



Q2 2011 Financial Report



PETROMINERALES

Petrominerales delivered another quarter of solid financial and operating results. Funds flow from operations increased by 11 percent and operating netbacks increased by 37 percent compared to the second quarter of 2010.

FINANCIAL & OPERATING HIGHLIGHTS

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

	Three months ended June 30,			Six months ended June 30,		
	2011	2010	% change	2011	2010	% change
Financial						
(\$millions, except where noted)						
Crude oil revenue	378.0	318.8	19	727.7	566.6	28
Funds flow from operations ⁽¹⁾	194.7	176.0	11	376.5	316.1	19
Per share – basic (\$)	1.88	1.77	6	3.63	3.19	14
– diluted (\$)	1.62	1.68	(4)	3.12	3.02	3
Adjusted net income ⁽¹⁾⁽²⁾	113.9	95.7	19	189.7	189.1	-
Per share – basic (\$)	1.10	0.96	15	1.83	1.91	(4)
– diluted (\$)	0.99	0.93	6	1.67	1.83	(9)
Net income	215.7	95.7	125	252.5	189.1	34
Per share – basic (\$)	2.08	0.96	116	2.44	1.91	28
– diluted (\$)	0.99	0.93	6	1.67	1.81	(8)
Expenditures on PP&E and E&E ⁽³⁾	174.8	112.8	55	324.3	224.5	44
Total assets	2,096.6	1,091.9	92	2,096.6	1,091.9	92
Net working capital surplus (deficit) ⁽¹⁾	511.7	(12.0)	-	511.7	(12.0)	-
Common shares, end of period (000s)	103,452	99,363	4	103,452	99,363	4
Fully diluted common shares (000s) ⁽⁴⁾	126,999	110,778	15	126,999	110,778	15
Operations						
Operating netback (\$/bbl) ⁽¹⁾						
Brent benchmark price	118.33	76.25	55	111.75	77.38	44
WTI benchmark price	102.34	78.06	31	98.47	78.47	25
Realized crude oil price ⁽⁵⁾	95.15	63.53	50	91.84	64.95	41
Royalties	12.82	6.35	102	12.16	6.81	79
Production expenses	12.74	6.25	104	10.22	6.46	58
Operating netback ⁽¹⁾	69.59	50.93	37	69.46	51.68	34
Crude oil production (bopd)	40,308	44,203	(9)	40,554	41,218	(2)
Crude oil sold (bopd)	39,202	49,466	(21)	39,442	43,995	(10)

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

⁽²⁾ Net income has been adjusted for the IFRS accounting effects of changes in the derivative financial liability. For the three and six months ended June 30, 2011 adjusted net income includes a \$101.8 million and \$62.8 million reduction, respectively (2010 – nil). Management considers adjusted net income a better measure of the Company’s economic performance period over period.

⁽³⁾ PP&E consist of property, plant and equipment assets and E&E consists of exploration and evaluation assets.

⁽⁴⁾ 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.

⁽⁵⁾ Net of transportation and excludes revenue from purchased oil.

HIGHLIGHTS AND SIGNIFICANT TRANSACTIONS DURING THE SECOND QUARTER

(Comparisons are second quarter 2011 compared to the second quarter of 2010 unless otherwise noted)

- We reported record revenue, funds flow from operations and net income in the second quarter.
- Funds flow from operations was \$194.7 million, or \$1.88 per basic share, 11 and 6 percent increases over 2010.
- Net income of \$215.7 million included a \$101.8 million non-cash gain from new accounting treatment under International Financial Reporting Standards (“IFRS”) for our convertible debentures. Net income adjusted for this item was \$113.9 million in the quarter, or \$1.10 per basic share, 19 and 15 percent increases over the comparable 2010 period.
- We drilled six exploration wells with four successes in the quarter including our Macapay-1 discovery well that came on production at rates of over 3,500 bopd.
- Subsequent to June 30, we completed drilling two wells; Cobra-1 was placed on production at the beginning of August at over 4,000 bopd and well logs indicate 89 feet of potential net oil pay in our Babaco-1 well, which is being cased as a potential oil well.
- Our operating netbacks increased to \$69.59 per barrel in the second quarter, a 37 percent increase over 2010, primarily due to higher world oil prices.
- We acquired a five percent interest in the Oleoducto Central S.A. (“Ocesa”) crude oil pipeline for US\$281 million. The Ocesa pipeline is strategic to Petrominerales because it secures pipeline capacity, is the lowest cost option to transport crude oil out of the Llanos Basin, and provides us with access to international oil markets. We expect to commence transporting our crude oil through the Ocesa pipeline starting September 1.
- Our balance sheet remains strong. We ended the quarter with a working capital surplus of \$511.7 million, and after paying for our recent Ocesa pipeline acquisition, our cash and working capital exceeds \$200 million.
- We began repurchasing our common shares under a normal course issuer bid (“NCIB”) during the quarter. Petrominerales is authorized to purchase up to 8,212,601 shares under the NCIB. Since the NCIB started, we have repurchased 1,864,300 shares, representing nearly two percent of our outstanding common shares, at an average price of Cdn.\$29.08.
- Our common shares began trading on the Colombian Stock Exchange (“BVC”) under the symbol “PMGC” on August 3, 2011.

OPERATIONAL REVIEW

Production averaged 40,308 bopd in the second quarter of 2011. Production was consistent with the first quarter of 2011 primarily due to production additions from two new wells on the Corcel Block (Macapay-1 and Cardenal-1) and one well on the Castor Block (Capybara-2), offset by natural wells declines and certain wells being offline for workovers.

Production averaged 38,437 bopd in the month of July. Production was eight percent lower than June primarily due to certain wells being off-line for workovers, including Corcel-C2 and Boa-2 for 22 and 31 days, respectively. Our Cobra-1 well was brought on production at over 4,000 bopd and our current production is now over 42,000 bopd, before production additions from the Candelilla-3 side-track and Corcel-C2 wells that we expect to bring back on production during the month of August.

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

During the second quarter we drilled three Deep Llanos exploration wells (Azalea-1, Macapay-1, Camoruco-1), bringing our Deep Llanos year-to-date 2011 exploration well count to seven wells. In addition, the Cobra-1 and Babaco-1 wells finished drilling in July.

On the Corcel Block, we drilled and cased the Macapay-1 exploration well in the northeast part of our Corcel Block. The well reached total measured depth of 13,772 feet on May 5, 2011. Well logs indicated 25 feet of potential net oil pay in the Lower Sand 1 formation. After testing two intervals, we placed the well on production June 17th on natural flow at over 3,500 bopd.

On July 4, 2011, we completed drilling the Camoruco-1 exploration well located in the northeast part of our Corcel Block. Based on our analysis, the well did not have commercial hydrocarbon pay and it was cased for water disposal purposes.

Our Cobra-1 exploration well was drilled to a total measured depth of 12,000 feet and well logs indicated 121 feet of potential net oil pay, 51 feet in the Guadalupe formation and 70 feet in the Lower Sand 1 formation. We placed the well on production in the Lower Sand 1 formation with an electric submersible pump (“ESP”) at the beginning of August at over 4,000 bopd of 16 degree API oil at less than one percent water cut. Based on this result, we are planning a second Cobra well to target the by passed pay in the Guadalupe formation.

On our Guatiquia Block, we completed drilling the Azalea-1 exploration well on April 8th. The well targeted a separate structure immediately southwest of our Candelilla discovery. We tested oil from two separate intervals in the Lower Sand formations. In June, we placed the well on production from these intervals with an ESP at production rates of over 900 bopd, however, the well has been shut-in awaiting a work-over to isolate the productive Lower Sand formations.

In July, we completed drilling a side-track to our Candelilla-3 well and we expect to place the well back on production within a week.

Production from Candelilla, Yatay and Azalea 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 third quarter. In addition, we have begun construction of a central processing facility in the northeast part of the Corcel Block that is expected to be able to handle up to 40,000 barrels of fluid per day in the third quarter. This northeast facility is currently 40 percent complete.

On Block 31, we recently completed drilling our first exploration well, Babaco-1, to a total measured depth of 14,155 feet. Based on well logs indicating 89 feet of potential net oil pay in the Lower Sand 1 formation, we cased the well as a potential oil producer. We expect to have production test results from this well by the end of August.

We currently have three drilling rigs operating in the area. On Block 31, Socaco-1 began drilling operations on July 18 and our second rig is currently moving to the Caspio-1 location. At Corcel, our third rig is mobilizing to drill Cobra-2.

Foothills, Llanos Basin, Colombia

We are moving forward with our initial two-well exploration program on Block 25. The drilling rig contracted for these wells is currently in transit to Colombia and we expect to commence drilling the Bromelia-1 prospect late in the third quarter of 2011. The second exploration prospect on Block 25, Canatua-1, is expected to commence drilling in the first quarter of 2012.

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

On our Mapache Block, we drilled the Disa-1 well in March and based on hydrocarbon shows while drilling, we cased the well as a potential oil producer. In the final test of a Carbonera C7 interval we encountered 29 degree API oil. The well was brought on production July 9 at a rate of over 1,100 bopd with a 70 percent water cut.

In April, we drilled Copybara-2 on our Castor Block. We drilled the well to total depth of 11,880 feet and completed the well with an ESP. The well was brought on production in mid-May and averaged 1,326 bopd during the remainder of the second quarter. We expect to begin drilling the Zacay-1 prospect on our Casimena Block in September.

On our Casanare Este Block, we recently completed the acquisition of a 116 square kilometre 3D seismic survey, which is currently being processed, and we plan to drill one exploration well in 2012.

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

We have one drilling rig operating on our heavy oil acreage where we have been executing a multi-well exploration drilling program primarily focused on our Rio Ariari Block. During the quarter we drilled two exploration wells, Acanto-1 and Azulejo-1, and subsequent to June 30 we completed drilling a third exploration well, Calandria-1.

Acanto-1 was drilled to a total measured depth of 5,731 feet on April 14, 2011. Well logs indicated 52 feet of net oil pay in the Mirador formation. We conducted a multi-zone testing program and recovered trace amounts of hydrocarbons. In addition, while tripping out the bottom hole assembly we discovered that the drill string and bottom hole assembly were completely coated in heavy oil. We also encountered this drilling result with our Anturio, Acanto, Heliconia and Asarina wells. We are currently reviewing these results to design a testing protocol to effectively test these heavy oil zones.

Following Acanto-1, the rig moved to our Chiguiro Este Block and drilled our Azulejo-1 exploration prospect to satisfy an exploration work commitment. The Azulejo-1 prospect was programmed to test a unique play concept with a potentially large closure. We did not encounter measurable hydrocarbon pay in Azulejo-1 and as a result we abandoned the well. The geological information that the well provided allows us to reinterpret our 3D seismic database and provides the opportunity for other play concepts with potentially large closures.

Following Azulejo-1, the rig moved back to the Rio Ariari Block and drilled our Calandria-1 prospect. The well was drilled to a total measured depth of 6,602 feet in July. Well logs indicate 40 feet of net oil pay in the Mirador formation. We plan to conduct a multi-zone testing program and expect to have results by the end of August.

Based on positive results to date from our conventional Rio Ariari exploration program, we are expanding 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 horizontal wells will be indicative of commercial production rates in a conventional primary production development scenario and will help move us one step closer to a large scale commercial development.

In the first quarter, we initiated a large 369 square kilometre 3D seismic program on the western half of our Rio Ariari Block that is covering the area of our recent drilling activity. The acquisition portion of this 3D survey is expected to finish during the third quarter. This seismic data, along with the stratigraphic drilling program will delineate the areal extent of our existing exploration successes and help define our next phase of exploration drilling on the Rio Ariari Block.

Antorcha, Middle Magdalena Basin, Colombia

As part of our stratigraphic drilling program, we plan to drill two wells on this Block in the third quarter to test two separate exploration concepts.

Orito, Putumayo Basin Colombia

On May 1, 2011, we mobilized a drilling rig to our Orito Block and commenced a seven well drilling program. The first well, Orito-194, is drilled and waiting completion pending the arrival of a completion rig. We expect to have the well on production by the end of August. We are currently drilling the second well in the program, Orito-195.

Neiva, Upper Magdalena Basin, Colombia

During the last week of May, we mobilized a new, larger drilling rig to our Neiva Block and recommenced our development drilling program. We drilled two wells in the quarter and expect to drill an additional 10 wells by the end of 2011.

Block 126, Peru

Our initial three well exploration program on Block 126 is progressing. We have contracted a drilling rig and are currently building the well sites and logistics bases. We expect to begin drilling operations on the first well, La Colpa-2, at the start of 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. The next exploration phase requirement is to drill one exploration well on the Block by September 2013. To date, we have identified two drillable prospects on Block 131. On Block 114, the next exploration phase includes the acquisition of 260 kilometres of 2D seismic by May 2013. To date four drillable prospects and six leads have been identified on this Block. 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 80 percent owned 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 80 percent owned 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 are currently underway in advance of the seismic programs.

NEW LICENSE AGREEMENT FOR THAI® TECHNOLOGY WITH PETROBANK

In the second quarter, Petrominerales and Archon Technologies Ltd. (“Archon”), a wholly-owned subsidiary of Petrobank Energy and Resources Ltd. (“Petrobank”), entered into a new Technology License and Royalty Agreement (“License Agreement”). The License Agreement gives Petrominerales the right to use Archon’s patented THAI® in-situ combustion technology and other related technologies (the “Technologies”) for the development of heavy oil resources in Colombia. In addition, Petrominerales has the exclusive right to sublicense the Technologies to third parties in Colombia for up to 10 years, provided certain contractual commitments are met, including commencing a pilot project within three years.

In exchange for the right to use and sublicense the THAI® technology in Colombia, Petrominerales has agreed to pay Archon a specified royalty based upon production, and has granted Archon the right to acquire a working interest in third party THAI® heavy oil joint ventures with Petrominerales. Archon, or an Archon affiliate, can elect to participate in a third party heavy oil joint venture for up to 25 percent of Petrominerales’ share in the joint venture. For heavy oil projects that originate from Petrominerales’ acreage, and do not include third party joint ventures, Petrominerales is solely obligated to pay a specified royalty rate to Archon.

The THAI® process (Toe-to-Heel-Air-Injection) has been developed by Petrobank and combines a horizontal production well with a vertical air injection well at the toe, and utilizes an in-situ combustion method to upgrade the oil in-situ. The THAI® process can result in substantially higher recovery factors than other thermal extraction methods while producing upgraded oil. The THAI® process also results in lower environmental impacts and a smaller surface footprint, when compared to conventional extraction methods, and is ideally suited for implementation in relatively remote locations.

OCENSA PIPELINE ACQUISITION

On July 22, 2011, we closed our acquisition of a five percent interest in the Ocesa pipeline. We expect to commence transporting our crude oil through the Ocesa pipeline starting September 1, providing us with strategic access to key transportation infrastructure. This acquisition is expected to lower our transportation costs compared to trucking for a significant portion of our Llanos Basin production, especially in the near term given the limited existing transportation infrastructure in Colombia. In addition, increasing the volume of our oil transported by pipeline reduces risks associated with trucking oil and our exposure to poor weather conditions and escalating trucking costs. The expansion of our infrastructure base through this acquisition enhances our marketing flexibility by improving our access to international crude oil markets and pricing, having the potential to further strengthen our netbacks. Along with our 9.65 percent interest in the Bicentenario pipeline this acquisition supports our long-term corporate objectives by securing strategic transportation capacity for our growing base of production, including our emerging heavy oil opportunities.

COLOMBIAN STOCK EXCHANGE LISTING

On July 22, 2011 we received the necessary approvals to list the Company's shares for trading on the Colombian Stock Exchange ("BVC"). Our shares commenced trading on the BVC on August 3, 2011, under the symbol PMGC. The listing on the BVC did not involve the issuance of any new shares but allows investors to acquire our outstanding shares locally in Colombia. Petrominerales believes it is important to facilitate investment in our shares by Colombians given our history of investment and involvement in the country and our strong, on-going commitment to Colombia.

OUTLOOK

The second half of our 2011 capital program will include drilling two large prospects in areas we have not drilled before, the Llanos Basin Foothills and Ucayali Basin in Peru. These prospects have the potential to significantly increase the Company's reserves and are in addition to our existing, active 2011 exploration program of up to 34 exploration wells, up to an additional 14 stratigraphic wells on our heavy oil acreage and a further 17 development wells on our Orito and Neiva Blocks. We will also continue to invest in our future with plans to acquire over 1,600 square kilometres of high quality 3D seismic to provide us further opportunities to grow our multi-year prospect inventory, which currently sits at over 100 drilling locations.

SECOND QUARTER RESULTS CONFERENCE CALL

Management of Petrominerales will be holding a conference call for investors, financial analysts, media and any interested persons on **Thursday, August 4, 2010 at 8:00 am (Mountain time)** (9:00 a.m. Bogotá time, 10:00 a.m. Eastern Time) to discuss our second quarter financial and operating results. The investor conference call details are as follows:

Live call dial-in numbers: **416-695-6617 / 800-952-4972**

Replay dial-in numbers: **416-694-9451 / 800-408-3053**

Replay pass code: **5666437**

Live audio webcast link is: <http://events.digitalmedia.telus.com/petrominerales/080411/index.php>

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") is dated August 3, 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 and six months ended June 30, 2011, MD&A for the year ended December 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 and the Colombian 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

The 2011 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 June 30, 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 previously reported 2010 statement of financial position (or balance sheet) and statement of income and comprehensive income (or income statement). Previously reported net income for the second quarter of 2010 is \$14.5 million higher and for the six months ended June 30, 2010 was \$34.5 million higher under IFRS due to:

	Three months ended June 30, 2010	Six months ended June 30, 2010
2010 Net income under Canadian GAAP	81.2	154.6
Depletion and depreciation	24.8	36.1
Deferred taxes	(10.7)	(3.7)
Foreign exchange loss	0.5	2.3
Stock-based compensation	(0.1)	(0.2)
2010 Net income under IFRS	95.7	189.1
Net increase	14.5	34.5

Net income for the three and six month periods ended June 30, 2011 was \$215.7 million and \$252.5 million, respectively, under IFRS. The significant accounting adjustments impacting net income due to the IFRS conversion were lower depletion due to the use of proved plus probable reserves the gains on the financial derivative liability of \$101.8 million for the quarter and \$62.8 million for the six months ended June 30, 2011. Under IFRS, the conversion feature embedded in our 2016 convertible debentures is accounted for as a financial derivative liability. As a result, decreases in the Company's stock price generate a derivative gain while increases result in a derivative loss.

FINANCIAL REVIEW

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

Average Daily Crude Oil Production and Sales Volumes (bopd)

	Three months ended June 30,			Six months ended June 30,		
	2011	2010	Change	2011	2010	Change
Guatiquia	21,042	27,779	(24%)	20,271	24,394	(17%)
Corcel	8,913	8,220	8%	9,779	9,728	1%
Neiva	3,939	3,415	15%	4,029	3,020	33%
Orito	2,028	2,950	(31%)	1,989	3,007	(34%)
Casimena	2,966	1,536	93%	3,463	772	349%
Other	1,420	303	369%	1,023	297	244%
Total production	40,308	44,203	(9%)	40,554	41,218	(2%)
Inventory changes and other	(1,106)	357	-	(1,112)	(338)	229%
Sales volumes of produced oil	39,202	44,560	(12%)	39,442	40,880	(4%)
Purchased oil	-	4,906	(100%)	-	3,115	(100%)
Sales volumes	39,202	49,466	(21%)	39,442	43,995	(10%)

Production for the second quarter decreased nine percent from the second quarter of 2010 primarily due natural declines at our Candelilla field (Guatiquia Block) and the Orito field offset by production additions at Corcel, Neiva and from our Central Llanos acreage.

Guatiquia production decreased 24 percent in the quarter and 17 percent year-to-date mainly due to natural declines at the Candelilla field that were offset by production additions from our Yatay discovery in January 2011.

Corcel production increased for the three and six months ended mainly due to the Caruto-1 discovery in December 2010 and the Macapay-1 discovery that came on production June 19, 2011 at approximately 3,500 bopd that more than offset natural production declines.

Neiva production increased 15 and 33 percent for the three and six months ended June 30, 2011 due to the success of our development drilling program. Between June 30, 2010 and January 2011, we have added 12 new producing wells to the field. In May 2011, we mobilized a new drilling rig to the field to recommence our development drilling program and allow for longer and more horizontally deviated wells to be drilled.

Orito production decreased 31 and 34 percent for the three and six months ended due to natural declines and certain wells that have been shut-in awaiting repairs to the gas-lift system. We started our 2011 drilling program on the Orito block in May and expect to report production additions in the third quarter.

Casimena production is from our Yenac discovery made in April 2010 and our Mantis discovery made in January 2011. Year-to-date and second quarter production is higher than the comparable 2010 periods due to having two more wells on production.

Other production relates primarily to the Capybara-2 well that was brought on production in mid-May and averaged 1,326 bopd during the remainder of the second quarter.

Average Benchmark and Realized Prices	Three months ended June 30,			Six months ended June 30,		
	2011	2010	Change	2011	2010	Change
Brent (\$/bbl)	118.32	76.25	55%	111.76	77.38	44%
WTI (\$/bbl)	102.34	78.06	31%	98.47	78.47	25%
Quality adjustment, pipeline and marketing fees	3.63	(7.01)	-	3.46	(7.26)	-
Sales price	105.97	71.05	49%	101.93	71.21	43%
Trucking costs	10.82	7.52	44%	10.09	6.26	61%
Realized oil price, net of transportation (\$/bbl)	95.15	63.53	50%	91.84	64.95	41%
Discount as a percentage of WTI	7%	19%	(63%)	7%	17%	(59%)

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. The Company's sales prices increased 49 percent and 43 percent in the three and six month periods ended June 30, 2011 compared to the same periods of 2010, relatively consistent with benchmark Brent price increases of 55 percent and 44 percent respectively.

Compared to the first quarter of 2011, sales prices increased eight percent to \$105.97 per barrel from \$97.90 per barrel, relatively consistent with the Brent increase of 13 percent to \$118.32 per barrel from \$104.89 per bbl.

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 \$10.82 per barrel for the quarter and to \$10.09 year-to-date, representing 44 and 61 percent increases compared to the same periods of 2010. The per barrel trucking cost increased mainly due to higher trucking tariffs paid in 2011, having to deliver oil to more distant offloading stations, which costs more on a per barrel basis, and exceptional wet weather resulting in deteriorating road conditions causing inefficiencies in the trucking fleet.

Higher trucking tariffs are the result of increased demand for trucks caused by very limited pipeline capacity due to growing Colombian production, road restrictions over holidays, delays in certain third party pipeline repairs and expansion and inefficiencies in the trucking fleet caused by heavy rainfall and poor roads conditions.

Starting September 1, 2011, we plan to begin delivering oil to the Orensa pipeline under our five percent ownership interest. For barrels shipped in the pipeline, we expect to save up to 10 dollars per barrel in lower transportation costs and higher sales prices given direct access to export markets made available through the pipeline.

Oil Revenue

Second quarter oil revenue increased 19 percent due to a 49 percent increase in sales price offset by a 12 percent decrease in sales of produced oil and a 100 percent decrease in sales of purchased oil. Year-to-date oil revenue increased 28 percent due to a 43 percent increase in sales price offset by a 4 percent decrease in sales of produced oil and a 100 percent decrease in sales of purchased oil. We did not purchase and market third party oil in 2011 due to restricted transportation infrastructure in Colombia. The following table reconciles the difference in revenue between the three and six month periods ended June 30, 2010 and 2011.

	Three months ended June 30,	Six months ended June 30,
Oil revenue, June 30, 2010	318.8	566.6
Sales volume variance	(34.7)	(18.6)
Sales price variance	124.6	219.3
Oil revenue from third party oil purchases	(30.7)	(39.6)
Oil revenue, June 30, 2011	378.0	727.7
\$ change in revenue	59.2	161.1
% change in revenue	19%	28%

Royalties	Three months ended June 30,			Six months ended June 30,		
	2011	2010	Change	2011	2010	Change
Royalties	45.7	25.7	78%	86.8	50.4	72%
\$ per bbl	12.82	6.35	102%	12.16	6.81	79%
Royalties as a percent of realized oil price	13%	10%	30%	13%	10%	30%

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 78 percent for the second quarter and 72 percent year-to-date due to higher realized oil prices, the high price participation payments on Candelilla production effective August 2010 offset by lower sales volumes of produced oil. As a result, royalties as a percentage of realized oil prices increased from 10 percent to 13 percent in both the second quarter and on a year-to-date basis.

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 second quarter financial statement notes.

Production Expenses	Three months ended June 30,			Six months ended June 30,		
	2011	2010	Change	2011	2010	Change
Production expenses	45.4	25.4	79%	72.9	47.8	53%
\$ per bbl	12.74	6.25	104%	10.22	6.46	58%

Production expenses increased 79 percent for the second quarter and 53 percent year-to-date primarily due a higher number of work-overs performed, additional costs associated with handling higher volumes of produced water, deteriorating roads caused by heavy rainfall and cost inflation due to higher industry activity levels and the Colombian peso appreciation. Production expenses on a per barrel basis further increased in 2011 compared to 2010 due to lower sales volumes of produced oil.

Production expenses per barrel increased 66 percent to \$12.74 per barrel in the second quarter of 2011 compared to \$7.70 per barrel in the first quarter of 2011. The increase is partially due to work-overs performed in the quarter and higher water trucking costs due to higher water volumes, deteriorating road conditions and higher tariffs.

Depletion and Depreciation (“DD&A”) Expenses	Three months ended June 30,			Six months ended June 30,		
	2011	2010	Change	2011	2010	Change
DD&A expenses	63.7	54.7	16%	131.4	103.4	27%
\$ per bbl	17.85	13.49	32%	18.40	13.97	32%

DD&A expense increased 16 percent in the second quarter and 27 percent for the six month period mainly due to the increase in the per barrel depletion rate offset slightly by lower sales volumes of produced oil. The per barrel depletion rate was 32 percent higher in 2011 due to higher finding and development costs related to proved plus probable reserves.

The depletion rate of \$17.85 per barrel in the second quarter of 2011 was six percent lower than the 2011 first quarter rate of \$18.95 per barrel.

General and Administrative Expenses	Three months ended June 30,			Six months ended June 30,		
	2011	2010	Change	2011	2010	Change
General and administrative expenses	8.9	5.1	75%	18.5	10.1	83%
\$ per bbl	2.49	1.25	99%	2.59	1.37	89%

The increases in general and administrative expenses in 2011 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 donations made for on-going community programs.

Stock-Based Compensation Expenses	Three months ended June 30,			Six months ended June 30,		
	2011	2010	Change	2011	2010	Change
Stock-based compensation expenses	4.7	2.5	88%	11.0	5.1	116%

Stock-based compensation expense is a non-cash expense that is based on the fair value of stock options, incentive shares, deferred common shares and stock appreciation rights (“SAR”) granted. The fair value is calculated on grant date and amortized over the vesting period of each option, incentive share or SAR tranche, or immediately upon grant of the deferred common shares (“DCS”). The 2011 expense increased as a result of higher staff levels and associated costs of stock-based awards.

Net Finance Expense (Income)	Three months ended June 30,			Six months ended June 30,		
	2011	2010	Change	2011	2010	Change
Cash interest	3.6	0.7	414%	7.2	1.4	414%
Standby charges	1.8	1.4	29%	3.6	2.6	38%
Accretion on convertible debentures	4.2	1.3	223%	8.2	2.5	228%
Accretion on Colombia equity tax	0.7	-	100%	1.3	-	100%
Accretion on decommissioning liabilities	0.4	0.1	300%	0.7	0.3	133%
Amortization of deferred financing costs	0.3	0.3	-%	0.7	0.6	17%
Interest and accretion expense	11.0	3.8	189%	21.7	7.4	193%
Gain on derivative financial liability	(101.8)	-	100%	(62.8)	-	100%
Foreign exchange loss	9.7	0.7	1286%	13.5	3.2	322%
Interest income	(0.6)	(0.1)	500%	(1.2)	(0.1)	1100%
Net finance expense (income)	(81.7)	4.4	-	(28.8)	10.5	-

Interest and Accretion Expense

Interest and accretion expense was \$11.0 million for the second quarter and \$21.7 million for the six months ended, representing 189 and 193 percent increases over 2010. The 2011 increases were due to costs associated with the \$550 million convertible debentures issued on August 25, 2010.

Loss on Derivative Financial Liability

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 the fixed number of contractually agreed common shares or cash equal to the market value of the fixed number of common shares. Derivatives are carried at fair value on the balance sheet, with any changes in fair value being recorded to the statement of operations. A non-cash derivative gain of \$101.8 million was recorded in the second quarter and \$62.8 million for the six month period since the Company’s stock price decreased 23 percent in the quarter and 15 percent for the six months ended.

Foreign Exchange Loss

The Colombian peso appreciated six percent relative to the U.S. dollar in the second quarter, from 1,879:1 at March 31, 2011 to 1,780:1 at June 30, 2011. This change in exchange rates resulted in a \$9.7 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.

The Company also has foreign currency exposure with certain Canadian dollar transactions, primarily quarterly dividend payments and common share repurchases under the current NCIB program. For the second quarter the Company reported a \$0.2 million foreign exchange loss on the cash balances related to these transactions as the Canadian dollar appreciated relative to the U.S. dollar.

Income Tax Expense	Three months ended June 30,			Six months ended June 30,		
	2011	2010	Change	2011	2010	Change
Current income tax	30.0	23.4	29%	76.3	51.4	48%
Deferred income tax	6.7	20.2	(67%)	6.9	12.5	(45%)
Income taxes	36.7	43.6	(16%)	83.2	63.9	30%
Effective tax rate, calculated using adjusted income before taxes and equity tax	24%	46%	(48%)	28%	25%	(12%)

The Company's pre-tax income is subject to the Colombian statutory income tax rate of 33 percent. Year-to-date tax expense increased 30 percent primarily due to the increase in taxable net income due to higher revenue as a result of higher sales prices compared to 2010. The Company's second quarter effective tax rate was 24 percent, calculated using income before taxes, equity tax and derivative gains of \$150.6 million,. In addition, the Company's effective tax rate for the six month period ended June 30, 2011 was 28 percent, calculated using income before taxes, equity tax and derivative gains of \$300.6 million,. 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 June 30,			Six months ended June 30,		
	2011	2010	Change	2011	2010	Change
Colombia equity tax	-	0.5	-	27.7	1.0	-

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 \$5.5 million difference between the \$33.2 million obligation and its present value of \$27.7 million is being accreted over four years, whereby \$0.6 million was recorded as accretion in net finance expenses on the statement of operations in the quarter (six months June 30, 2011 - \$1.2 million).

Net Income

Second quarter net income increased 125 percent to \$215.5 million primarily due to higher world oil prices and the gain on the convertible debenture derivative liability. Year-to-date net income increased 34 percent to \$252.5 million due to higher world oil prices and the gain on convertible debenture derivative liability offset by higher equity taxes. The following table summarizes the changes in net income and net income per share.

Reconciliation of Changes in Net Income	Three months ended June 30,		Six months ended June 30,	
		Per share, basic (\$)		Per share, Basic (\$)
Net income, 2010 period	95.7	0.96	189.1	1.91
Increase (decrease) due to:				
Sales volumes	(34.7)	(0.33)	(18.6)	(0.18)
Sales prices	124.6	1.20	219.3	2.12
Third party oil sales, net of purchases	(1.1)	(0.01)	(1.8)	(0.02)
Royalties	(20.0)	(0.19)	(36.4)	(0.35)
Production expenses	(20.0)	(0.19)	(25.1)	(0.24)
Transportation	(8.0)	(0.08)	(25.7)	(0.25)
Operating netback increase	40.8	0.40	111.7	1.08
General and administrative expenses	(3.8)	(0.03)	(8.4)	(0.08)
Depletion and depreciation	(9.0)	(0.09)	(28.0)	(0.28)
Gain on derivative liability	101.8	0.98	62.8	0.61
Interest and accretion expense	(7.2)	(0.07)	(14.3)	(0.14)
Other ⁽¹⁾	(10.0)	(0.10)	(14.4)	(0.13)
Equity taxes	0.5	-	(26.7)	(0.26)
Income taxes	6.9	0.07	(19.3)	(0.19)
Change in basic shares outstanding	-	(0.04)	-	(0.09)
Net income, 2011 period	215.7	2.08	252.5	2.43

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

Funds Flow from Operations

Funds flow from operations increased 11 percent in the second quarter and 19 percent year-to-date 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 June 30, Six months ended June 30,

		Per share, Basic (\$)		Per share, Basic (\$)	
Funds flow from operations, 2010 period	176.0	1.77	316.1	3.19	
Increase (decrease) due to:					
Sales volumes	(34.7)	(0.33)	(18.6)	(0.18)	
Sales prices	124.6	1.20	219.3	2.12	
Third party oil sales, net of purchases	(1.1)	(0.01)	(1.8)	(0.02)	
Royalties	(20.0)	(0.19)	(36.4)	(0.35)	
Production expenses	(20.0)	(0.19)	(25.1)	(0.24)	
Transportation	(8.0)	(0.08)	(25.7)	(0.25)	
Operating netback increase	40.8	0.40	111.7	1.08	
General and administrative expenses	(3.8)	(0.04)	(8.4)	(0.08)	
Foreign exchange	(9.0)	(0.09)	(10.3)	(0.10)	
Interest expense net of interest income	(2.8)	(0.03)	(5.7)	(0.05)	
Other	0.1	-	(2.0)	(0.02)	
Current taxes	(6.6)	(0.06)	(24.9)	(0.24)	
Change in basic shares outstanding	-	(0.07)	-	(0.15)	
Funds flow from operations, 2011 period	194.7	1.88	376.5	3.63	

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

	Three months ended June 30,			Six months ended June 30,		
	2011	2010	Change	2011	2010	Change
Funds flow from operations: Non-IFRS	194.7	176.0	11%	376.5	316.1	19%
Changes in non-cash working capital including interest payable and taxes payable	20.7	81.5	(75%)	(34.2)	(19.9)	72%
Cash flow from operating activities: IFRS	215.4	257.5	16%	342.3	296.2	16%

Funds flow per share for the three and six months ended June 30, 2011 have been calculated using the dilutive effects noted below:

Three months ended June 30,

	2011	2010
Funds flow from operations adjustments		
Funds flow from operations, basic	194.7	176.0
Cash interest on convertible debentures	3.6	0.7
Funds flow from operations, diluted	198.3	176.7
Weighted average common share adjustments		
Weighted average common shares outstanding, basic	103,746,006	99,181,100
Effect of stock options, deferred common shares and incentive shares	2,951,905	3,054,306
Effect of convertible debentures	16,028,116	2,987,367
Weighted average common shares outstanding, diluted	122,726,027	105,222,773

Six months ended June 30,

	2011	2010
Funds flow from operations adjustments		
Funds flow from operations, basic	376.5	316.1
Cash interest on convertible debentures	7.2	2.1
Funds flow from operations, diluted	383.7	318.2
Weighted average common share adjustments		
Weighted average common shares outstanding, basic	103,663,783	98,958,886
Effect of stock options, deferred common shares and incentive shares	3,171,883	3,230,491
Effect of convertible debentures	16,028,116	2,987,367
Weighted average common shares outstanding, diluted	122,863,782	105,176,744

Capital Expenditures

	Three months ended June 30, 2011					Six months ended June 30, 2011
	Drilling and completions	Facilities and infrastructure	Seismic and other	HSEC	Total	Total
Deep Llanos	44.2	57.3	0.3	1.5	103.3	185.2
Central Llanos	13.6	2.3	0.8	1.3	18.0	49.5
Heavy Oil	11.7	1.1	15.8	0.6	29.2	51.2
Orito	6.1	0.6	0.8	0.1	7.6	7.9
Neiva	8.8	0.7	0.1	0.4	10.0	21.1
Peru	0.3	1.8	0.8	1.2	4.1	6.6
Foothills	0.1	2.0	0.3	0.2	2.6	2.8
Total	84.8	65.8	18.9	5.3	174.8	324.3
Recorded as:						
Exploration and evaluation					84.0	172.0
Property, plant and equipment					90.8	152.3

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

- Drilling and completion costs relate to drilling and completion costs for Macapay-1 (on production June 19th), Guatin-1 (completion started April 2), Camoruco-1 (drilled July 4), Cobra-1 and a water disposal well, final completion and facilities costs for Azalea-1 that spud March 25th, Candelilla-3 side-track, drilling costs for Babaco-1 and initial civil works costs of Caspio-1 and Socaco-1;
- Facilities costs relate to and early production facilities in the northeast part of the Corcel Block, costs for modifying the Corcel central processing facility ("CPF") to increase fluid handling and installation of flow-lines to connect Guatiquia production to the Corcel CPF; and
- Infrastructure costs include civil construction costs related to the wells drilled in the quarter and initial locations in the 2011 drilling program.

Central Llanos capital expenditures relate to:

- The Casimena Block for final completion costs for Yenac-3 (on production March 9th), initial civil works of Pisingo and Zacay exploration wells, the Castor block for the completions and facilities of Capybara-2 and the Mapache block for completion and facilities costs of Disa-1 exploration well that was drilled in March;
- 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 Zorro-1, Disa-1 and Paloma-1 exploration wells.

Heavy oil capital expenditures primarily relate to Rio Ariari and Chiguiro Este Blocks appraisal program for drilling, completion and infrastructure costs at Acanto-1, Calandria-1, Azulejo-1. Also, seismic costs relate to the 85 square kilometre 3D seismic program on the Chiguiro Este Block, the 372 square kilometre 3D seismic program on the Rio Ariari Block and the 132 square kilometre 3D seismic program on the Chiguiro Oeste Block.

Orito capital expenditures relate to initial drilling costs for the Orito-194 well. 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.

Peru costs relate to civil construction costs associated with preparing well sites and logistics bases for our initial three well drilling program.

SUMMARY OF QUARTERLY RESULTS

	IFRS						CDN GAAP	
	2011		2010				2009	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Financial (\$millions except where noted)								
Crude oil revenue	378.0	349.7	250.6	231.5	318.8	247.8	160.6	121.8
Funds flow from operations	194.7	181.8	153.3	128.4	176.0	140.1	106.2	71.7
Per share – basic (\$)	1.88	1.76	1.52	1.29	1.77	1.42	1.08	0.73
– diluted (\$)	1.62	1.49	1.29	1.17	1.68	1.33	1.03	0.71
Adjusted net income ^{(1) (3)}	113.9	75.8	34.6	59.1	95.7	93.4	51.2	26.2
Per share – basic (\$)	1.10	0.73	0.34	0.59	0.96	0.95	0.52	0.27
– diluted (\$)	0.99	0.60	0.33	0.56	0.93	0.90	0.51	0.26
Net income	215.7	36.8	(72.5)	27.2	95.7	93.4	51.2	26.2
Per share – basic (\$)	2.08	0.35	(0.72)	0.27	0.96	0.95	0.52	0.27
– diluted (\$)	0.99	0.34	(0.72)	0.27	0.93	0.90	0.51	0.26
General and administrative	8.9	9.6	7.8	6.5	5.1	5.0	3.9	2.7
PP&E and E&E additions	174.8	149.5	162.8	119.1	112.8	111.7	82.0	54.0
Operations								
Operating netback (\$/bbl) ⁽¹⁾								
Brent benchmark price	118.32	104.89	87.49	77.02	79.59	76.75	74.51	68.14
WTI benchmark price	102.34	94.61	85.34	76.15	78.06	79.08	76.19	68.19
Quality adjustment, pipeline and marketing fees	3.63	3.29	(4.94)	(3.93)	(7.01)	(7.48)	(9.87)	(7.04)
Crude oil sales price ⁽²⁾	105.97	97.90	80.40	72.22	71.05	71.60	66.32	61.15
Trucking	10.82	9.36	6.51	7.68	7.52	6.95	4.57	4.86
Realized crude oil price	95.15	88.54	73.89	64.54	63.53	64.65	61.75	56.29
Royalties	12.82	11.50	12.06	9.09	6.35	7.12	6.76	5.52
Production expenses	12.74	7.70	13.06	7.63	6.25	6.48	7.62	8.02
Operating netback	69.59	69.34	48.77	47.82	50.93	51.05	47.37	42.75
Crude oil production (bopd)	40,308	40,802	33,142	32,667	44,203	38,199	24,555	21,546
Sales of produced oil (bopd)	39,202	39,688	32,138	32,696	49,466	38,462	25,607	21,239

⁽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:

- Production increased in 2011 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 of the Lower Sand formation producing Candelilla wells on production;
- Trucking per barrel increased in 2011 primarily due to higher trucking tariffs and deliveries to further destinations;
- 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;
- Second quarter 2011 operating expenses increased due to a number of work-overs performed and higher water trucking costs; 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 at June 30, 2011 and projected future cash flows, management expects the Company to be able to fund its capital program and meet its financial obligations including debt repayments. At June 30, 2011, Petrominerales had cash and cash equivalents of \$640.3 million, a working capital surplus of \$511.7 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 operating netbacks, along with an extensive inventory of exploration prospects. The Company has a history of generating positive funds flow from operations and recorded funds flow from operations of \$194.7 million in the second 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	306.5	306.5	-	-
Income taxes payable	58.9	58.9	-	-
Equity tax payable	17.7	5.9	11.8	-
Convertible debenture interest ⁽¹⁾	72.2	14.5	28.8	28.9
Decommissioning liabilities	100.3	-	-	100.3
Exploration contracts ⁽²⁾	105.4	57.8	47.6	-
Storage and transportation contracts	12.4	6.4	6.0	-
Pipeline investment ⁽³⁾	51.1	51.1	-	-
Office lease	7.1	2.0	4.1	1.0
Total ⁽⁴⁾	731.6	503.1	98.3	130.2

(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 \$105.4 million to be completed during the next three years. The work commitments are normal course of business activities that include acquisition and processing of seismic data and drilling exploration wells. The Company has issued letters of credit totaling \$45.1 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 second 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.

(4) Subsequent to June 30, the Company closed its five percent acquisition of OCENSA and paid the remaining purchase price of \$252.9 million.

INVESTMENT LIQUIDITY

At June 30, 2011, cash equivalents of \$640.3 million were invested in high credit quality banks with maturities ranging up to 45 days. The investments have been made primarily between four 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 that are primarily used to issue letters of credit to support exploration commitments. At June 30, 2011, letters of credit issued against the Colombian operating lines of credit totaled \$44.1 million. The Company also has a \$1.0 million letter 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 June 30,			Six months ended June 30,		
	2011	2010	Change	2011	2010	Change
Cash from operating activities						
Funds flow from operations	194.7	176.0	11%	376.5	316.1	19%
Change in non-cash working capital, including interest payable and income taxes payable	20.7	81.5	75%	(34.2)	(19.9)	72%
Cash provided by operating activities	215.4	257.5	(16%)	342.3	296.2	16%
Cash used by investing and financing activities						
Expenditures on PP&E and E&E	(174.8)	(112.8)	55%	(324.3)	(224.5)	44%
Pipeline investment	(48.1)	-	100%	(76.6)	-	100%
Dividends paid	(13.8)	-	100%	(27.2)	-	100%
Issuance of common shares	0.9	2.3	(61%)	2.8	4.2	(33%)
Repurchase of shares	(12.0)	-	100%	(12.0)	-	100%
Other	26.8	0.2	100%	12.0	23.5	(49%)
	221.0	(110.3)		425.3	(196.8)	
Change in cash and cash equivalents	(5.6)	147.2		(83.0)	99.4	
Cash and cash equivalents, beginning of period	645.9	15.2		723.3	63.0	
Cash and cash equivalents, end of period	640.3	162.4		640.3	162.4	

- 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. Petrominerales' strategy is to execute a diversified exploration focused business plan that provides opportunity for growth while offering a dividend yield to shareholders.
- The Toronto Stock Exchange ("TSX") approved the Company's NCIB program to purchase outstanding shares on the open market, in accordance with the rules of the TSX. Petrominerales is authorized to purchase up to 8,212,601 shares, representing approximately 10% percent of the public float of Petrominerales shares as defined by the policies of the TSX.

COMMON SHARES

The aggregate number of Petrominerales common shares, stock options, deferred common shares and incentive shares outstanding at August 3, 2011 was 109,519,683 (common shares – 102,024,425, stock options – 6,275,271, deferred common shares – 176,094, incentive shares – 1,043,893).

TRANSACTIONS WITH RELATED PARTIES

On December 31, 2010, the Company's former controlling shareholder, 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 and six months ended June 30, 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)	\$12.9
Crude oil 1,000 bopd of production @ \$100/bbl WTI	\$24.9

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

In November 2009, the IASB issued 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". In October 2010, the standard was revised. The new and revised 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.

In May 2011, the IASB issued IFRS 10, "Consolidated Financial Statements", which provides additional guidance to determine whether an investee should be consolidated. The guidance applies to all investees including special purpose entities. The standard is required to be adopted for periods beginning January 1, 2013. We are evaluating the impact that this standard may have on our statements of operations and financial position.

In May 2011, the IASB issued IFRS 11 which presents a new model for determining whether an entity should account for joint arrangements using proportionate consolidation or the equity method. An entity will have to follow the substance rather than legal form of a joint arrangement and will no longer have a choice of accounting method. The standard is required to be adopted for periods beginning January 1, 2013. We are evaluating the impact that this standard may have on our statements of operations and financial position.

In May 2011, the IASB issued IFRS 12, “Disclosure of Interests in Other Entities, which aggregates and amends disclosure requirements included within other standards. The standard requires a company to provide disclosures about subsidiaries, joint arrangements, associates and unconsolidated structured entities. The standard is required to be adopted for periods beginning January 1, 2013. We are evaluating the impact that this standard may have on our statements of operations and financial position.

In May 2011, the IASB issued IFRS 13, “Fair Value Measurement”, to provide comprehensive guidance for instances where IFRS requires fair value to be used. The standard provides guidance on determining fair value and requires disclosures about those measurements. The standard is required to be adopted for periods beginning January 1, 2013. We are evaluating the impact that this standard may have on our statements of operations and financial position.

In May 2011, the IASB issued amendments to IAS 27, “Separate Financial Statements”, to establish the accounting and disclosure requirements for investments in subsidiaries, joint ventures, and associates when an entity prepares separate financial statements and replaces the current IAS 27 Consolidated and Separate Financial Statements as the consolidation guidance is included in IFRS 10 Consolidated Financial Statements. We are evaluating the impact that this standard may have on our statements of operations and financial position.

In May 2011, the IASB issued amendments to IAS 28, “Investments in Associates and Joint Ventures”, to establish the accounting for investments in associates and defines how the equity method is applied when accounting for associates and joint ventures. We are evaluating the impact that this standard may have on our statements of operations and financial position.

In June 2011, the IASB issued amendments to IAS 1, “Presentation of Items of Other Comprehensive Income”, to split items of other comprehensive income (OCI) between those that are reclassified to income and that do not. The standard is required to be adopted for periods beginning on or after July 1, 2012. We are evaluating the impact that this standard may have on our statements of operations and financial position.

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 three and six months ended June 30, 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 high impact 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;
- Explore and develop large heavy oil resource accumulations;
- 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 Risks and Uncertainties 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 second 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 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	June 30, 2011	December 31, 2010	January 1, 2010
			(Note 23)	(Note 23)
ASSETS				
Current assets				
Cash and cash equivalents		\$ 640.3	\$ 723.3	\$ 63.0
Trade and other receivables	20	223.7	155.6	47.5
Income tax receivable		-	4.3	8.5
Crude oil inventory		13.0	6.1	1.4
		877.0	889.3	120.4
Non-current assets				
Other assets	7	24.1	25.3	26.5
Exploration and evaluation assets	8	324.3	264.9	84.2
Property, plant and equipment	9	789.7	648.1	489.0
Pipeline investments	11	76.5	-	-
Goodwill	10	5.0	5.0	-
		1,219.6	943.3	599.7
Total assets		\$ 2,096.6	\$ 1,832.6	\$ 720.1
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Trade and other payables		\$ 306.4	\$ 309.1	\$ 106.9
Income taxes payable		58.9	-	-
Convertible debentures	15	-	-	76.8
		365.3	309.1	183.7
Non-current liabilities				
Deferred tax liabilities	17	110.9	104.0	25.2
Long-term portion of equity tax	17	17.7	-	-
Convertible debentures	15	446.0	437.8	-
Derivative financial liability	12,15	177.6	240.2	-
Decommissioning liabilities	16	45.5	34.9	16.3
Total liabilities		1,163.0	1,126.0	225.2
Shareholders' equity				
Equity component of convertible debentures	15	-	-	10.4
Common shares	12	304.8	301.9	197.7
Share-based payment reserve	12	30.8	21.3	9.9
Retained earnings		598.0	383.4	276.9
		933.6	706.6	494.9
Total liabilities and shareholders' equity		\$ 2,096.6	\$ 1,832.6	\$ 720.1

Commitments and Contingencies (Note 22)

Subsequent event (Note 11)

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)

	Note	Three months ended June 30,		Six months ended June 30,	
		2011	2010	2011	2010
			(Note 23)		(Note 23)
Revenues					
Oil		\$ 378.0	\$ 318.8	\$ 727.7	\$ 566.6
Royalties		(45.7)	(25.7)	(86.8)	(50.4)
		332.3	293.1	640.9	516.2
Operating Expenses					
Production		45.4	25.4	72.9	47.8
Transportation		38.5	30.5	72.0	46.3
Purchased oil		-	29.6	0.1	37.9
Depletion and depreciation	9	63.7	54.7	131.4	103.4
General and administrative		8.9	5.1	18.5	10.1
Acquisition costs	10,11	0.4	1.1	0.4	1.1
Colombia equity tax	17	-	0.5	27.7	1.0
Stock-based compensation	12	4.7	2.5	11.0	5.1
		161.6	149.4	334.0	252.7
Net finance income (expense)	6	81.7	(4.4)	28.8	(10.5)
Income before taxes		252.4	139.3	335.7	253.0
Income taxes	17	36.7	43.6	83.2	63.9
Net income and comprehensive income		\$ 215.7	\$ 95.7	\$ 252.5	\$ 189.1
Net income per share					
Basic	13	\$ 2.08	\$ 0.96	\$ 2.43	\$ 1.91
Diluted	13	\$ 0.99	\$ 0.92	\$ 1.67	\$ 1.82

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	Three months ended June 30,		Six months ended June 30,	
		2011	2010	2011	2010
			(Note 23)		(Note 23)
Common shares:					
Balance beginning of period		\$ 304.5	\$ 200.1	\$ 301.9	\$ 197.7
Shares repurchased and cancelled	12	(1.2)	-	(1.2)	0
Exercise of stock options, deferred common shares and incentive shares	12	1.5	2.7	4.1	5.1
Balance end of period		\$ 304.8	\$ 202.8	\$ 304.8	\$ 202.8
Equity Component of Convertible Debentures:					
Balance beginning of period	15	\$ -	\$ 10.4	\$ -	\$ 10.4
Conversion of convertible debentures	15	-	-	-	-
Balance end of period		\$ -	\$ 10.4	\$ -	\$ 10.4
Share Based Payment Reserve:					
Balance beginning of period		\$ 27.0	\$ 12.1	\$ 21.3	\$ 9.9
Exercise of stock options, deferred common shares and incentive shares	12	(0.6)	(0.5)	(1.2)	(0.9)
Stock-based compensation	12	4.4	2.5	10.7	5.1
Balance end of period		\$ 30.8	\$ 14.1	\$ 30.8	\$ 14.1
Retained Earnings:					
Balance beginning of period		\$ 406.8	\$ 370.3	\$ 383.4	\$ 276.9
Net income and comprehensive income		215.7	95.7	252.5	189.1
Dividends	12	(13.7)	(11.7)	(27.1)	(11.7)
Shares repurchased and cancelled	12	(10.8)	-	(10.8)	-
Balance end of period		\$ 598.0	\$ 454.3	\$ 598.0	\$ 454.3
Total Equity:					
Balance beginning of period		\$ 738.3	\$ 592.9	\$ 706.6	\$ 494.9
Net income and comprehensive income		215.7	95.7	252.5	189.1
Dividends	12	(13.7)	(11.7)	(27.1)	(11.7)
Shares repurchased and cancelled	12	(12.0)	-	(12.0)	-
Exercise of stock options, deferred common shares and incentive shares	12	0.9	2.2	2.9	4.2
Stock-based compensation	12	4.4	2.5	10.7	5.1
Balance end of period		\$ 933.6	\$ 681.6	\$ 933.6	\$ 681.6

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)

	Note	Three months ended June 30,		Six months ended June 30,	
		2011	2010	2011	2010
			(Note 23)		(Note 23)
Operating Activities					
Net income for the period		\$ 215.7	\$ 95.7	\$ 252.5	\$ 189.1
Adjustments for non-cash items:					
Depletion and depreciation	9	63.7	54.7	131.4	103.4
Deferred taxes	17	6.7	20.2	6.9	12.5
Accretion of convertible debentures	15	4.2	1.3	8.2	2.5
Unwinding of discounts		1.1	0.1	2.0	0.3
Stock-based compensation	12	4.7	2.5	11.0	5.1
Unrealized gain on derivative financial liability	15	(101.8)	-	(62.8)	-
Amortization of other assets		1.1	1.5	2.4	3.2
Colombian equity tax - expense	17	-	0.5	27.7	1.0
Colombian equity tax – foreign currency change	17	1.7	-	1.7	-
Colombian equity tax paid	17	(2.4)	(0.5)	(4.5)	(1.0)
		194.7	176.0	376.5	316.1
Changes in non-cash working capital	21	(4.6)	70.9	(97.3)	(54.8)
Current income tax expense	17	30.0	23.4	76.3	51.4
Cash income taxes paid		(8.3)	(12.0)	(13.2)	(16.5)
Interest expense	6	3.6	2.1	7.2	4.0
Cash interest paid		-	(2.9)	(7.2)	(4.0)
		215.4	257.5	342.3	296.2
Financing Activities					
Dividends paid	12	(13.8)	-	(27.2)	-
Issuance of common shares – net of costs	12	1.0	2.3	2.9	4.2
Financing costs	7	-	-	(0.8)	-
Repurchase of shares		(12.0)	-	(12.0)	-
		(24.8)	2.3	(37.1)	4.2
Investing Activities					
Expenditures on property, plant and equipment	9	(84.0)	(51.5)	(172.0)	(117.6)
Expenditures on exploration and evaluation assets	8	(90.8)	(61.3)	(152.3)	(106.9)
Expenditures on other assets	7	(0.1)	(1.4)	(0.3)	(2.5)
Acquisition of PanAndean		-	(28.8)	-	(28.8)
Pipeline investments	11	(48.1)	-	(76.6)	-
Changes in non-cash working capital	21	26.8	30.4	13.0	54.8
		(196.2)	(112.6)	(388.2)	(201.0)
Increase (decrease) in cash and cash equivalents		(5.6)	147.2	(83.0)	99.4
Cash and cash equivalents, beginning of period		645.9	15.2	723.3	63.0
Cash and cash equivalents, end of period		\$ 640.3	\$ 162.4	\$ 640.3	\$ 162.4
Cash and cash equivalents consist of:					
Cash		\$ 21.7	\$ 3.6	\$ 21.7	\$ 3.6
Cash equivalents		\$ 618.6	\$ 158.8	\$ 618.6	\$ 158.8

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

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at June 30, 2011, December 31, 2010 and January 1, 2010, and for the three and six months ended June 30, 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 and the Colombian 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

The Canadian Accounting Standard Board (“AcSB”) confirmed that effective for interim and annual financial statements related to fiscal years beginning on or after January 1, 2011, International Financial Reporting Standards (“IFRS”) will replace Canadian generally accepted accounting principles (“Canadian GAAP”) for all publicly accountable profit-orientated enterprises. Accordingly, IFRS 1 ‘First-Time Adoption of IFRS’ has been applied effective January 1, 2010 using IFRS in place as at January 1, 2011. The effect of transition from Canadian GAAP to IFRS is quantified in Note 23 and throughout the notes to these condensed interim consolidated financial statements.

These condensed interim consolidated financial statements include the accounts of the Company as at June 30, 2011 and December 31, 2010, and for the three and six month periods ended June 30, 2011 and 2010. These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34 ‘Interim Financial Reporting’ (“IAS 34”) using accounting policies consistent with IFRS as issued by the International Accounting Standards Board and Interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”) and do not contain all the disclosures required for full annual financial statements.

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.

These condensed interim consolidated financial statements were authorized for issue by the Company’s Board of Directors on August 3, 2011.

Basis of Measurement

The preparation of these condensed interim consolidated financial statements resulted in changes to accounting policies and methods of computation as compared to the most recent Annual Financial Statements for the year-ended December 31, 2010 prepared under Canadian GAAP. Refer to Note 23 'First Time Adoption of IFRS', for a reconciliation between Canadian GAAP and IFRS computations. For full disclosure of accounting policies adopted on transition to IFRS, refer to Note 3 in the condensed interim consolidated financial statements for the three month period ended March 31, 2011. Many disclosures, including nature of business and corporate information, have not changed from Canadian GAAP and accordingly, these should be read in conjunction with the consolidated financial statements for the year-ended December 31, 2010 and the accompanying notes thereto.

The Company prepared these condensed interim consolidated financial statements on a going concern basis, which contemplates the realization of assets and liabilities in the normal course of business as they become due. Accordingly, these condensed interim consolidated financial statements have been prepared on the historical cost basis, except for cash and cash equivalents, derivative financial instruments and share-based payment transactions that have been measured at fair value.

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

These condensed interim consolidated financial statements are prepared using the same accounting policies and methods of computation as disclosed in Note 3 of the condensed interim consolidated financial statements as at and for the three month period ended March 31, 2011 and December 31, 2010.

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:

In November 2009, the IASB issued 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”. In October 2010, the standard was revised. The new and revised 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.

In May 2011, the IASB issued IFRS 10, “Consolidated Financial Statements”, which provides additional guidance to determine whether an investee should be consolidated. The guidance applies to all investees including special purpose entities. The standard is required to be adopted for periods beginning January 1, 2013. We are evaluating the impact that this standard may have on our statements of operations and financial position.

In May 2011, the IASB issued IFRS 11, “Joint Arrangements”, which presents a new model for determining whether an entity should account for joint arrangements using proportionate consolidation or the equity method. An entity will have to follow the substance rather than legal form of a joint arrangement and will no longer have a choice of accounting method. The standard is required to be adopted for periods beginning January 1, 2013. We are evaluating the impact that this standard may have on our statements of operations and financial position.

In May 2011, the IASB issued IFRS 12, “Disclosure of Interests in Other Entities, which aggregates and amends disclosure requirements included within other standards. The standard requires a company to provide disclosures about subsidiaries, joint arrangements, associates and unconsolidated structured entities. The standard is required to be adopted for periods beginning January 1, 2013. We are evaluating the impact that this standard may have on our statements of operations and financial position.

In May 2011, the IASB issued IFRS 13, “Fair Value Measurement”, to provide comprehensive guidance for instances where IFRS requires fair value to be used. The standard provides guidance on determining fair value and requires disclosures about those measurements. The standard is required to be adopted for periods beginning January 1, 2013. We are evaluating the impact that this standard may have on our statements of operations and financial position.

In May 2011, the IASB issued amendments to IAS 27, “Separate Financial Statements”, to establish the accounting and disclosure requirements for investments in subsidiaries, joint ventures, and associates when an entity prepares separate financial statements and replaces the current IAS 27 Consolidated and Separate Financial Statements as the consolidation guidance is included in IFRS 10 Consolidated Financial Statements. We are evaluating the impact that this standard may have on our statements of operations and financial position.

In May 2011, the IASB issued amendments to IAS 28, “Investments in Associates and Joint Ventures”, to establish the accounting for investments in associates and defines how the equity method is applied when accounting for associates and joint ventures. We are evaluating the impact that this standard may have on our statements of operations and financial position.

In June 2011, the IASB issued amendments to IAS 1, “Presentation of Items of Other Comprehensive Income”, to split items of other comprehensive income (OCI) between those that are reclassified to income and those that do not. The standard is required to be adopted for periods beginning on or after July 1, 2012. We are evaluating the impact that this standard may have on our statements of operations and financial position.

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 June 30, 2010				Six months ended June 30, 2010			
	Colombia	Peru	Other	Total	Colombia	Peru	Other	Total
Revenue	318.8	-	-	318.8	566.6	-	-	566.6
Depletion and depreciation	54.7	-	-	54.7	103.7	-	-	103.4
Income before finance expense	133.8	-	9.9	143.7	252.7	-	1.4	263.5
Net finance expense	0.8	-	3.6	4.4	3.6	-	6.9	10.5
Income tax expense	43.6	-	-	43.6	63.9	-	-	63.9
Net income	89.5	-	6.3	95.7	194.6	-	(5.5)	189.1
E&E and PP&E expenditures	112.7	0.1	-	112.8	219.0	5.5	-	224.5

	Three months ended June 30, 2011				Six months ended June 30, 2011			
	Colombia	Peru	Other	Total	Colombia	Peru	Other	Total
Revenue	367.0	-	11.0	378.0	716.7	-	11.0	727.7
Depletion and depreciation	63.7	-	-	63.7	131.4	-	-	131.4
Income before finance expense	158.5	-	12.2	170.7	296.1	-	10.8	306.9
Net finance expense	(9.9)	-	(71.8)	(81.7)	(14.0)	-	(14.8)	(28.8)
Income tax expense	36.7	-	-	36.7	83.2	-	-	83.2
Net income	131.7	-	84.0	215.7	226.9	-	25.6	252.5
E&E and PP&E expenditures	170.4	4.4	-	174.8	317.6	6.7	-	324.3

	As at June 30, 2011				As at December 31, 2010			
	Colombia	Peru	Other	Total	Colombia	Peru	Other	Total
Total assets	1,349.3	59.0	688.3	2,096.6	1,047.9	51.8	732.9	1,832.6
Total liabilities	564.0	39.5	559.5	1,163.0	508.2	32.3	585.5	1,126.0

NOTE 6 – NET FINANCE EXPENSE (INCOME)

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Cash interest	3.6	0.7	7.2	1.4
Standby charges	1.8	1.4	3.6	2.6
Accretion on convertible debentures	4.2	1.3	8.2	2.5
Accretion on Colombia equity tax	0.7	-	1.3	-
Unwinding of discount of decommissioning liability	0.4	0.1	0.7	0.3
Amortization of deferred financing costs	0.3	0.3	0.7	0.6
Total interest expense and accretion	11.0	3.8	21.7	7.4
Gain on derivative financial liability	(101.8)	-	(62.8)	-
Foreign exchange loss	9.7	0.7	13.5	3.2
Interest income	(0.6)	(0.1)	(1.2)	(0.1)
Total net finance expense (income)	(81.7)	4.4	(28.8)	10.5

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	0.3	0.8	1.1
Less: amortization	(1.6)	(0.7)	(2.3)
Balance at June 30, 2011	19.9	4.2	24.1

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
PanAndean acquisition (Note 9)	32.0
Transfer to property, plant and equipment	(23.5)
Balance at December 31, 2010	264.9
Additions	152.3
Decommissioning liability additions, net of transfers to PP&E	0.2
Transfer to property, plant and equipment	(93.1)
Balance at June 30, 2011	324.3

Exploration and evaluation assets are made up of the Company's exploration and evaluation projects currently in progress. For the three and six months ended June 30, 2011, \$54.8 million and \$93.1 million, respectively, 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

	Inventory	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	-	(320.2)	(3.5)	(323.7)
Depreciation and depletion for the period	-	(214.0)	(2.9)	(216.9)
Carrying value, December 31, 2010	29.6	609.3	9.2	648.1

	Inventory	Crude oil assets	Corporate and other	Total
Cost at December 31, 2010	29.6	1,143.5	15.6	1,188.7
Additions	27.6	141.1	3.3	172.0
Decommissioning liability movement, including transfers from E&E	-	9.9	-	9.9
Transfers from E&E	-	93.1	-	93.1
Cost at June 30, 2011	57.2	1,387.6	18.9	1,463.7
Accumulated depreciation and depletion	-	(534.2)	(6.4)	(540.6)
Depreciation and depletion for the period ⁽¹⁾	-	(131.4)	(2.0)	(133.4)
Carrying value, June 30, 2011	57.2	722.0	10.5	789.7

⁽¹⁾ Depreciation and depletion that was recognized in inventory during the three and six months period was \$1.4 million and \$2.0 million, respectively.

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 \$1.1 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 second quarter of 2012. The Company has paid \$48.4 million to date. 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.

The Company entered into an agreement to acquire five percent interest in the Oleoducto Central S.A. (“Ocensa”) crude oil pipeline from Total E&P Holdings (“Total”), for a purchase price of US\$281 million. At June 30 we paid an advance of US\$28.1 million and the remaining \$252.9 million was paid on July 20, 2011. The Company incurred \$0.4 million of costs related to the acquisition that have been expensed in the statement of operations.

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, incentive shares and deferred common shares exercised	-	2.5
Balance at December 31, 2010	103,391,878	301.9
Cancelled due to reorganization (Note 1)	(3,859)	-
Exercise of stock options	453,930	2.9
Exercise of incentive shares	19,079	-
Exercise of deferred common shares	257	-
Repurchased under normal course issuer bid	(409,700)	(1.2)
Transfer from share-based payments reserve related to stock options, incentive shares and deferred common shares exercised	-	1.2
Balance at June 30, 2011	103,451,585	\$304.8

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 second quarter of 2011 was \$13.7 million, which was paid on July 15, 2011. 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.

Normal Course Issuer Bid (“NCIB”)

During the second quarter, the Company repurchased 409,700 common shares under a normal course issuer bid (“NCIB”) at an average cost of \$29.35 (Cdn.\$28.71) per share for a total repurchase cost of \$12.0 million. The book value of the common shares repurchased was \$2.94 per share for a total book value of \$1.2 million that was recorded to share capital. The residual amount of \$10.8 million was recorded directly to retained earnings. All of the common shares acquired under the NCIB were cancelled.

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, incentive shares and deferred common shares exercised	(2.5)
Balance at December 31, 2010	21.3
Stock-based compensation, excluding share appreciation rights	10.7
Transfer to common shares related to stock options, incentive shares and DSC's exercised	(1.2)
Balance at June 30, 2011	30.8

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	468,230	32.95
Exercised	(453,930)	6.80
Forfeited	(472,121)	15.79
Expired	(6,500)	3.75
Balance at June 30, 2011	6,300,831	18.46

The following summarizes information about stock options outstanding as at June 30, 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	988,318	4.02	4.43	836,756	4.31
6.95 – 12.20	1,345,318	3.20	8.79	97,434	8.95
12.21 – 24.96	1,173,025	4.92	16.73	165,037	15.18
24.97 – 28.10	1,539,800	5.32	26.95	200,925	27.34
28.11 – 37.42	1,254,370	4.44	31.07	155,250	30.04
	6,300,831	4.41	18.46	1,455,402	11.78

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	49,461
Exercised	(257)
Cancelled	(4,500)
Balance at June 30, 2011	176,094

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	233,758
Exercised	(19,079)
Forfeitures and cancellations	(24,835)
Balance at June 30, 2011	1,042,463

At June 30, 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).

Share Appreciation Rights Plan

The Company established a Share Appreciation Rights (“SAR”) plan for the officers and employees during the second quarter of 2011. The plan allows the holder to receive a cash payment equivalent to the fair value of one common share based upon the share price on the exercise date of the right less the exercise price of \$0.05 per SAR. The terms of the SAR’s granted are determined by the Company’s Board of Directors but typically, SAR’s 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 Company granted 176,440 SAR’s on April 13, 2011. A derivative liability of \$0.2 million was recorded as at June 30, 2011 related to the SAR’s, and an equivalent amount was recorded as stock-based compensation in the condensed interim consolidated statement of operations and comprehensive income.

Stock-Based Compensation

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

Six months ended June 30,	2011	2010
Risk free interest rate	2.25%	2.25%
Market Price	35.08	27.48
Dividend rate	1.40%	1.40%
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%	5%
Expected volatility	40%	37.5%
Fair value of stock options granted per option	Cdn.\$ 9.72	Cdn. \$ 7.33
Fair value of deferred common shares granted per share	Cdn.\$ 24.53	Cdn.\$ 27.63
Fair value of incentive shares granted per share	Cdn.\$ 34.42	Cdn.\$ 24.71
Fair value of SAR granted per right	Cdn.\$ 31.49	Cdn.\$ -

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.

Share-based compensation expense for the three and six months ended June 30, 2011 totalled \$4.7 and \$11.0 million respectively (2010 – \$2.5 million and \$5.1 million respectively).

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. The anti-dilutive stock options excluded for the three and six months periods ended June 30, 2011 were 410,770 and 89,880, respectively (2010 - 499,000 and 1,646,225 respectively)

Three months ended June 30,

	2011	2010
Net income adjustments		
Net income, basic	215.7	95.7
Interest and accretion expense on convertible debentures	7.7	2.0
Gain on derivative liability relating to convertible debentures	(101.8)	-
Tax effect	-	(0.7)
Net income, diluted	121.6	97.0
Weighted average common share adjustments		
Weighted average common shares outstanding, basic	103,746,006	99,181,100
Effect of stock options, deferred common shares and incentive shares	3,379,924	3,198,762
Effect of convertible debentures	16,028,116	2,987,367
Weighted average common shares outstanding, diluted	123,154,046	105,367,229

Six months ended June 30,

	2011	2010
Net income adjustments		
Net income, basic	252.5	189.1
Interest and accretion expense on convertible debentures	15.3	2.0
Gain on derivative liability relating to convertible debentures	(62.8)	-
Tax effect	-	(0.7)
Net income, diluted	205.0	190.4
Weighted average common share adjustments		
Weighted average common shares outstanding, basic	103,663,783	98,958,886
Effect of stock options, deferred common shares and incentive shares	3,634,949	3,230,491
Effect of convertible debentures	16,028,116	2,987,367
Weighted average common shares outstanding, diluted	123,326,848	105,176,744

NOTE 14 – BANK DEBT

At June 30, 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. Advances under the facility are collateralized by a promissory note provided by the Company. At June 30, 2011, the Company had letters of credit totalling \$45.1 million outstanding to guarantee work commitments under exploration blocks. Letters of credit issued against the Colombian operating line of credit (\$44.1 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 million 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	8.2	-	8.2
2011 derivative gain	-	(62.8)	(62.8)
Balance June 30, 2011	\$ 446.0	\$ 177.4	\$ 623.4

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:

	June 30, 2011	December 31, 2010	August 25, 2010
Risk free interest rate	1.76%	2.61%	2.14%
Expected life (years)	5.2	5.6	6.0
Expected volatility	45.0%	46.5%	37.5%
Market price	\$29.59	\$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,	June 30, 2011	December 31, 2010
Decommissioning liabilities, beginning of period	34.9	16.3
Obligations incurred	8.3	18.5
Unwinding of discount	0.7	0.1
Change in estimates	1.6	-
Decommissioning liabilities, end of period	45.5	34.9

The obligations have been calculated using an inflation rate of three percent and discount risk-free rate of 3.635% per annum. The majority of these obligations are expected to be paid before the end of the related incremental production contract (IPC), approximately 11 years in the future, or are required to be abandoned under the terms of the exploration contract. The obligations are expected to be funded from the Company's internal resources available at the time of settlement. The total undiscounted amount of estimated cash flows required to settle the obligations at June 30, 2011 is \$100.3 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. In 2010 the Company did not pay tax in the Bahamas. The principal reasons for this difference are as follows:

Period ended,	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Income before taxes	252.4	139.3	335.7	253.0
Statutory income tax rate in Colombia	33%	33%	33%	33%
Expected tax expense	83.3	46.0	110.8	83.5
Increase (decrease) in income tax provision resulting from:				
Non-taxable derivative gain	(33.6)	-	(20.7)	-
Non-deductible convertible debenture costs	2.6	0.6	5.1	1.3
Non-deductible expenses	0.7	0.3	1.1	0.3
Enhanced tax allowances	-	-	-	(15.2)
Stock-based compensation	1.5	0.8	3.6	1.7
Change in estimates and others	(17.8)	(4.1)	(16.7)	(7.7)
Income tax expense	36.7	43.6	83.2	63.9
Consisting of:				
Current income tax expense	30.0	23.4	76.3	51.4
Deferred tax expense	6.7	20.2	6.9	12.5
Tax Expense	36.7	43.6	83.2	63.9

Equity Taxes

Period ended,	Three months ended June 30,		Six months ended June 30,	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Equity tax expense	-	0.5	27.7	1.0

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 \$5.5 million difference between the \$33.2 million obligation and its present value of \$27.7 million is being accreted over four years, whereby \$0.6 million was recorded as accretion in net finance expenses on the statement of operations in the quarter (six months June 30, 2011 - \$1.2 million).

NOTE 18 – RELATED PARTY TRANSACTIONS

Until December 31, 2010, 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 second quarter of 2010 (\$1.6 million for the six month period ended June 30, 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.

	June 30, 2011	December 31, 2010	January 1, 2010
Bank debt ⁽¹⁾	-	-	-
Working capital surplus ⁽²⁾	511.7	580.2	13.5
Convertible debentures – principal amount ⁽³⁾	550.0	550.0	81.7
Common share capital	304.8	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.

⁽²⁾ On July 20, 2011, the Company paid the remaining purchase price of \$252.9 million related to the OCENSA acquisition.

⁽³⁾ 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 June 30, 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:

	June 30, 2011	December 31, 2010	January 1, 2010
Crude oil customers	206.3	144.6	37.7
Other receivables	11.7	7.0	5.4
Prepaid expenses	5.7	4.0	4.4
Total	223.7	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 June 30, 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 June 30, 2011, and did not provide for any doubtful accounts nor was it required to write-off any receivables during the three months ended June 30, 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 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 June 30, 2011:

Financial Liability	Total	< 1 Year	1-2 Years	Thereafter
Accounts payable and accrued liabilities	306.4	306.4	-	-
Letters of credit	45.1	14.5	29.6	1.0
Convertible debentures – principal	550.0	-	-	550.0
Total	901.5	320.9	29.6	551.0

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 June 30, 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 \$5.2 million higher (2010 – \$8.6 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 and six months ended June 30, 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 per day production volumes.

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 half 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 June 30, 2011 is disclosed below by financial instrument category, as well as any related gain and interest expense for the three months ended June 30, 2011:

Financial Instrument	Carrying Value	Fair Value	Interest Expense
<i>Assets Held For Trading</i>			
Cash and cash equivalents ⁽¹⁾	640.3	640.3	
<i>Loans and Receivables</i>			
Accounts receivable	223.7	223.7	
<i>Other Liabilities</i>			
Accounts payable and accrued liabilities	306.4	306.4	
Bank debt	-	-	4.9 ⁽²⁾
Convertible debentures	446.0	627.0 ⁽³⁾	4.1 ⁽⁴⁾
Derivative liability of convertible debenture	177.4		
Derivative liability of SAR's	0.2	0.2	

⁽¹⁾ The effective yield on cash equivalents at June 30, 2011 was 0.30% (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 \$0.8 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 June 30, 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 STATEMENTS OF CASH FLOW

Changes in Non-Cash Working Capital

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Change in:				
Accounts receivable	20.6	18.8	(68.1)	117.1
Accounts payable and accrued liabilities	8.4	93.0	(2.7)	130.1
Crude oil inventory	(1.4)	1.0	(6.9)	(2.3)
Depletion related to crude oil inventory and other assets	1.3	(0.7)	1.9	0.9
	28.9	112.1	(75.8)	11.6
Exclusion of interest payable change	(3.6)	0.8	-	-
Exclusion of current portion of equity tax change	(3.1)	-	(8.5)	-
Exclusion of dividends payables change	-	(11.6)	-	(11.6)
	22.2	101.3	(84.3)	-
Changes relating to:				
Attributable to operating activities	(4.6)	70.9	(97.3)	(54.8)
Attributable to investing activities	26.8	30.4	13.0	54.8

NOTE 22 – COMMITMENTS AND CONTINGENCIES

The following is a summary of the Company's contractual commitments as at June 30, 2011:

Type of Obligation	Total	< 1 Year	1-3 Years	Thereafter
Exploration contracts ⁽¹⁾	105.4	57.8	47.6	-
Storage and transportation contract	12.4	6.4	6.0	-
Pipeline investments ⁽²⁾	304.0	304.0	-	-
Office lease	7.1	2.0	4.1	1.0
Total	428.9	370.2	57.7	1.0

⁽¹⁾ Pursuant to exploration contracts, the Company has work commitments totaling \$105.4 million to be completed during the next three years. The work commitments are normal course of business exploration activities that include property costs, acquisition and processing of seismic data and drilling exploration wells. The Company has issued letters of credit totaling \$45.1 million to guarantee the obligations under these exploration contracts.

⁽²⁾ On June 20, 2011, the Company agreed to purchase five percent of Ocesa and paid a \$28.1 million deposit. The remaining purchase price of \$252.9 million was due and paid at closing on July 20, 2011.

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

The Corcel Contract requires a high price participation payment 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 June 30, 2011. As at June 30, 2011, although total production from the Block was 15.5 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 June 30, 2011, the comparative information presented in these financial statements for the periods ended June 30, 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 elected 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, June 30, 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 June 30, 2010	Canadian GAAP	Notes					IFRS
		a	b	c	d	e	
ASSETS							
Current assets							
Cash and cash equivalents	\$ 162.4	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 162.4
Accounts receivable	164.6	-	-	-	-	-	164.6
Income taxes receivable	-	-	-	-	-	-	-
Crude oil inventory	3.7	-	-	-	-	-	3.7
	330.7	-	-	-	-	-	330.7
Non-current assets							
Other assets	25.9	-	-	-	-	-	25.9
Exploration and evaluation assets	-	189.3	1.9	-	-	-	191.2
Property, plant and equipment	690.7	(189.3)	1.7	-	-	36.0	539.1
Goodwill	5.0	-	-	-	-	-	5.0
	721.6	-	3.6	-	-	36.0	761.2
Total Assets	\$1,052.3	\$ -	\$ 3.6	\$ -	\$ -	\$ 36.0	\$1,091.9
LIABILITIES AND SHAREHOLDERS' EQUITY							
Current liabilities							
Trade and other payables	\$ 237.0	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 237.0
Income taxes payable	26.4	-	-	-	-	-	26.4
Convertible debentures	79.3	-	-	-	-	-	79.3
	342.7	-	-	-	-	-	342.7
Non-current liabilities							
Deferred tax liabilities	54.2	-	-	-	(8.2)	-	46.0
Decommissioning liabilities	8.5	-	13.1	-	-	-	21.6
Total liabilities	405.4	-	13.1	-	(8.2)	-	410.3
Shareholders' Equity							
Convertible debentures – equity component	10.4	-	-	-	-	-	10.4
Common shares	202.8	-	-	-	-	-	202.8
Contributed surplus	11.3	-	-	2.8	-	-	14.1
Accumulated other comprehensive Income	16.0	(16.0)	-	-	-	-	-
Retained earnings	406.4	16.0	(9.5)	(2.8)	8.2	36.0	454.3
	646.9	-	(9.5)	-	8.2	36.0	681.6
Total Liabilities and shareholders' equity	\$ 1,052.3	\$ -	\$ 3.6	\$ -	\$ -	\$ 36.0	\$ 1,091.9

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 June 30, 2010, the six months ended June 30, 2010 and the twelve months ended December 31, 2010:

Three months ended June 30, 2010	Canadian GAAP	Notes					IFRS
		a	b	c	d	e	
Revenues							
Oil	\$ 318.8	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 318.8
Royalties	(25.8)	-	-	-	-	-	(25.8)
	293.0	-	-	-	-	-	293.0
Operating Expenses							
Production	25.4	-	-	-	-	-	25.4
Transportation	22.2	-	-	-	-	-	22.2
Purchased oil	37.9	-	-	-	-	-	37.9
Depletion and depreciation	79.6	(0.2)	-	-	-	(24.8)	54.6
General and administrative	5.1	-	-	-	-	-	5.1
Acquisition Costs	1.1	-	-	-	-	-	1.1
Stock-based compensation	2.4	-	-	0.1	-	-	2.5
Colombian equity tax expense	0.5	-	-	-	-	-	0.5
	174.2	(0.2)	-	0.1	-	(24.8)	149.3
Finance Expenses							
Interest Income	-	-	-	-	-	-	-
Interest and accretion	3.6	0.2	-	-	-	-	3.8
Foreign exchange loss	1.2	-	-	-	(0.5)	-	0.7
	4.8	0.2	-	-	(0.5)	-	4.5
Income before taxes	114.0	-	-	(0.1)	0.5	24.8	139.2
Current taxes	23.3	-	-	-	-	-	23.3
Deferred taxes	9.5	-	-	-	10.7	-	20.2
Net income and comprehensive income	\$ 81.2	\$ -	\$ -	\$ (0.1)	\$ (10.2)	\$ 24.8	\$ 95.7

Six months ended June 30, 2010	Canadian GAAP	Notes					IFRS
		a	b	c	d	e	
Revenues							
Oil	\$ 566.6	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 566.6
Royalties	(50.4)	-	-	-	-	-	(50.4)
	516.2	-	-	-	-	-	516.2
Operating Expenses							
Production	47.8	-	-	-	-	-	47.8
Transportation	46.3	-	-	-	-	-	46.3
Purchased oil	37.9	-	-	-	-	-	37.9
Depletion and depreciation	139.8	(0.3)	-	-	-	(36.1)	103.4
General and administrative	10.1	-	-	-	-	-	10.1
Acquisition Costs	1.1	-	-	-	-	-	1.1
Stock-based compensation	4.9	-	-	0.2	-	-	5.1
Colombian equity tax expense	1.0	-	-	-	-	-	1.0
	288.9	(0.3)	-	0.2	-	(36.1)	252.7
Finance Expenses							
Interest Income	-	-	-	-	-	-	-
Interest and accretion	7.0	0.3	-	-	-	-	7.3
Foreign exchange loss	5.5	-	-	-	(2.3)	-	3.2
	12.5	0.3	-	-	(2.3)	-	10.5
Income before taxes	214.8	-	-	(0.2)	2.3	36.1	253.0
Current taxes	51.4	-	-	-	-	-	51.4
Deferred taxes	8.8	-	-	-	3.7	-	12.5
Net income and comprehensive income	\$ 154.6	\$ -	\$ -	\$ (0.2)	\$ (1.4)	\$ 36.1	\$ 189.1

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

Alastair Macdonald ^{(1)(2) (4)}
Pembroke, Bermuda

Enrique Umaña Valenzuela ^{(1) (4)}
Bogotá D.C., Colombia

Ernesto Sarpi ⁽³⁾
Naples, Italy

Geir Ytreland ^{(2) (3)}
Droebak, Norway

Jerald L. Oaks ⁽⁴⁾
Denver, Colorado, U.S.A.

Kenneth R. McKinnon ^{(1) (2)}
Calgary, Alberta, Canada

- (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

Allen Knight
Vice President New Ventures

Andrea Hatzinikolas
Corporate Secretary and General Counsel

Erik Lyngberg
Senior Vice President Exploration

Jaime Valenzuela
Vice President Planning and Director of Operations

Jeff Chant
Vice President Organizational Performance

John (Jack) F. Scott
Chief Operating Officer

Kelly D. Sledz
Chief Financial Officer

Ruben Cano
Vice President Services and Logistics

Tannya E. Morales-Kozy
Vice President Finance

OFFICES

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

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

Lima, Peru
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

EXCHANGE LISTINGS

The Toronto Stock Exchange
SYMBOL: PMG

The Colombian Stock Exchange
SYMBOL: PMGC

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.