIRST TIME ADOPTION OF IFRS

The Company adopted IFRS on January 1, 2011 with a transition date of January 1, 2010. This note sets out how the transition from Canadian GAAP to IFRS has affected the Company's financial position and comprehensive income.

The accounting policies set out in Note 3 have been applied in preparing the financial statements for the period ended March 31, 2011, the comparative information presented in these financial statements for the periods ended March 31, 2010 and December 31, 2010, and in the preparation of an opening IFRS Statement of Financial Position at January 1, 2010 (the "Transition Date").

IFRS employs a conceptual framework that is similar to Canadian GAAP. While the adoption of IFRS has not changed the actual cash flows of the Company, the adoption has resulted in changes to the reported financial position and results of operations of the Company. The differences between IFRS and Canadian GAAP that affect Petrominerales are described in the notes following the reconciliation tables below.

Under IFRS 1 "First Time Adoption of International Financial Reporting Standards", IFRS is applied to all accounts retrospectively at the Transition Date unless a specific exemption was available and taken. The following are the significant exemptions the Company has elected to apply:

- Deemed cost exemption for property, plant and equipment – The Company has elected to report items of property, plant and equipment on Transition Date at deemed cost instead of the actual cost that would be determined under IFRS. The deemed cost of an item may be either its fair value at the Transition Date or an amount determined by a previous revaluation under Canadian GAAP. The exemption can be applied on an asset-by-asset basis. Oil and gas assets that were part of the full cost pool and determined to be developed or producing assets were allocated to Cash Generating Units ("CGU's") on the Transition Date pro rata using reserve values, subject to an impairment test on the Transition Date.
- Share-Based Payments – The Company has elected not to apply IFRS 2 "Share-Based Payments" to equity instruments which vested before the Transition Date. As such, adjustments were made only to Share-Based Payments that were granted before the Transition Date but had not vested.
- Decommissioning liabilities – In accounting for changes in obligations to dismantle, remove and restore items of property, plant and equipment, the guidance under IFRS requires changes in such obligations to be added to or deducted from the cost of the asset to which it relates. The adjusted depreciable amount of the asset is then depreciated prospectively over its remaining useful life. Rather than recalculating the effect of all such changes throughout the life of the obligation, the Company has elected to measure the liability and the related depreciation effects at the Transition Date.
- Borrowing Costs – The Company applied an IFRS transitional exemption to prospectively capitalize borrowing costs from the transition date.
- Cumulative Translation Differences – The Company elected to set the cumulative translation account, which is included in accumulated other comprehensive income, to nil at January 1, 2010. This exemption has been applied to all subsidiaries.
- Business Combinations – The Company applied the business combinations exemption to not apply IFRS 3 Business Combinations retrospectively to past business combinations. Accordingly, we have not restated business combinations that took place prior to the Transition Date.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

The following tables reconcile the consolidated statements of financial position of the Company from the amounts previously reported under Canadian GAAP to IFRS as at the Transition Date, March 31, 2010 and December 31, 2010.

As at January 1, 2010 (Transition Date)	Canadian GAAP	Notes				IFRS
		a	b	c	d	
ASSETS						
Current assets						
Cash and cash equivalents	\$ 63.0	\$ -	\$ -	\$ -	\$ -	\$ 63.0
Trade and other receivables	47.5	-	-	-	-	47.5
Income tax receivable	8.5	-	-	-	-	8.5
Crude oil inventory	1.4	-	-	-	-	1.4
	120.4	-	-	-	-	120.4
Non-current assets						
Other assets	26.5	-	-	-	-	26.5
Exploration and evaluation assets	-	84.2	-	-	-	84.2
Property, plant and equipment	573.2	(84.2)	-	-	-	489.0
	599.7	-	-	-	-	599.7
Total assets	\$ 720.1	\$ -	\$ -	\$ -	\$ -	\$ 720.1
LIABILITIES AND SHAREHOLDERS' EQUITY						
Current liabilities						
Trade and other payables	\$ 106.9	\$ -	\$ -	\$ -	\$ -	\$ 106.9
Convertible debentures	76.8	-	-	-	-	76.8
	183.7	-	-	-	-	183.7
Non-current liabilities						
Deferred tax liabilities	34.8	-	-	-	(9.6)	25.2
Decommissioning liabilities	6.7	-	9.6	-	-	16.3
Total liabilities	225.2	-	9.6	-	(9.6)	225.2
Shareholders' Equity						
Convertible debentures – equity portion	10.4	-	-	-	-	10.4
Common shares	197.7	-	-	-	-	197.7
Contributed surplus	7.3	-	-	2.6	-	9.9
Accumulated other comprehensive Income	16.0	(16.0)	-	-	-	-
Retained earnings	263.5	16.0	(9.6)	(2.6)	9.6	276.9
	494.9	-	(9.6)	-	9.6	494.9
Total Liabilities and shareholders' equity	\$ 720.1	\$ -	\$ -	\$ -	\$ -	\$ 720.1

As at March 31, 2010	Canadian GAAP	Notes					IFRS
		a	b	c	d	e	
ASSETS							
Current assets							
Cash and cash equivalents	\$ 15.2	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 15.2
Accounts receivable	183.5	-	-	-	-	-	183.5
Income taxes receivable	-	-	-	-	-	-	-
Crude oil inventory	4.7	-	-	-	-	-	4.7
	203.4	-	-	-	-	-	203.4
Non-current assets							
Other assets	25.9	-	-	-	-	-	25.9
Exploration and evaluation assets	-	129.0	0.9	-	-	-	129.9
Property, plant and equipment	624.0	(129.0)	0.9	-	-	11.4	507.3
	649.9	-	1.8	-	-	11.4	663.1
Total Assets	\$ 853.3	\$ -	\$ 1.8	\$ -	\$ -	\$ 11.4	\$ 866.5
LIABILITIES AND SHAREHOLDERS' EQUITY							
Current liabilities							
Trade and other payables	\$ 144.0	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 144.0
Income taxes payable	15.0	-	-	-	-	-	15.0
Convertible debentures	78.1	-	-	-	-	-	78.1
	237.1	-	-	-	-	-	237.1
Non-current liabilities							
Deferred tax liabilities	35.7	-	-	-	(18.3)	-	17.4
Decommissioning liabilities	7.7	-	11.4	-	-	-	19.1
Total liabilities	280.5	-	11.4	-	(18.3)	-	273.6
Shareholders' Equity							
Convertible debentures – equity component	10.4	-	-	-	-	-	10.4
Common shares	200.1	-	-	-	-	-	200.1
Contributed surplus	9.4	-	-	2.7	-	-	12.1
Accumulated other comprehensive Income	16.0	(16.0)	-	-	-	-	-
Retained earnings	336.9	16.0	(9.6)	(2.7)	18.3	11.4	370.3
	572.8	-	(9.6)	-	18.3	11.4	592.9
Total Liabilities and shareholders' equity	\$ 853.3	\$ -	\$ 1.8	\$ -	\$ -	\$ 11.4	\$ 866.5

As at December 31, 2010	Canadian GAAP	Notes						IFRS
		a	b	c	d	e	f	
ASSETS								
Current assets								
Cash and cash equivalents	\$ 723.3	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 723.3
Accounts receivable	155.6	-	-	-	-	-	-	155.6
Income taxes receivable	4.3	-	-	-	-	-	-	4.3
Crude oil inventory	6.1	-	-	-	-	-	-	6.1
	889.3	-	-	-	-	-	-	889.3
Non-current assets								
Other assets	25.3	-	-	-	-	-	-	25.3
Exploration and evaluation assets	-	260.0	4.9	-	-	-	-	264.9
Property, plant and equipment	845.3	(260.0)	8.2	-	-	54.6	-	648.1
Goodwill	5.0	-	-	-	-	-	-	5.0
	875.6	-	13.1	-	-	54.6	-	943.3
Total Assets	\$ 1,764.9	\$ -	\$ 13.1	\$ -	\$ -	\$ 54.6	\$ -	\$1,832.6
LIABILITIES AND SHAREHOLDERS' EQUITY								
Current liabilities								
Trade and other payables	\$ 309.1	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 309.1
	309.1	-	-	-	-	-	-	309.1
Non-current liabilities								
Deferred tax liabilities	104.4	-	-	-	(8.7)	8.3	-	104.0
Convertible debentures	441.4	-	-	-	-	-	(3.6)	437.8
Derivative liability	-	-	-	-	-	-	240.2	240.2
Decommissioning liabilities	12.8	-	22.1	-	-	-	-	34.9
Total liabilities	867.7	-	22.1	-	(8.7)	8.3	236.6	1,126.0
Shareholders' Equity								
Convertible debentures	97.4	-	-	-	-	-	(97.4)	-
Common shares	301.9	-	-	-	-	-	-	301.9
Contributed surplus	16.0	-	-	5.3	-	-	-	21.3
Accumulated other comprehensive Income	16.0	(16.0)	-	-	-	-	-	-
Retained earnings	465.9	16.0	(9.0)	(5.3)	8.7	46.3	(139.2)	383.4
	897.2	-	(9.0)	-	8.7	46.3	(236.6)	706.6
Total Liabilities and shareholders' equity	\$ 1,764.9	\$ -	\$ 13.1	\$ -	\$ -	\$ 54.6	\$ -	\$1,832.6

Condensed Consolidated Statements of Operations and Comprehensive Income

The following tables reconcile the net income and comprehensive income of the Company from the amounts previously reported under Canadian GAAP to IFRS for the three months ended March 31, 2010 and the twelve months ended December 31, 2010:

Three months ended March 31, 2010	Canadian GAAP	Notes					IFRS
		a	b	c	d	e	
Revenues							
Oil	\$ 247.8	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 247.8
Royalties	(24.7)	-	-	-	-	-	(24.7)
	223.1	-	-	-	-	-	223.1
Operating Expenses							
Production	22.4	-	-	-	-	-	22.4
Transportation	24.1	-	-	-	-	-	24.1
Depletion and depreciation	60.3	(0.2)	-	-	-	(11.4)	48.7
General and administrative	5.0	-	-	-	-	-	5.0
Stock-based compensation	2.5	-	-	0.1	-	-	2.6
Colombian equity tax expense	0.5	-	-	-	-	-	0.5
	114.8	(0.2)	-	0.1	-	(11.4)	103.3
Finance Expenses							
Interest Income	-	-	-	-	-	-	-
Interest and accretion	3.4	0.2	-	-	-	-	3.6
Foreign exchange loss	4.2	-	-	-	(1.7)	-	2.5
	7.6	0.2	-	-	(1.7)	-	6.1
Income before taxes	100.7	-	-	(0.1)	1.7	11.4	113.7
Current taxes	28.0	-	-	-	-	-	28.0
Deferred taxes	(0.7)	-	-	-	(7.0)	-	(7.7)
Net income and comprehensive income	\$ 73.4	\$ -	\$ -	\$ (0.1)	\$ 8.7	\$ 11.4	\$ 93.4

Year ended December 31, 2010	Canadian GAAP	Notes						IFRS
		a	b	c	d	e	f	
Revenues								
Oil	\$1,048.7	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$1,048.7
Royalties	(113.4)	-	-	-	-	-	-	(113.4)
	935.3	-	-	-	-	-	-	935.3
Operating Expenses								
Production	109.3	-	-	-	-	-	-	109.3
Transportation	88.7	-	-	-	-	-	-	88.7
Purchased oil	64.8	-	-	-	-	-	-	64.8
Acquisition expense	1.2	-	-	-	-	-	-	1.2
Depletion and depreciation	270.1	(0.8)	-	-	-	(54.6)	-	214.7
General and administrative	24.4	-	-	-	-	-	-	24.4
Stock-based compensation	11.3	-	-	2.6	-	-	-	13.9
Colombian equity tax expense	2.1	-	-	-	-	-	-	2.1
	571.9	(0.8)	-	2.6	-	(54.6)	-	519.1
Finance Expenses (Income)								
Interest Income	(1.0)	-	-	-	-	-	-	(1.0)
Loss on derivative liability	-	-	-	-	-	-	139.1	139.1
Interest and accretion	25.3	0.8	(0.7)	-	-	-	0.3	25.7
Foreign exchange loss	7.1	-	-	-	(1.4)	-	-	5.7
	31.4	0.8	(0.7)	-	(1.4)	-	139.4	169.5
Income before taxes	332.0	-	0.7	(2.6)	1.4	54.6	(139.4)	246.7
Current taxes	32.5	-	-	-	-	-	-	32.5
Deferred taxes	59.8	-	-	-	2.3	8.3	-	70.4
Net income and comprehensive income	\$ 239.7	\$ -	\$ 0.7	\$ (2.6)	\$ (0.9)	\$ 46.3	\$ (139.4)	\$ 143.8

Statement of Cash Flows

The adoption of IFRS did not impact the amounts reported as operating, investing or financing cash flows in the consolidated statements of cash flows.

Notes to the IFRS Reconciliations

a. Reclassifications

(i) Exploration and Evaluation (E&E) Assets

E&E assets consist of the Company's exploration projects where technical feasibility commercial viability have not yet been determined. Under Canadian GAAP these costs were grouped with property, plant and equipment. Under IFRS, E&E assets are classified as a separate line in the balance sheet.

(ii) Accumulated Other Comprehensive Income

On Transition Date, the Company elected to reclassify foreign exchange translation losses included in other comprehensive income recognized under Canadian GAAP to retained earnings. These translation accumulated differences were generated when the Company changed its reporting currency from the Canadian to the US dollar in 2006. As a result, the accumulated other comprehensive income at January 1, 2010 was reclassified to retained earnings.

(iii) Accretion on Decommissioning Liability

Under Canadian GAAP accretion on the decommissioning liability was included in depreciation and depletion. Under IFRS, it is required to be included in interest expense.

b. Decommissioning Liability

Under Canadian GAAP, decommissioning liabilities were discounted at a credit adjusted risk free rate which of nine percent. Under IFRS, the estimated cash flow to abandon and remediate the wells and facilities has been risk adjusted therefore the entire decommissioning liability is discounted at a risk free rate of four percent for all periods presented.

Under Canadian GAAP unwinding of the discount, or accretion, was included in depletion and depreciation. Under IFRS it is included in finance expenses.

c. Share-Based Payments

Under Canadian GAAP, the Company used the straight line method to expense vested stock options. The fair value of stock-based awards was calculated as one grant and the resulting fair value was recognized on a straight line basis over the vesting period. Under IFRS each tranche of an award with different vesting dates is considered a separate grant for the calculation of fair value, and the resulting fair value is amortized over the vesting period of the respective tranches. The majority of the difference relating to stock based compensation corresponds to the change in the expensing schedule from straight-line under Canadian GAAP to graded vesting under IFRS. This results in more expense being recognized in earlier years of vesting under IFRS.

Under Canadian GAAP forfeitures of awards were recognized as they occurred. Under IFRS, forfeiture estimates are recognized on the grant date and revised for actual experiences in subsequent periods. The estimate of the forfeiture rate used is based on historical forfeitures.

d. Deferred Tax Liability

The change in the deferred tax liability is mainly the result of the change in the accounting basis of the decommissioning liability on transition to IFRS, the change in accounting basis of property, plant and equipment and as a result of decreased depletion and the change in accounting for foreign exchange gains and losses resulting from taxes denominated in foreign currencies.

e. Depletion

Upon transition to IFRS, the Company adopted a policy of depleting oil and gas interests on a unit of production basis over proved plus probable reserves. The depletion policy under Canadian GAAP was based on units of production over proved reserves. In addition, depletion was calculated on the entire Colombian cost centre under Canadian GAAP. IFRS requires depletion and depreciation to be calculated based on at the individual component level.

f. Convertible Debentures

Under Canadian GAAP, the 2016 Convertible Debentures were classified as a compound financial instrument, whereby the instrument was bifurcated into debt and equity components. The equity portion was recognized at its fair value. Under IFRS, the conversion feature (the equity portion under Canadian GAAP) of the 2016 Convertible Debentures is considered a derivative liability, and is required to be fair valued at each reporting period.

CORPORATE INFORMATION

DIRECTORS

John D. Wright⁽³⁾

Calgary, Alberta, Canada
Chairman & Strategic Advisor

Jerald L. Oaks⁽⁴⁾

Denver, Colorado, U.S.A.

Alastair Macdonald^{(1)(2) (4)}

Pembroke, Bermuda

Kenneth R. McKinnon^{(1) (2)}

Calgary, Alberta, Canada

Ernesto Sarpi⁽³⁾

Naples, Italy

Enrique Umaña Valenzuela^{(1) (4)}

Bogotá D.C., Colombia

Geir Ytreland^{(2) (3)}

Droebak, Norway

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

OFFICERS

Corey C. Ruttan
President and Chief Executive Officer

John (Jack) F. Scott
Chief Operating Officer

Kelly D. Sledz
Chief Financial Officer

Erik Lyngberg
Senior Vice President Exploration

Allen Knight
Vice President New Ventures

Alastair Macdonald
Corporate Secretary

Andrea Hatzinikolas
Assistant Corporate Secretary and General Counsel

Tannya E. Morales-Kozy
Vice President Finance

Ruben Cano
Vice President Services and Logistics

Jeff Chant
Vice President Organizational Performance

OFFICES

Colombia

Calle 116 No. 7-15 Interior 2
Torre Cusezar, Piso 6
Bogotá D.C., Colombia
TEL: +57 1 629 2701

Calgary

1900, 111-5th Avenue SW
Calgary, Alberta, Canada, T2P 3Y6
TEL: +403-750-4400

Lima

Av. Víctor Andrés Belaúnde 147
Centro Empresarial Real
Vía Principal 123, Edificio Real Uno,
Oficina 801 San Isidro, Lima, Peru
TEL: +51 1 627 3300

WEBSITE: www.petrominerales.com

E-MAIL: ir@petrominerales.com

REGISTRAR AND TRANSFER AGENTS

Computershare Trust
Company of Canada
Calgary, Alberta, Canada

LEGAL COUNSEL

McCarthy Tétrault LLP
Calgary, Alberta, Canada

AUDITORS

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

RESERVE ENGINEERS

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

EXCHANGE LISTING

The Toronto Stock Exchange
SYMBOL: PMG

SECURITIES FILINGS

www.sedar.com

Information requests and other investor relations inquiries
can be directed to: ir@petrominerales.com
or by telephone at +57 1 629 2701 or +403 750 4400.