

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") is dated July 31, 2013 and should be read in conjunction with the unaudited condensed interim consolidated financial statements of Petrominerales Ltd. ("Petrominerales" or the "Company") as at and for the three and six months ended June 30, 2013, MD&A for the three and six months ended June 30, 2012, and the audited consolidated financial statements as at and for the year ended December 31, 2012. Additional information for the Company, including its Annual Information Form ("AIF") can be found on SEDAR at www.sedar.com, on SIMEV at www.superfinanciera.gov.co 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, unless otherwise stated.

NATURE OF BUSINESS

Petrominerales is an international oil and gas company focused on growing reserves and production from its diverse portfolio of assets in Colombia, Peru and Brazil. Petrominerales' head office is located in Calgary, Canada and the Company's shares are publicly traded on the Toronto and Colombian stock exchanges.

HIGHLIGHTS AND SIGNIFICANT TRANSACTIONS FOR THE SECOND QUARTER OF 2013

- New reserves additions from our Curito-1 and Taya-1 oil discoveries and successful appraisal drilling on our Mantis oil field, extending the oil pool boundaries with our Mantis-4, 5 and 6 wells.
- We acquired an 87.5 percent interest in the Canaguaro Block in the Llanos Basin for \$15.4 million subject to ANH approval, including 416 barrels of oil per day ("bopd") of working interest production and 2.3 million barrels of proved plus probable working interest reserves.
- The Company repurchased and cancelled \$60.2 million of our 2016 convertible debentures, leaving \$138.7 million outstanding.
- We extended the put date on our 2016 convertible debentures to February 25, 2014.
- We generated funds flow from operations of \$86.9 million, or \$1.03 per share.
- Our operating netback was \$54.54 per barrel.
- Our oil marketing business earned \$11.1 million of operating cash flow.
- We initiated a formal sales process for our pipeline assets. Subsequent to the quarter, to maximize value, we joined with three other OCENSA shareholders in a process to market a combined 27% equity interest in the OCENSA pipeline.
- We were awarded three new blocks in the Brazil Bid Round located onshore in the Reconcavo and Tucano basins.

QUARTERLY FINANCIAL RESULTS

	2013		2012				2011	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
(\$millions except where noted)								
Production volumes (bopd)	21,539	22,063	25,140	26,334	31,113	34,047	35,353	37,124
Sales volumes of produced oil (bopd)	20,770	22,129	24,137	26,946	32,138	32,813	33,913	39,923
Oil sales	269.4	254.1	224.9	251.4	289.8	333.0	329.9	363.0
Funds flow from operations ⁽¹⁾	86.9	102.3	122.5	151.9	173.7	199.8	213.3	196.4
Per share – basic (\$)	1.03	1.21	1.43	1.69	1.78	2.01	2.14	1.93
– diluted (\$)	1.02	1.20	1.42	1.68	1.75	1.97	2.09	1.88
Adjusted net income (loss) ⁽¹⁾	2.3	6.5	(53.5)	36.9	38.3	80.3	77.7	58.8
Per share – basic (\$)	0.03	0.08	(0.63)	0.41	0.39	0.81	0.78	0.58
– diluted (\$)	0.03	0.08	(0.63)	0.41	0.38	0.75	0.72	0.55
Net income (loss)	3.0	28.5	(63.7)	57.5	65.8	80.6	107.0	133.7
Per share – basic (\$)	0.04	0.34	(0.74)	0.64	0.67	0.81	1.07	1.31
– diluted (\$)	0.04	0.11	(0.74)	0.18	0.39	0.75	0.72	0.55
PP&E and E&E additions ⁽²⁾	88.6	81.9	148.5	114.6	150.6	218.4	252.4	210.4

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

⁽²⁾ PP&E consists of property, plant and equipment assets and E&E consists of exploration and evaluation assets.

Funds flow from operations of \$86.9 million was 15% or \$15.4 million lower than the first quarter of 2013 mainly due to:

- \$19.3 million of lower operating cash flow from our produced oil segment primarily due to lower oil prices. Brent benchmark prices were 9%, or \$10.04 per barrel lower resulting in an \$18.7 million decrease in operating cash flow. The remaining decrease of \$0.6 million is due to 4% lower sales volumes of produced oil from an inventory build and 2% lower production offset by lower royalties and production expenses.
- \$7.5 million higher operating cash flow from our oil marketing segment. We purchased third party barrels for a full quarter to generate income and maximize profits from our infrastructure assets; and
- \$3.4 million higher cash finance expenses.

Adjusted net income of \$2.3 million decreased \$4.2 million mainly due to:

- \$15.4 million lower funds flow from operations noted above and substantially offset by:
- \$13.8 million lower deferred income taxes from the recognition of a \$10.2 million deferred tax asset on certain pipeline rights.

Capital expenditures were \$88.6 million or, \$6.7 million higher than the first quarter primarily due to:

- costs for our Block 25 3D seismic acquisition program.

QUARTERLY CRUDE OIL PRICES AND FOREIGN EXCHANGE RATES

Petrominerales financial results are influenced by fluctuations in commodity prices, price differentials and the Colombian peso / U.S. dollar exchange rate.

The majority of our crude oil is sold in relation to the Vasconia benchmark price, which decreased \$8.52 per barrel or 8% in the second quarter consistent with movements in the Brent benchmark price.

Our sales price decrease of \$9.91 to \$95.50 per barrel was consistent with the movement in the benchmark Vasconia Blend.

	2013		2012				2011	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Petrominerales sales price of produced oil (\$/bbl)	95.50	105.41	101.28	101.41	99.09	111.52	105.72	98.84
Crude Oil Benchmarks (\$/bbl)								
Brent	102.51	112.55	110.02	109.61	108.44	118.49	109.18	113.38
Vasconia (Colombian Blend)	98.66	107.18	103.09	103.80	103.63	114.64	106.09	109.12
WTI	94.22	94.37	88.18	92.22	93.48	102.93	93.87	89.54
Differentials (\$/bbl)								
Brent premium to Vasconia	3.85	5.38	6.93	5.81	4.81	3.85	3.09	4.26
Brent premium to WTI	8.29	18.18	21.84	17.39	14.96	15.56	15.31	23.84
Vasconia premium to PMG price	3.16	1.77	1.81	2.39	4.54	3.12	0.37	10.28
Foreign Exchange								
Colombian peso /\$US average	1,862	1,791	1,806	1,797	1,787	1,801	1,920	1,793
Colombian peso /\$US ending	1,929	1,832	1,768	1,801	1,785	1,792	1,943	1,915
\$US /Canadian dollar average	0.977	0.992	1.009	1.005	0.990	1.000	0.978	1.020
\$US /Canadian dollar ending	0.951	0.984	1.005	1.017	0.982	1.003	0.983	0.954

QUARTERLY OPERATIONAL RESULTS

Average Daily Crude Oil Production and Sales Volumes (bopd)

	2013		2012		
	Q2	Q1	Q4	Q3	Q2
Deep Llanos	12,454	14,273	16,458	18,101	20,936
Central Llanos	4,811	3,576	4,090	3,687	4,914
Neiva	2,603	2,722	2,791	3,187	3,428
Orito	1,333	1,210	1,801	1,359	1,827
Heavy Oil	300	246	-	-	8
Total Colombia	21,501	22,027	25,140	26,334	31,113
Brazil	38	36	-	-	-
Total production	21,539	22,063	25,140	26,334	31,113
Inventory changes & other	(769)	66	(1,003)	612	1,025
Sales volumes of produced oil	20,770	22,129	24,137	26,946	32,138

Second quarter production averaged 21,539 bopd, 2% or 524 bopd lower than the first quarter mainly due to:

- Lower Deep Llanos production of 13% or 1,819 bopd primarily due to natural declines;
- Higher Central Llanos production of 35% or 1,235 bopd primarily due to our Curito oil discovery, successful appraisal drilling in our Mantis field (Mantis-4 and Mantis-5) and recovered production from wells offline due to workovers;
- Lower Neiva production of 4% or 119 bopd primarily due to natural declines;
- Higher Orito production of 123 bopd primarily due to Orito-197 which began producing in June at 1,462 bopd;
- Higher Heavy Oil production of 54 bopd relating to production volumes from our Tatama horizontal well that was tested with a higher capacity pump which increased the well rate to 620 bopd during the 44 day testing period;
- Consistent Brazil production of 38 bopd relating to the Alvo Petro acquisition that closed in December 2012.

QUARTERLY OPERATING NETBACK⁽¹⁾ OF PRODUCED OIL (\$/bbl except where noted)

	2013		2012		
	Q2	Q1	Q4	Q3	Q2
Sales volumes of produced oil (bopd)	20,770	22,129	24,137	26,946	32,138
Sales price	95.50	105.41	101.28	101.41	99.09
Transportation	7.89	7.62	4.55	6.09	7.42
Realized oil price	87.61	97.79	96.73	95.32	91.67
Royalties	12.75	14.61	14.55	14.04	10.63
Royalties as a % of realized oil price	15%	15%	15%	15%	12%
Production costs	20.32	21.74	18.55	18.39	16.62
Operating netback ⁽¹⁾	54.54	61.44	63.63	62.89	64.42

⁽¹⁾ A non-IFRS measure. See "Non-IFRS Measures" section of this MD&A.

Our operating netback was \$54.54 per barrel in the second quarter, an 11% or \$6.90 per barrel decrease from the first quarter of 2013. In the second quarter:

- Our sales price was \$95.50 per barrel, a decrease of \$9.91 per barrel, consistent with the decrease in the benchmark Vasconia Blend.
- Transportation costs were consistent with the first quarter. In the first quarter of 2013, transportation costs increased due to the restructuring of OCENSA, where we now pay a profit-based pipeline tariff effective February 1, 2013. For barrels transported on the OCENSA pipeline, the current pipeline tariff is approximately \$3.70 per barrel higher than the tariffs paid prior to February 1, 2013. Petrominerales will receive a corresponding dividend from the pipeline for the Company's share of the pipeline's income. For accounting purposes, Petrominerales will recognize this income on the day the dividends are declared. Transportation costs in the fourth quarter of 2012 were unusually low by approximately \$1.50 per barrel due to pipeline tariff credits received from OCENSA.
- Royalties remained consistent at 15% of realized oil price. Starting in the third quarter of 2012, our royalty rate as a percentage of realized oil price increased due to the start of high-price participation payments on our Yatay field as cumulative production exceeded 5 million barrels.
- Production costs decreased 7% or \$1.42 per barrel in the second quarter due to lower fixed costs as we reduced equipment rentals and lowered water handling costs by shutting-in certain high water-cut wells. The reduced costs were partially offset by increased workovers (\$0.56 per barrel).

FINANCIAL REVIEW

(Comparisons are the second quarter of 2013 compared to the second quarter of 2012 unless otherwise noted)

Produced Oil Segment

Three Months Ended	\$ millions		\$ per barrel	
	Three months ended June 30,		Three months ended June 30,	
	2013	2012	2013	2012
Sales volumes of produced oil (bopd)			20,770	32,138
Oil sales	180.5	289.8	95.50	99.09
Transportation costs	14.9	21.7	7.89	7.42
Realized oil sales	165.6	268.1	87.61	91.67
Royalties	24.1	31.1	12.75	10.63
Royalties as a % of realized oil price	15%	12%	15%	11%
Production expenses	38.4	48.6	20.32	16.62
Operating netback of produced oil ⁽¹⁾	103.1	188.4	54.54	64.42

(1) A non-IFRS measure. See "Non-IFRS Measures" section of this MD&A.

Cash flow generated from our operating netback was \$103.1 million, a decrease of 45% or \$85.3 million compared to the second quarter of 2012 as a result of lower sales prices, lower oil sales volumes and higher production expenses offset by lower transportation costs and royalties. In the second quarter:

- Oil sales decreased 38% or \$109.3 million due to 35% lower sales volumes of produced oil and 5% lower benchmark oil prices. Oil production decreased due to natural declines being larger than production additions in 2012. The Brent oil benchmark price decreased 5%, resulting in a corresponding 4% or \$3.59 per barrel decrease in our sales price to \$95.50.
- Transportation costs decreased 31% or \$6.8 million mainly due to lower production volumes. Transportation costs per barrel increased 6% or \$0.47 per barrel due to the restructuring of OCENSA in February 2013, whereby we now pay a higher profit-based pipeline tariff.
- Royalties decreased 23% or \$7.0 million due to lower oil revenue offset by a higher royalty rate. Royalties as a percentage of realized oil price increased from 12 to 15 percent mainly due production from our Yatay oil field, our largest producing field, has been subject to high-price participation payments since July 2012.
- Production expenses decreased 21% or \$10.2 million. On a per barrel basis production expenses increased 22% or \$3.70. Per barrel production expenses are higher primarily due to an increase in workovers and an increase in the water cut of total fluid produced in 2013 compared to 2012. This means our fixed operating costs are being spread over lower oil production, resulting in higher per barrel costs.

Six Months Ended	\$ millions		\$ per barrel	
	Six months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Sales volumes of produced oil (bopd)			21,446	32,475
Oil sales	390.4	622.8	100.58	105.37
Transportation costs	30.1	42.1	7.76	7.12
Realized oil sales	360.3	580.7	92.82	98.25
Royalties	53.2	66.1	13.71	11.18
Royalties as a % of realized oil price	15%	11%	15%	11%
Production expenses	81.7	88.1	21.05	14.91
Operating netback of produced oil ⁽¹⁾	225.4	426.5	58.06	72.16

(1) A non-IFRS measure. See "Non-IFRS Measures" section of this MD&A.

Cash flow generated from our operating netback was \$225.4 million, a decrease of 47% or \$201.1 million compared to the same period in 2012 as a result of lower oil sales and higher production expenses offset by lower transportation costs and royalties. For the six months ended:

- Oil sales decreased 37% or \$232.4 million due to 34% lower sales volumes of produced oil and 5% lower benchmark oil prices. Oil production decreased due to natural declines being larger than production additions in 2012. The Brent oil benchmark price decreased 5%, resulting in a corresponding 5% or \$4.79 per barrel decrease in our sales price to \$100.58.
- Royalties decreased 20% or \$12.9 million due to lower oil revenue offset by a higher royalty rate. Royalties as a percentage of realized oil price increased from 11 to 15 percent mainly due production from our Yatay oil field, our largest producing field, has been subject to high-price participation payments since July 2012.
- Transportation costs decreased 29% or \$12.0 million mainly due to lower volumes of oil produced and transported. Transportation costs per barrel increased 9% or \$0.64 per barrel due to the restructuring of OCENSA in February 2013, whereby we now pay a profit-based pipeline tariff.
- Production expenses decreased 7% or \$6.4 million while on a per barrel basis increased 41% or \$6.14. Production expenses are higher primarily due to an increase in workovers and an increase in the water cut of total fluid produced in 2013 compared to 2012. This means our fixed operating costs are being spread over lower oil production, resulting in higher per barrel costs.

Oil Marketing Segment

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Oil sales	85.9	-	130.1	-
Other revenue from storage assets	3.0	-	3.0	-
Risk management gain	1.6	-	1.9	-
Transportation costs	(7.8)	-	(10.6)	-
Cost of purchased oil	(71.5)	-	(109.6)	-
Net marketing income	11.1	-	14.7	-

The Company purchases oil to utilize its available pipeline capacity and maximize the value of its pipeline assets.

Depletion and Depreciation (“D&D”) Expenses

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
D&D expense	73.6	99.9	156.6	185.8
Exploration costs	11.5	-	13.1	-
D&D and exploration costs	85.1	99.9	169.7	185.8
D&D expense \$ per bbl	38.94	34.16	40.34	31.44

Depletion and depreciation expense was lower in 2013 as higher depletion rates per barrel were offset by lower production. The depletion rate per barrel increased 14% or \$4.78 in the quarter and 28% or \$8.90 year-to-date due to higher finding and development costs related to proved plus probable reserve additions. Exploration costs relate to land relinquishments.

General and Administrative Expenses

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
General and administrative expenses	11.5	8.8	22.9	16.6
\$ per bbl	6.08	3.01	5.90	2.81

General and administrative costs (“G&A”) are 31% or \$2.7 million higher in the quarter and 38% or \$6.3 million year-to-date primarily due to higher personnel costs as a result of severance payments and lower capitalized G&A associated with reduced capital spending. On a per barrel basis, G&A increased mainly due to lower sales volumes.

Share-Based Compensation Expenses

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Share settled share-based compensation	1.9	3.8	4.0	8.3
Cash settled share-based compensation	(0.6)	(0.1)	(0.6)	(0.3)
Dividends on vested incentive shares, DCSs and cash settled incentive shares	0.1	0.2	0.1	0.1
Share-Based Compensation Expenses	1.4	3.9	3.5	8.1

Share-based compensation expense is predominately a non-cash expense that is based on the fair value of stock options, incentive shares and deferred common shares granted. The expense in the quarter decreased 64% or \$2.5 million and year-to-date decreased by 57%, or \$4.6 million primarily due to increased forfeitures whereby previously expensed share-based compensation is reversed for unvested units. In addition, the fair value per share-based grant has been decreasing in 2012 and 2013 due to the Company’s lower share price.

Convertible Debentures Expense

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Interest expense	4.4	3.6	8.9	7.2
Accretion	7.0	4.2	13.6	8.6
Accretion on repurchase and settlement	0.9	44.8	0.9	44.8
Gain on repurchase and settlement	(0.3)	(13.8)	(0.3)	(13.8)
Gain on derivative financial liability	(1.3)	(58.5)	(23.3)	(58.8)
Total convertible debenture expenses	10.7	(19.7)	(0.2)	(12.0)
Consisting of:				
Cash costs	4.6	3.6	9.0	7.2
Non-cash costs (income)	6.1	(23.3)	(9.2)	(19.2)

The 2013 cash convertible debenture expenses are higher due to the 2017 convertible debt issued in June 2012. The outstanding debentures at the end of the second quarter of 2013 were \$543.9 million compared to \$671.1 million at the end of the second quarter of 2012.

The non-cash costs relate primarily to accretion, gains and losses on debenture repurchases, and changes in the derivative financial liability. The gains and losses on the derivative financial liability are caused by the change in the fair value of the conversion features embedded in the convertible debentures at each balance sheet date. The Company records gains when its publicly quoted share price decreases in the accounting period. The Company's June 30, 2013 share price was Cdn.\$6.00, lower than the December 31, 2012 price of Cdn.\$8.60.

On July 5, 2013, the Company obtained approval from the 2016 bondholders to modify the debenture agreement to extend the term of the put option to the earlier of (1) February 25, 2014 and (2) ten days after closing the sale of the OCENSA shares in exchange for a one-time payment of 4.75% of the debentures outstanding (\$6.5 million).

Other Interest Expense and Accretion

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Bank debt interest	0.8	-	1.2	-
Standby and other bank charges	1.2	3.3	2.4	5.1
Accretion on Colombian equity tax	0.4	0.5	0.7	1.0
Accretion on decommissioning liability	0.1	0.2	0.3	0.4
Amortization of deferred financing costs	0.4	0.4	0.6	1.0
Amortization of transportation rights	1.1	-	1.1	-
Interest income	0.3	(1.5)	(0.9)	(3.0)
Interest expense and accretion	4.3	2.9	5.4	4.5
Consisting of:				
Cash interest costs	2.3	1.8	2.7	2.1
Non-cash interest and accretion costs	2.0	1.1	2.7	2.4

Other interest expense and accretion is higher in 2013 mainly due to interest costs on our reserve-based credit facility as the facility was undrawn in 2012.

Other Finance Income (Expenses)

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Foreign exchange gain (loss)	1.1	(0.9)	1.9	(14.7)
Foreign currency risk management contracts	(2.5)	-	(2.5)	-
Total other finance income (expense)	(1.4)	(0.9)	(0.6)	(14.7)

Movements in the Colombian peso exchange rate impact the Company's Colombian peso denominated payables as approximately 65 percent of the Company's expenditures are incurred in Colombian pesos. The U.S. dollar appreciated nine percent relative to the Colombian peso since December 2012 resulting in a \$1.9 million foreign exchange gain. In the second quarter of 2013, the U.S. dollar appreciated five percent relative to the Colombian peso resulting in a \$1.1 million gain. During the quarter the Company entered into two foreign currency derivative contracts. As at June 30, 2013, the Company recorded a \$2.5 million unrealized loss on these contracts. Subsequent to the quarter, with the movement in exchange rates this loss has been reversed.

Income Tax Expense

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Current income tax (recovery)	3.3	(1.4)	6.0	15.0
Deferred income tax (recovery)	(6.7)	27.3	0.4	47.4
Income taxes (recovery)	(3.4)	25.9	6.4	62.4
Effective tax rate ⁽¹⁾	-	40%	42%	34%

⁽¹⁾ Calculated using adjusted income before taxes and derivative/debenture losses (gains)

The majority of the Company's pre-tax income is subject to the Colombian statutory income tax rate of 34 percent. Tax expense decreased in the quarter primarily due to lower taxable income and recognition of deferred tax asset related to assets in our marketing segment. The Company's year-to-date effective tax rate was 41 percent, higher than the Colombian statutory rate mainly due to the impact of foreign exchange fluctuations on Colombian peso denominated tax pools translated to U.S. dollars for IFRS purposes.

Adjusted Net Income

Management considers the change in fair value of the derivative liability, accelerated accretion and the gain on debenture settlement to be capital transactions; as such, management considers adjusted net income a key performance measure of the Company (See “Non-IFRS Measures” section within this MD&A).

Adjusted net income decreased to \$2.3 million in the second quarter and \$8.8 million year-to-date primarily due to lower sales volumes, benchmark oil prices and higher production expenses, partially offset by lower transportation costs and taxes, as reconciled in the following table.

	Three months ended June 30,		Six months ended June 30,	
		Per share, Basic (\$)		Per share, Basic (\$)
Adjusted net income ⁽¹⁾ , 2012	38.3	0.39	118.6	1.20
Increase (decrease) due to:				
Produced oil sales volume effect on revenue	(102.5)	(1.21)	(213.8)	(2.53)
Produced oil sales prices	(6.8)	(0.08)	(18.6)	(0.22)
Royalties	7.0	0.08	12.9	0.15
Production expenses	10.2	0.12	6.4	0.08
Transportation of produced oil	6.8	0.08	12.0	0.14
Produced oil operating netback decrease	(85.3)	(1.01)	(201.1)	(2.38)
Oil marketing netback	11.1	0.13	14.7	0.17
General and administrative expenses	(2.7)	(0.03)	(6.3)	(0.07)
Depletion, depreciation and exploration	14.8	0.17	16.1	0.19
Convertible debentures interest and accretion Expense	(3.6)	(0.04)	(6.7)	(0.08)
Other ⁽²⁾	0.4	0.01	17.5	0.21
Income taxes	29.3	0.35	56.0	0.66
Change in basic shares outstanding ⁽³⁾		0.06		0.20
Adjusted net income⁽¹⁾, 2013	2.3	0.03	8.8	0.10

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

(2) Other includes other interest and accretion, share-based compensation expenses, acquisition expenses and foreign exchange (gains)/losses.

(3) The Company repurchased 16.0 million shares (16 percent) of its shares in June 2012. As a result, the weighted average shares outstanding during 2013 was lower than 2012.

Funds Flow from Operations

Funds flow from operations decreased in the second quarter and year-to-date primarily due to lower sales volumes, as reconciled in the following table.

	Three months ended June 30,		Six months ended June 30,	
				Per share, Basic (\$)
Funds flow from operations ⁽¹⁾ , 2012 period	173.7	1.78	373.5	3.79
Increase (decrease) due to:				
Produced oil sales volume effect on revenue	(102.5)	(1.21)	(213.8)	(2.53)
Produced oil sales prices	(6.8)	(0.08)	(18.6)	(0.22)
Royalties	7.0	0.08	12.9	0.15
Production expenses	10.2	0.12	6.4	0.08
Transportation of produced oil	6.8	0.08	12.0	0.14
Produced oil operating netback decrease	(85.3)	(1.01)	(201.1)	(2.38)
Oil marketing netback	11.1	0.13	14.7	0.17
General and administrative expenses	(2.7)	(0.03)	(6.3)	(0.07)
Cash based interest expenses	(0.3)	-	(0.3)	-
Other ⁽²⁾	(4.9)	(0.06)	(0.3)	-
Current taxes	(4.7)	(0.06)	9.0	0.11
Change in basic shares outstanding ⁽³⁾		0.28		0.62
Funds flow from operations ⁽¹⁾, 2013 period	86.9	1.03	189.2	2.24

(1) Non-IFRS measure. See "Non-IFRS Measures" section within this MD&A.

(2) Other includes other finance income (expenses), acquisition expense, Colombia equity taxes paid settlement of decommission liabilities and convertible debenture issuance costs.

(3) The Company repurchased 16.0 million shares (16 percent) of its shares in June 2012. As a result, the weighted average shares outstanding during 2013 was lower than 2012.

Funds flow per share has been calculated using the dilutive effects of in-the-money stock options, incentive shares, DCS's and convertible debentures as noted below:

	Three months ended June 30, 2013			Three months ended June 30, 2012		
	Weighted Funds Flow and Adjustments	Avg. # Shares and Adjustments	\$ Per Share	Weighted Funds Flow and Adjustments	Avg. # Shares and Adjustments	\$ Per Share
Basic	86.9	84,669,191	1.03	173.7	97,789,432	1.78
Effect of stock options, incentive shares and DCS's	-	648,020	(0.01)	-	1,439,133	(0.03)
Effect of convertible debentures	-	-	-	-	-	-
Diluted	86.9	85,317,211	1.02	173.7	99,228,565	1.75

	Six months ended June 30, 2013			Three months ended June 30, 2012		
	Weighted Funds Flow and Adjustments	Avg. # Shares and Adjustments	\$ Per Share	Weighted Funds Flow and Adjustments	Avg. # Shares and Adjustments	\$ Per Share
Basic	189.2	84,589,341	2.24	373.5	98,639,996	3.79
Effect of stock options, incentive shares and DCS's	-	753,285	(0.02)	-	1,743,266	(0.07)
Effect of convertible debentures	-	-	-	-	-	-
Diluted	189.2	85,342,626	2.22	373.5	100,383,262	3.72

Capital Expenditures

Three months ended June 30,	Deep Llanos	Central Llanos	Heavy Oil	Orito	Neiva	Peru	Foothills	Brazil	Total
Civil	1.9	3.3	1.2	1.2	-	0.3	-	-	7.9
Drilling & completions	16.1	16.3	3.1	16.0	-	(1.3)	1.3	-	51.5
Facilities & infrastructure	2.1	1.5	1.1	1.1	0.3	4.0	-	-	10.1
Seismic	0.1	2.2	0.4	0.1	-	1.5	11.4	-	15.7
HSEC and other	0.4	0.5	0.6	0.4	-	2.0	0.3	1.0	5.2
Net oil sales ⁽²⁾	-	-	(1.4)	-	-	-	-	-	(1.4)
Inventory and other									(0.4)
2013 Total ⁽¹⁾	20.6	23.8	5.0	18.8	0.3	6.5	13.0	1.0	88.6
2012 Total	56.5	18.1	22.6	5.6	-	32.4	15.4	-	150.6

(1) The second quarter 2013 capital expenditures were recorded as \$28.4 million (2012 - \$32.3 million) of PP&E additions and \$60.2 million (2012 - \$118.3 million) as E&E additions in the statement of cash flows.

Six months ended June 30,	Deep Llanos	Central Llanos	Heavy Oil	Orito	Neiva	Peru	Foothills	Brazil	Total
Civil	7.1	7.4	3.2	2.3	-	0.9	0.1	-	21.0
Drilling & completions	36.3	28.9	12.9	27.6	-	(0.9)	-	-	104.8
Facilities & infrastructure	2.7	3.5	1.1	1.2	0.4	5.8	-	-	14.7
Seismic	0.1	2.3	1.7	0.1	-	2.3	16.9	-	23.4
HSEC and other	0.8	0.8	0.9	0.7	-	2.9	0.4	1.6	8.1
Net oil sales ⁽²⁾			(2.7)						(2.7)
Inventory and other									1.1
2013 Total ⁽²⁾	47.0	42.9	17.1	31.9	0.4	11.0	17.4	1.6	170.4
2012 Total	139.6	58.7	43.3	15.4	2.8	58.5	50.7	-	369.0

(2) For the first six months of 2013 capital expenditures were recorded as \$57.4 million (2012 - \$108.2 million) of PP&E additions and \$113.0 million (2012 - \$260.8 million) as E&E additions in the statement of cash flows.

Capital expenditures were \$170.4 million for the first six months of 2013, 54% or \$198.6 million lower than the first six months of 2012 primarily due to lower drilling activity. Capital expenditures consisted of:

- \$47.0 million in the Deep Llanos for drilling and completion costs for four oil wells (Amarillo-1, Taya-1, Taya-2 and Guatiquia NE) and civil costs for access road upgrades to improve oil transportation efficiency.
- \$42.9 million in the Central Llanos primarily for drilling and completions costs for six oil wells (Curito-1, Mantis-3,4,5,6 and Zaino-1), one injector well and civil costs for well pads and access roads.
- \$17.1 million on our heavy oil acreage primarily for testing and workover costs for the Tatama-1 horizontal well, one stratigraphic well (ES-45) and one exploration well (Chiguiro Este-2). Seismic costs relate to completing the acquisition of 80 kilometres of 2D seismic on our Rio Ariari Block. During the first six month of 2013 we produced our Tatama horizontal well over a 90 testing period and recognized \$2.7 million of net revenue from the sale of this production as a reduction of capital expenditures.
- \$31.9 million on our Putumayo assets related to drilling costs for Orito development wells (Orito-196, 197, Norte, 148, 151).
- \$11.0 million in Peru related to permitting activity and maintenance of the Nueva Italia and Sheshea bases. Peru costs in 2012 were higher since we were drilling the La Colpa-1 exploration well.
- \$17.4 million on our Foothills acreage related to the partial acquisition of 282 square kilometres of 3D seismic on Block 25. Foothills costs in 2012 were higher since we were drilling the Bromelia exploration well.

LIQUIDITY AND CAPITAL RESOURCES

Management expects the Company to be able to fund its capital program and meet its financial obligations based on the following sources of liquidity and capital:

- projected future funds flow from operations;
- available credit capacity;
- proceeds from pipeline asset sales;
- access to capital markets; and
- an extensive undeveloped land base with a broad inventory of exploration prospects.

The Company has a history of generating positive funds flow from operations, including \$189.2 million during the first six months of 2013, and our existing asset portfolio has the opportunity for new reserves, production and the potential to increase funds flow from operations. The Company's earnings and funds flow from operations are sensitive to changes in the price of crude oil and level of crude oil production. The following factors demonstrate the expected impact on annualized before tax funds flow from operations:

Change of:		(\$ millions)
Brent	\$1.00/bbl Brent reference price (assuming 22,000 bopd)	6.8
Crude oil	1,000 bopd of production @ \$100/bbl Brent	20.3

Sources and Uses of Cash

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Net Cash From (Used In)				
Operating activities	115.9	204.7	180.9	356.7
Financing activities	9.7	(29.9)	40.7	(40.5)
Investing activities	(125.9)	(189.8)	(243.5)	(451.0)
Decrease in cash and cash equivalents	(0.3)	(15.0)	(21.9)	(134.8)
Cash and cash equivalents, end of period	18.6	160.6	18.6	160.6

Operating activities generated \$180.9 million of cash for the first six months of 2013 consisting of:

- Funds flow from operations of \$189.2 million, as fully discussed in this MD&A in "Funds Flow from Operations" section; and
- A use of cash from operating working capital of \$8.3 million primarily due to the Company's increased accounts receivable balance since the fourth quarter of 2012 primarily due to the difference in the collection date of oil sales resulting from lifting date changes.

Investing activities used \$243.5 million of cash during the first six months of 2013 consisting of:

- PP&E and E&E expenditures of \$170.4 million, as fully described in this MD&A in "Capital Expenditures" section;
- The acquisition of the Canaguaro Block of \$15.4 million; and
- A use of cash from investing working capital of \$57.7 million primarily due to the Company reducing accounts payable balances due mainly to lower capital expenditures.

Financing activities generated \$40.7 million of cash during the first six months of 2013 consisting of:

- A draw of \$119.0 million on our secured credit facility to fund working capital and the repurchase of convertible debentures;
- The repurchase of \$54.8 million of our convertible debentures;
- Quarterly dividends of \$21.0 million; and
- A net use of \$3.8 million in cash for financing fees related to closing our amended credit facility less proceeds from stock options exercises.

In addition to cash balances, Petrominerales has \$131 million of available room on its reserve-based credit facility. This facility was renewed on February 8, 2013 with an expanded \$250 million borrowing base. Petrominerales also maintains local operating lines in Colombia that are primarily used to issue letters of credit to support exploration commitments. At June 30, letters of credit issued against the Colombian operating lines totaled \$39.2 million.

The credit facility contains a quarterly financial covenant to maintain a ratio of indebtedness to trailing 12 month earnings before interest, tax, depletion, depreciation and amortization (“EBITDA”) under 3.0 times (this ratio was 1.49 at June 30, 2013). The convertible debentures have financial covenants to maintain a ratio of book value of equity to total assets of at least 30 percent (this ratio was 46 percent at June 30, 2013) and to limit the amount of security and encumbrances the Company has on the book value of its total assets to 35 percent (this ratio was five percent at June 30, 2013).

Dividends

The Company has a quarterly dividend program of Cdn.\$0.125 per share, and as a result declared a \$10.4 million dividend in the first quarter and \$10.1 million in the second quarter. The Company has implemented a Share Dividend Program (“SDP”) for the second quarter of 2013. The adoption of a SDP allows shareholders to receive their quarterly dividends in new common shares of the Company instead of cash issued at a 5% discount to the average price of Petrominerales' shares on the Toronto Stock Exchange for the five trading days prior the dividend payment date.

Outstanding Shares and Dilutives

The aggregate number of Petrominerales common shares, stock options, deferred common shares and incentive shares outstanding at July 31, 2013 was 91,020,925 (common shares – 84,978,187, stock options – 4,571,978, deferred common shares – 250,039, incentive shares – 1,220,721).

COMMITMENTS AND CONTINGENCIES

Commitments

The following is a summary of contractual commitments as at June 30, 2013:

Commitments	< 1 Year	1-3 Years	Thereafter	Total
Transportation contracts ⁽¹⁾	72.2	144.5	625.4	842.1
Exploration contracts ⁽²⁾	50.8	45.0	-	95.8
Leases and other contracts ⁽³⁾	12.7	4.8	4.3	21.8
Total	135.7	194.3	629.7	959.7

(1) Petrominerales entered into various ship-or-pay transportation and offloading agreements in the Llanos Basin. The Company believes it can meet the transportation commitments with its production and/or purchased oil.

(2) Pursuant to exploration contracts, the Company has work commitments totaling \$95.8 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 \$39.2 million to guarantee the obligations under these exploration contracts.

(3) Included in leases and other contracts is office leases and normal course operational contract requirements.

Contingencies

High-Price Participation Dispute

Petrominerales has a dispute with the Agencia Nacional de Hidrocarburos (National Hydrocarbons Agency) (“ANH”) related to the interpretation of the Corcel Exploration and Production 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. 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. As a result, the ANH has claimed additional amounts owing of \$167 million for high price participation payments and related interest costs of US\$70 million covering the period up to December 31, 2012. The ANH has applied the highest legally authorized delinquent interest rate on Colombian Peso liabilities to their claim, resulting in an interest rate estimated over 20%.

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. As a result, Petrominerales initiated arbitration proceedings as provided for in the Corcel Contract. In addition, Petrominerales disagrees with the interest rate used by the ANH for their interest claim. Our interpretation of the Corcel Contract is that the high price participation payment is a U.S. Dollar denominated payment, and consequently, the Corcel Contract states that the interest rate on late payments should be three month LIBOR plus 4%.

The arbitration is in progress and we expect to have a final ruling in the first half of 2014. The Company believes that resolution of this dispute will be in favor of Petrominerales, and accordingly, no additional royalty or interest provision has been made in these financial statements. Had the Company applied the ANH’s interpretation of the high-price royalty application our 2013 royalty rate would have been 18 percent compared to the recorded rate of 15 percent.

RISK MANAGEMENT

The Company has exposure to the following risks from its use of financial instruments: credit risk, liquidity risk and market risk. The following information is 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

Credit risk is the risk that the Company will not be able to collect amounts owed as they are due. The Company has credit risk on cash and cash equivalents and trade and other receivables.

Crude oil production is sold, as determined by market based prices adjusted for quality differentials, to three main counterparties. Receivables from crude oil customers are normally collected approximately 15 days after lifting, as a result the Company’s maximum credit exposure to customers is up to two months’ sales revenue. The Company does not anticipate non-performance by any of the counterparties. 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. 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.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become 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. In addition to cash balances at June 30th, Petrominerales has \$131 million of available room on its reserve-based credit facility and expects proceeds from the sale of pipeline assets in the next 12 months.

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.

Market Risk

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

The Company uses derivative instruments to manage market risk. The Board of Directors of Petrominerales has approved a hedging policy and periodically reviews the results of all risk management activities and outstanding positions.

Foreign Currency Risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in foreign currency exchange rates. The Company is exposed to foreign currency fluctuations as certain expenditures are denominated in Colombian pesos. As at June 30, 2013, if the U.S. dollar had appreciated five percent against the Colombian peso with all other variables held constant, net income for the quarter would have been \$3.9 million higher, due primarily to peso denominated accounts payable.

To manage our foreign currency risk, the Company has entered into the following forward exchange rate contracts:

Term	USD (per month)	Average Price (COP)	Benchmark
June 2013 – May 2014	\$5.0 million	1,900 floor / 1,950 ceiling	Colombian Peso
January 2014 – December 2014	\$5.0 million	1,925 floor / 2,085 ceiling	Colombian Peso

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. To manage our commodity price risk, the Company has entered into the following crude oil derivative contracts:

Term	Volume (bopd)	Average Price (\$/bbl)	Benchmark
January 2013 – December 2013	750	\$100.00 floor / \$120.00 ceiling	US\$ Brent
January 2013 – December 2013 ⁽¹⁾	500	\$100.00 floor / \$119.00 ceiling	US\$ Brent
February 2013 – December 2013	1,250	\$100.00 floor / \$120.00 ceiling	US\$ Brent
March 2013 – December 2013	500	\$100.00 floor / \$120.50 ceiling	US\$ Brent
May 2013 – March 2014	500	\$95.00 floor / \$104.00 ceiling	US\$ Brent
June 2013 – December 2013	500	\$100.00 floor / \$120.00 ceiling	US\$ Brent

⁽¹⁾ On December 31, 2013, the bank has a one-time right to extend the collar for 12 months in 2014.

RISK FACTORS

There have been no significant changes during the three and six months ended June 30, 2013 to the risks and uncertainties identified in the Company's Annual Information Form dated March 28, 2013.

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 consolidated financial statements for the year ended December 31, 2012.

CERTIFICATION OF DISCLOSURES IN INTERIM FILINGS

In accordance with Multilateral Instrument 52-109 of the Canadian Securities Administrators, the Company issues a quarterly "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, 2013, 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 FOR THE REMAINDER OF 2013

For the remainder of 2013, we plan to drill up to 20 oil wells, consisting of:

- Development drilling at our Orito and Neiva blocks, drilling up to three more wells at Orito and up to six wells at Neiva;
- Drilling up to six wells on our Central Llanos acreage with an appraisal of our Curito discovery and testing the northern extension of the Mantis oil field with the Mantis-7 well;
- Drilling two more exploration wells in Llanos Basin of Colombia, Canaguay-2 and Ceibo-1;
- Drilling and production testing Mochelo Sur, our next heavy oil horizontal well, to verify the commercial potential of our Mochelo discovery area positioning ourselves to quickly develop a commercial production platform;
- Drilling our first two wells in Brazil targeting a large, tight oil resource on our newly acquired lands;
- Exposure to the first of two high-impact exploration prospects to be drilled by our joint venture partner in Perú; and
- Securing additional capital from our pipeline assets through a monetization process.

We look forward to updating our shareholders on our progress throughout the remainder of 2013.

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

The following table reconciles funds flow from operations to cash flow from operations:

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Cash flow from operating activities: IFRS	115.9	204.7	180.9	356.7
Changes in non-cash working capital including interest and taxes payable	(29.0)	(31.0)	8.3	16.8
Funds flow from operations: Non-IFRS	86.9	173.7	189.2	373.5

Adjusted net income is determined by adding back any losses or deducting any gains on the derivative liabilities, the gains on settlement the convertible debentures and accelerated accretion. Adjusted net income per share is calculated as adjusted net income divided by the weighted average number of shares outstanding for the period.

The following table reconciles net income to adjusted net income:

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Net income	3.0	65.8	31.5	146.4
Non-cash gain on derivative financial liability	(1.3)	(58.5)	(23.3)	(58.8)
Non-cash accelerated accretion	0.9	44.8	0.9	44.8
Non-cash gain on debenture settlement	(0.3)	(13.8)	(0.3)	(13.8)
Adjusted net income	2.3	38.3	8.8	118.6

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.

Operating netback is determined by dividing oil revenue less royalties, transportation and production 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, adjusted net income per share, working capital 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.

PETROMINERALES LTD.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)

(Millions of United States dollars)

As at,	Note	June 30, 2013	December 31, 2012
ASSETS			
Current assets			
Cash and cash equivalents		\$ 18.6	\$ 40.5
Trade and other receivables		108.2	56.4
Crude oil inventory		9.9	6.4
Income taxes receivable		21.0	26.4
Prepaid expenditures		17.7	12.3
Assets available for sale	7	225.0	-
Total current assets		400.4	142.0
Other assets	4	72.5	17.0
Deferred tax assets		7.1	-
Exploration and evaluation assets	5	667.8	646.9
Property, plant and equipment	6	977.0	982.4
Pipeline investments	7	47.3	328.3
Goodwill		8.3	8.3
Non-current assets		1,780.0	1,982.9
Total assets		\$ 2,180.4	\$ 2,124.9
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Trade payables and other liabilities		\$ 258.1	\$ 271.9
2016 convertible debentures	9	142.6	190.6
Total current liabilities		400.7	462.5
Long-term debt	8	119.0	-
Long-term portion of equity tax		3.2	7.3
2017 convertible debentures	9	327.6	320.1
Derivative financial liabilities related to convertible debentures	9	23.9	47.2
Other provisions	11	77.2	82.4
Deferred tax liabilities		225.4	217.8
Total liabilities		1,177.0	1,137.3
Shareholders' equity			
Common shares	12	262.1	257.0
Share-based payment reserve		48.6	49.1
Retained earnings		682.2	671.2
Total Petrominerales shareholders' equity		992.9	977.3
Non-controlling interest ("NCI")	14	10.5	10.3
Total liabilities and shareholders' equity		\$ 2,180.4	\$ 2,124.9

Commitments and contingencies (Note 17), Subsequent event (Note 9)

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

PETROMINERALES LTD.

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,	
		2013	2012	2013	2012
Oil sales		\$ 269.4	\$ 289.8	\$ 523.5	\$ 622.8
Royalties		(24.1)	(31.1)	(53.2)	(66.1)
Oil revenues		245.3	258.7	470.3	556.7
Commodity risk management contracts	15	1.6	-	1.9	-
Revenues		246.9	258.7	472.2	556.7
Operating expenses					
Production		38.4	48.6	81.7	88.1
Transportation		22.8	21.7	40.8	42.1
Purchased oil		71.5	-	109.6	-
Depletion and depreciation	6	85.1	99.9	169.7	185.8
General and administrative		11.5	8.8	22.9	16.6
Acquisition costs		-	-	0.1	-
Share-based compensation	12	1.4	3.9	3.5	8.1
Total operating expenses		230.7	182.9	428.3	340.7
Finance income (expense)					
Convertible debenture income (expense)	9	(10.7)	19.7	0.2	12.0
Other interest expense and accretion	10	(4.3)	(2.9)	(5.4)	(4.5)
Foreign exchange gain (loss)		1.1	(0.9)	1.9	(14.7)
Foreign currency risk management contracts	15	(2.5)	-	(2.5)	-
Net finance income (expense)		(16.4)	15.9	(5.8)	(7.2)
Income (loss) before taxes and NCI		(0.2)	91.7	38.1	208.8
Income tax expense (recovery)					
Current		3.3	(1.4)	6.0	15.0
Deferred		(6.7)	27.3	0.4	47.4
Income tax expense (recovery)		(3.4)	25.9	6.4	62.4
Income before NCI		3.2	65.8	31.7	146.4
Net loss from NCI	14	(0.2)	-	(0.2)	-
Net income and comprehensive income attributable to Petrominerales' shareholders		\$ 3.0	\$ 65.8	\$ 31.5	\$ 146.4
Net income per share					
Basic	13	0.04	0.67	0.37	1.48
Diluted	13	0.04	0.39	0.17	1.14

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

PETROMINERALES LTD.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)

(Millions of United States dollars)

		Three months ended June 30,		Six months ended June 30,	
	Note	2013	2012	2013	2012
Common shares					
Balance beginning of period		\$ 259.2	\$ 297.9	\$ 257.0	\$ 294.4
Shares repurchased and cancelled		-	(30.1)	-	(30.1)
Exercise of stock options	12	2.9	1.1	5.1	4.6
Balance end of period		\$ 262.1	\$ 268.9	\$ 262.1	\$ 268.9
Share-based payment reserve					
Balance beginning of period		\$ 49.2	\$ 40.3	\$ 49.1	\$ 38.3
Exercise of stock options	12	(1.8)	(0.5)	(3.8)	(2.4)
Transfer to liabilities	12	(0.8)	-	(0.8)	-
Share-based compensation related to options	12	2.0	3.7	4.1	7.6
Balance end of period		\$ 48.6	\$ 43.5	\$ 48.6	\$ 43.5
Retained earnings					
Balance beginning of period		\$ 689.3	\$ 780.3	\$ 671.2	\$ 712.2
Total comprehensive income (loss) attributable to Petrominerales' shareholders		3.0	65.8	31.5	146.4
Dividends	12	(10.1)	(11.0)	(20.5)	(23.5)
Shares repurchased and cancelled		-	(104.0)	-	(104.0)
Balance end of period		\$ 682.2	\$ 731.1	\$ 682.2	\$ 731.1
Total equity					
Balance beginning of period		\$ 997.7	\$ 1,118.5	\$ 977.3	\$ 1,044.9
Total comprehensive income (loss) attributable to Petrominerales' shareholders		3.0	65.8	31.5	146.4
Dividends		(10.1)	(11.0)	(20.5)	(23.5)
Shares repurchased and cancelled		-	(134.1)	-	(134.1)
Exercise of stock options	12	1.1	0.6	1.3	2.2
Transfer to liabilities	12	(0.8)	-	(0.8)	-
Share-based compensation related to options	12	2.0	3.7	4.1	7.6
Balance end of period		\$ 992.9	\$ 1,043.5	\$ 992.9	\$ 1,043.5

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,	
		2013	2012	2013	2012
Operating Activities					
Net income attributable to Petrominerales					
Shareholders		\$ 3.0	\$ 65.8	\$ 31.5	\$ 146.4
Net income attributable to NCI		0.2	-	0.2	-
Adjustments for non-cash items:					
Depletion and depreciation	6	85.1	99.9	169.7	185.8
Deferred income taxes		(6.7)	27.3	0.4	47.4
Debenture accretion and settlement gain	9	7.6	35.2	14.2	39.6
Unrealized gain on derivative embedded in convertible debenture	9	(1.3)	(58.5)	(23.3)	(58.8)
Other assets amortization and other accretion	4,10	3.3	2.9	5.3	5.9
Colombian equity tax-foreign currency change		(0.7)	0.2	(1.2)	2.1
Colombian equity tax paid		(4.3)	(4.5)	(4.3)	(4.5)
Share-based compensation	12	1.3	3.7	3.4	7.9
Settlement of decommissioning liabilities	11	(0.6)	-	(6.7)	-
Convertible debenture issuance costs		-	1.7	-	1.7
		86.9	173.7	189.2	373.5
Changes in non-cash working capital	16	27.9	85.4	(12.4)	37.5
Current income tax expense (recovery)		3.3	(1.4)	6.0	15.0
Current income taxes paid (received)		1.2	(54.4)	(0.5)	(67.1)
Interest expense	9,10	5.3	3.6	10.1	7.2
Interest paid		(8.7)	(2.2)	(11.5)	(9.4)
Cash flow provided by operating activities		115.9	204.7	180.9	356.7
Financing Activities					
Dividends paid	12	(10.4)	(12.5)	(21.0)	(24.7)
Issuance of common shares – net of costs	12	1.1	0.6	1.3	2.2
Issuance of convertible debentures – net of costs		-	391.7	-	391.7
Issuance of long-term debt	8	74.0	-	119.0	-
Financing costs	8,10	(0.2)	-	(3.8)	-
Repurchase of shares		-	(134.1)	-	(134.1)
Repurchase of convertible debentures		(54.8)	(275.6)	(54.8)	(275.6)
Cash flow provided by (used in) financing activities		9.7	(29.9)	40.7	(40.5)
Investing Activities					
Expenditures on property, plant and equipment	6	(28.4)	(32.3)	(57.4)	(108.2)
Expenditures on exploration and evaluation assets	5	(60.2)	(118.3)	(113.0)	(260.8)
Acquisition of Canaguaro Block	6	(15.4)	-	(15.4)	-
Expenditures on other assets and pipelines		-	(3.7)	-	(13.1)
Changes in non-cash working capital	16	(21.9)	(35.5)	(57.7)	(68.9)
Cash flow used in investing activities		(125.9)	(189.8)	(243.5)	(451.0)
Decrease in cash and cash equivalents		(0.3)	(15.0)	(21.9)	(134.8)
Cash and cash equivalents, beginning of period		18.9	175.6	40.5	295.4
Cash and cash equivalents, end of period		\$ 18.6	\$ 160.6	\$ 18.6	\$ 160.6
Cash and cash equivalents consist of:					
Cash		\$ 14.5	\$ 41.8	\$ 14.5	\$ 41.8
Cash equivalents		\$ 4.1	\$ 118.8	\$ 4.1	\$ 118.8

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

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

As at June 30, 2013 and December 31, 2012, and for the three and six months ended June 30, 2013 and 2012 (All tabular amounts are expressed in millions of United States dollars, except per share amounts or as otherwise noted)

NOTE 1 – BASIS OF PRESENTATION

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, Peru and Brazil. Petrominerales is incorporated in Alberta, Canada and is a public company listed on the Toronto Stock Exchange and on the Colombian Stock Exchange. The Company’s head office is located at 1000, 333 – 7th Avenue S.W., Calgary, Alberta, Canada, T2P 2Z1.

These condensed interim consolidated financial statements for the three and six months ended June 30, 2013 have been prepared in accordance with IAS 34 ‘Interim Financial Reporting’ (“IAS 34”), using accounting policies that are consistent with International Financial Reporting Standards (“IFRS”) and the audited consolidated financial statements as at and for the year ended December 31, 2012 except as noted in Note 2. These statements do not contain all the disclosures required for full annual financial statements and should be read in conjunction with the audited consolidated financial statements as at and for the year ended December 31, 2012.

These consolidated financial statements were authorized for issue by the Company’s Board of Directors on July 31, 2013.

NOTE 2 – ADOPTION OF AND CHANGES IN ACCOUNTING POLICIES

The Company has reviewed new and revised accounting pronouncements that have been issued and determined the following impacts on the Company:

Standard and Description	Date of Adoption	Impact
IFRS 10: “Consolidated Financial Statements” - The standard provides a single model to be applied in control analysis for all investees including special purpose entities.	January 1, 2013	No material impact.
IFRS 11: “Joint Arrangements” - 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.	January 1, 2013	No material impact.
IFRS 12: “Disclosure of Interests in Other Entities” - requires a company to provide disclosures about subsidiaries, joint arrangements, associates and unconsolidated structured entities. Additional disclosures are included in notes 7 and 14.	January 1, 2013	No material impact.
IFRS 13: “Fair Value Measurement” - provides comprehensive guidance for instances where IFRS requires fair value to be used and on determining fair value and required measurement disclosures. Additional disclosures included in note 15.	January 1, 2013	No material impact.
IAS 27: “Separate Financial Statements” - establishes 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”.	January 1, 2013	No material impact.
IAS 28, “Investments in Associates and Joint Ventures” - establishes the accounting for investments in associates and defines how the equity method is applied when accounting for associates and joint ventures.	January 1, 2013	No material impact.
IFRS 7, “Financial Instruments: Disclosures” - relates to the requirements of the offsetting of a financial asset and financial liability when offsetting is permitted under IFRS.	January 1, 2013	No material impact.

NOTE 3 – SEGMENTED INFORMATION

The Company's reportable segments are organized by activity type and geographical area. Activity type consists of produced oil, marketing and other, while geographical area consists of Colombia, Peru, Brazil and Other. Other includes corporate and all of the remaining activities outside of Colombia, Peru and Brazil. The activity type disclosure is new since, starting January 2013, the Company has created a marketing segment that began generating revenues. The Brazil geographic area is new in 2013 since the Company acquired AlvoPetro in December 2012. The accounting policies used for the reportable segments are the same as the Company's consolidated 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 segments.

Activity Type

	Three months ended June 30, 2013				Three months ended June 30, 2012			
	Produced	Marketing	Corporate	Total	Produced	Marketing	Corporate	Total
Revenues	156.4	90.5	-	246.9	254.4	-	4.3	258.7
Depletion and depreciation	84.9	-	0.2	85.1	99.9	-	-	99.9
Income (loss) before finance expense	8.0	11.1	(2.9)	16.2	74.4	-	1.4	75.8
Net finance income (expense)	(2.2)	-	(14.2)	(16.4)	(4.5)	-	20.4	15.9
Income (loss) before taxes	5.8	11.1	(17.1)	(0.2)	70.2	-	21.8	91.7

Activity Type

	Six months ended June 30, 2013				Six months ended June 30, 2012			
	Produced	Marketing	Corporate	Total	Produced	Marketing	Corporate	Total
Revenues	337.2	135.0	-	472.2	540.9	-	15.8	556.7
Depletion and depreciation	169.3	-	0.4	169.7	185.8	-	-	185.8
Income (loss) before finance expense	34.1	14.7	(4.9)	43.9	207.2	-	8.8	216.0
Net finance income (expense)	(1.8)	-	(4.0)	(5.8)	(23.2)	-	16.0	(7.2)
Income (loss) before taxes	32.3	14.7	(8.9)	38.1	184.0	-	24.8	208.8

Geographical Area

	Three months ended June 30, 2013					Three months ended June 30, 2012			
	Colombia	Peru	Brazil	Other	Total	Colombia	Peru	Other	Total
Revenues	234.1	-	0.3	12.5	246.9	254.4	-	4.3	258.7
Depletion and depreciation	84.9	-	-	0.2	85.1	99.9	-	-	99.9
Income (loss) before finance expense	7.3	-	(0.7)	9.6	16.2	74.4	-	1.4	75.8
Net finance income (expense)	(2.1)	(0.2)	(0.1)	(14.0)	16.4	(4.2)	(0.3)	20.4	15.9
Income (loss) before taxes	5.2	(0.2)	(0.8)	(4.4)	(0.2)	70.2	(0.3)	21.8	91.7
Income tax recovery (expense)	3.1	0.1	(1.1)	1.3	3.4	(26.2)	0.9	(0.6)	(25.9)
Net income (loss) before NCI	8.3	(0.1)	(1.9)	(3.1)	3.2	44.0	0.6	21.2	65.8
E&E and PP&E expenditures	79.7	7.0	1.1	0.8	88.6	118.3	32.3	-	150.6

Geographical Area

	Six months ended June, 2013					Six months ended June, 2012			
	Colombia	Peru	Brazil	Other	Total	Colombia	Peru	Other	Total
Revenues	453.8	-	0.8	17.6	472.2	540.9	-	15.8	556.7
Depletion and depreciation	169.3	-	-	0.4	169.7	185.8	-	-	185.8
Income (loss) before finance expense	32.2	-	(1.1)	12.8	43.9	207.2	-	8.8	216.0
Net finance income (expense)	(1.7)	(0.3)	(0.1)	(3.7)	(5.8)	(22.8)	(0.4)	16.0	(7.2)
Income (loss) before taxes	30.5	(0.3)	(1.2)	9.1	38.1	184.4	(0.4)	24.8	208.8
Income tax recovery (expense)	(9.2)	0.1	(0.6)	3.3	(6.4)	(62.3)	0.7	(0.8)	(62.4)
Net income (loss) before NCI	21.3	(0.2)	(1.8)	12.4	31.7	122.1	0.3	24.0	146.4
E&E and PP&E expenditures	155.9	11.5	1.7	1.3	170.4	310.5	58.5	-	369.0

	As at June 30, 2013					As at December 31, 2012				
	Colombia	Peru	Brazil	Other	Total	Colombia	Peru	Brazil	Other	Total
Total assets ⁽¹⁾	1,806.2	239.5	43.4	91.3	2,180.4	1,739.6	240.0	42.3	103.0	2,124.9
Total liabilities	804.7	212.4	34.9	125.0	1,177.0	799.3	212.6	32.0	93.4	1,137.3

(1) Peru and Brazil include \$5.0 million and \$3.3 million of goodwill, respectively (2012 - \$5.0 million and \$3.3 million).

For the three month and six month periods ended June 30, 2013, the Company had two significant customers comprising 65 and 10 percent of the Company's total revenue. No other single customer represents greater than 10 percent of the Company's total revenue for the period.

NOTE 4 – OTHER ASSETS

	Deferred Acquisition Costs	Pipeline Tariffs	Deferred Charges	Transportation Rights (Note 7)	Total Other Assets
Balance at December 31, 2012	6.0	11.0	-	-	17.0
Additions	-	-	3.8	56.0	59.8
Amortization	-	(2.6)	(0.6)	(1.1)	(4.3)
Balance at June 30, 2013	6.0	8.4	3.2	54.9	72.5

Other assets consists of:

- Deferred acquisition costs related to the Company's Brazil transaction;
- Prepaid pipeline and oil offloading tariffs;
- Deferred charges consist of costs related to the Company's \$250 million secured credit facility that are being amortized using the straight-line method over the term of the credit facility agreement; and
- Transportation rights relate to the OCENSA transportation rights described in Note 7.

NOTE 5 – EXPLORATION AND EVALUATION ASSETS

	Amount
Balance at December 31, 2012	646.9
Additions	113.0
Decommissioning liability revisions	(3.1)
Exploration cost expensed	(13.1)
Transfer to property, plant and equipment	(75.9)
Balance at June 30, 2013	667.8

Exploration and evaluation (“E&E”) assets are exploration and evaluation projects currently in progress where technical feasibility and/or commercial viability has yet to be determined. For the six months ended June 30, 2013, \$75.9 million was transferred to property, plant and equipment (see Note 6). The Company does not hold any tangible exploration assets.

NOTE 6 – PROPERTY, PLANT AND EQUIPMENT

	Inventory	Crude oil assets	Corporate and other	Total
Cost at December 31, 2012	51.7	2,132.3	23.5	2,207.5
Additions (transfers)	(0.2)	56.3	1.3	57.4
Acquisition ⁽¹⁾	-	15.4	-	15.4
Decommissioning liability additions	-	4.4	-	4.4
Transfers from E&E	-	75.9	-	75.9
Cost at June 30, 2013	51.5	2,284.3	24.8	2,360.6
Accumulated depreciation and depletion	(5.5)	(1,204.9)	(14.7)	(1,225.1)
Depreciation and depletion for the year ⁽²⁾	-	(158.1)	(0.4)	(158.5)
Balance at June 30, 2013	46.0	921.3	9.7	977.0

⁽¹⁾ In June 2013, the Company acquired, subject to ANH approval, the Canaguaro Block for \$15.4 million cash. The Canaguaro Block is adjacent to the Corcel Block. This will allow for the accelerated development of the Canaguaro Block. The acquisition was accounted for as business combinations under IFRS 3. The fair value of the net assets acquired was \$15.4 million, allocated as \$15.9 million to PP&E and \$0.5 million to decommissioning liabilities. No working capital was acquired. If Petrominerales had acquired the Canaguaro Block on January 1, 2013, the pro-forma results of the oil sales and net income for the period would have not been significantly different.

⁽²⁾ Depreciation and depletion expense recognized in property, plant and equipment for the three and six months ended June 30, 2013 was \$75.0 million and \$158.5 million, respectively, of which \$1.4 million and \$1.9 million, respectively was recognized in inventory. Additionally, \$11.5 million and \$13.1 million of E&E assets were expensed in the three and six months ended June 30, 2013 respectively, resulting in a total depletion and depreciation expense of \$85.1 million and \$169.7 million in the condensed interim consolidated statement of operations for the three and six months ended June 30, 2013 (three and six months ended June 30, 2012 was \$99.9 and \$185.8 respectively).

NOTE 7 – PIPELINE INVESTMENTS

	OCENSA	OBC	Total
Balance at December 31, 2012	281.0	47.3	328.3
Transfer of Transportation Rights	(56.0)	-	(56.0)
Reclassification as assets available for sale	(225.0)	-	(225.0)
Balance at June 30, 2013	-	47.3	47.3

The Company has a 5% interest in OCENSA. On January 17, 2013, OCENSA’s shareholders approved a resolution to change the nature of OCENSA’s business from a cost recovery operating model to a profit oriented operating model. Among these changes, the shareholders of OCENSA were allocated the rights "to sell on a temporary or permanent basis, all or a part of their entitlement to shipping capacity on the OCENSA pipeline" (the “Transportation Rights”). Petrominerales has attributed \$56 million to the Transportation Rights given its ability to earn a profit by selling excess transportation capacity. The Transportation Rights are recorded in other assets, and will be depreciated using

the straight-line method at an annual rate of 8%. The allocation to the Transportation Rights was based on relative fair value.

On May 9, 2013 the Company announced its intention to sell its \$225 million equity interest in the OCENSA pipeline. At June 30, 2013 the OCENSA equity interest has been presented as assets available for sale and carried at fair value. The Company expects to sell the equity interest in the pipeline for cash within one year.

NOTE 8 – BANK DEBT

On February 8, 2013, the borrowing base of the bank debt facility was increased to \$250 million. The facility is secured against all assets of the Company, except pipeline assets, is reviewed semi-annually with the lender and expires on February 8, 2016. The interest rate on the facility depends on financial ratios and ranges from LIBOR plus 2.75 percent to 3.25 percent. At June 30, 2013, the Company had drawn \$119 million.

NOTE 9 – CONVERTIBLE DEBENTURES

The following table summarizes the liability and derivative liability components of the convertible debentures:

	Principal Amount	Financial Position Components			Statement of Operations	
		Liability	Derivative Liability	Carrying Value	Three Months	Six Months
Balance at December 31, 2012	598.9	510.7	47.2	557.9	-	-
Cash interest expense	-	-	-	-	4.4	8.9
Accelerated accretion on repurchase	-	0.9	-	0.9	0.9	0.9
Repurchase of convertible debentures ⁽¹⁾	(55.0)	(55.0)	-	(55.0)	(0.3)	(0.3)
Accretion	-	13.6	-	13.6	7.0	13.6
Change in fair value of the derivative	-	-	(23.3)	(23.3)	(1.3)	(23.3)
Balance at June 30, 2013	543.9	470.2	23.9	494.1	10.7	(0.2)
Current - 2016 convertible debenture	143.9	142.6	-	142.6		
Long-term - 2017 convertible debenture	400.0	327.6	23.9	351.5		

⁽¹⁾ In the second quarter of 2013 the Company repurchased \$55.0 million of the 2016 debenture at 0.995 of par value, or cash of \$54.7 million. A gain of \$0.3 million was recognized on the repurchase of debentures (\$55.0 million carrying value less the repurchase price of \$54.7 million)

The liability portions of the convertible debentures (\$470.2 million) are measured at amortized cost and are being accreted up to the principal balance (\$543.9 million) at maturity using an effective interest rate. For the 2016 debenture, the effective interest rate used was 9.0 percent and for the 2017 debenture, the effective interest rate was 8.7 percent. The accretion and the interest paid are expensed in the condensed interim statement of operations as a finance expense. The derivative financial liability is measured at fair value through profit or loss, with changes to the fair value being recorded as finance expense.

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

Debenture	June 30, 2013		December 31, 2012	
	2016	2017	2016	2017
Market price of common shares	Cdn\$6.00	Cdn\$6.00	Cdn\$8.60	Cdn\$8.60
Conversion price	\$30.81	\$13.24	\$32.12	\$13.80
Expected volatility	44.0%	44.0%	41.0%	41.0%
Risk free interest rate	1.41%	1.41%	0.72%	0.72%
Expected life (years)	0.2	4.0	0.8	4.4
Fair value (US\$/share issuable)	-	0.79	-	1.63
Shares issuable (# millions)	-	30.2	6.2	29.0

On July 5, 2013, the Company obtained approval from the 2016 bondholders to modify the debenture agreement to extend the term of the put option to the earlier of (1) February 25, 2014 and (2) ten days after closing the sale of the OCENSA shares in exchange for a one-time payment of 4.75% of the debentures outstanding (\$6.5 million).

NOTE 10 – OTHER INTEREST EXPENSE AND ACCRETION

	Note	Three months ended June 30,		Six months ended June 30,	
		2013	2012	2013	2012
Bank debt interest		0.8	-	1.2	-
Interest income		0.3	(1.5)	(0.9)	(3.0)
Standby and other bank charges		1.2	3.3	2.4	5.1
Accretion on Colombian equity tax		0.4	0.5	0.7	1.0
Accretion on decommissioning liability	11	0.1	0.2	0.3	0.4
Amortization of deferred financing costs		0.4	0.4	0.6	1.0
Amortization of transportation rights		1.1	-	1.1	-
Interest expense and accretion		4.3	2.9	5.4	4.5
Consisting of:					
Cash interest costs		2.3	1.8	2.7	2.1
Non-cash interest and accretion costs		2.0	1.1	2.7	2.4

NOTE 11 – OTHER PROVISIONS

	Decommissioning	Environmental	Cash Settled Incentive Shares	Total
December 31, 2012	69.5	11.6	1.3	82.4
Obligations incurred	5.7	1.9	-	7.6
Obligations settled	(6.3)	(0.4)	(0.1)	(6.8)
Accretion expense	0.3	-	-	0.3
Change in discount and inflation rates	(6.3)	-	-	(6.3)
June 30, 2013	62.9	13.1	1.2	77.2

The total environmental, decommissioning and restoration obligations were determined by management based on the estimated costs to settle environmental obligations incurred and to reclaim and abandon the wells, well sites, and certain facilities based on contractual requirements. The obligations are expected to be funded from the Company's internal resources available at the time of settlement.

The decommissioning obligations have been calculated using an inflation rates ranging from 2 to 2.8 percent depending on the Country and a risk-free discount rate of 1.41 percent, per annum. The weighted average expected payment date of these obligations is five years in the future. The total undiscounted amount of estimated decommissioning cash flows, after considering the effects of inflation, required to settle the decommissioning obligations at June 30, 2013 is \$67.5 million.

NOTE 12 – SHARE CAPITAL

Common Shares

Issued, outstanding and fully paid	Number of Common Shares	Transfer from Share-Based		Common Shares
		Cash	Payment Reserve	
Balance at December 31, 2012	84,464,223			\$ 257.0
Exercise of stock options	280,337	\$ 1.3	\$ 0.3	1.6
Exercise of incentive shares	109,557	-	2.8	2.8
Exercise of deferred common shares	44,103	-	0.7	0.7
Balance at June 30, 2013	84,898,220	\$ 1.3	\$ 3.8	\$ 262.1

Share-Based Compensation Plans

The Company has established plans for stock options, incentive shares, deferred common shares (“DCS”) and cash settled incentive shares for directors, officers, employees and consultants. The number of common shares available for issuance under the stock option plan is 7.5 percent of the outstanding shares of the Company.

	Stock Options		Plans with an Exercise Price of Cdn\$0.05		
	#	Weighted Average Exercise Price (Cdn\$)	Share Settled		Cash Settled
			Incentive Share (#)	DCS (#)	Incentive Share (#)
Balance at December 31, 2012	5,988,023	17.48	1,009,200	199,487	621,037
Granted	2,109,177	6.01	446,412	45,529	508,223
Exercised	(280,337)	4.61	(109,557)	(44,103)	(15,770)
Forfeited ⁽¹⁾	(3,431,343)	21.87	(146,828)	-	(121,043)
Balance at June 30, 2013	4,385,520	9.34	1,199,227	200,913	992,447
Weighted average remaining contractual life (years)	1.7		3.13	6.1	3.7
Balance exercisable at June 30, 2013	1,698,103	10.18	309,169	75,536	93,539

(1) In February 2013, the Company issued 161,408 incentive shares and 22,953 cash settled incentive shares in exchange for the forfeiture and cancellation of 2,794,120 stock options. The replacement shares vest evenly over three-years from grant date.

The following summarizes information about stock options outstanding as at June 30, 2013:

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.\$)
3.75 – 6.00	1,892,239	4.09	5.65	221,062	4.17
6.01 – 8.63	1,090,409	2.19	7.17	703,569	7.46
8.64 – 13.64	808,487	2.90	11.85	526,682	11.59
13.65 – 20.48	268,685	2.90	16.88	145,259	16.66
20.49 – 30.74	311,310	2.35	25.16	99,181	25.29
30.75 – 36.39	14,390	2.75	35.12	2,350	35.62
	4,385,520	3.19	9.34	1,698,103	10.18

Share-based compensation expense for the three and six months ended June 30, 2013:

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Share settled share-based compensation	1.9	3.8	4.0	8.3
Cash settled share-based compensation	(0.6)	(0.1)	(0.6)	(0.3)
Dividends on vested incentive shares, DCSs and cash settled incentive shares	0.1	0.2	0.1	0.1
	1.4	3.9	3.5	8.1

The fair values of stock options, deferred common shares, incentive shares and cash settled incentive shares granted have been estimated using the Black-Scholes option-pricing model based on the following inputs:

	Weighted-Average Based on Grant Date			As at June 30, 2013
	Options	Incentive Shares	DCS	Cash Settled Incentive Shares
Three months ended June 30, 2013				
Granted	2,109,177	446,412	-	508,223
Market price (Cdn\$ per share)	5.99	5.88	-	6.00
Expected volatility	47.3%	-	-	-
Risk free interest rate	1.1%	1.0%	-	1.3%
Dividend rate	8.7%	8.7%	-	8.3%
Expected life (years)	2.54	2.0	-	2.6
Forfeiture rate	5%	5%	-	5%
Fair value (US\$ per unit)	1.03	4.93	-	4.81

Expected volatility was determined based on options market transactions for the period within the expected life of the share-based instrument. The fair value is adjusted for the expected rates of early forfeitures.

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 attributable to Petrominerales' shareholders is used to determine earnings per share. The average market price of the Company's shares used in the calculation for the three and six months ended June 30, 2013 was Cdn.\$6.90 (2012 – Cdn.\$14.14) and Cdn.\$5.76 (2012 – Cdn.\$16.65), respectively.

	Net Income and Adjustments	Weighted Avg. Shares and Adjustments	Per Share
Three months ended June 30, 2013			
Basic	3.0	84,669,191	0.04
Effect of 2,307,079 in-the-money stock options (2,078,441 anti-dilutive)	-	92,771	-
Effect of incentive shares and DCS's	-	555,249	-
Convertible debentures			
Interest, accretion and gain on settlement	-	-	-
Gain on derivative liability	-	-	-
Diluted	3.0	85,317,211	0.04

	Net Income and Adjustments	Weighted Avg. Shares and Adjustments	Per Share
Six months ended June 30, 2013			
Basic	31.5	84,589,341	0.37
Effect of 2,307,079 in-the-money stock options (2,078,441 anti-dilutive)	-	161,963	-
Effect of incentive shares and DCS's	-	591,322	-
Convertible debentures ⁽¹⁾			
Interest, accretion and gain on settlement	11.7	30,217,141	(0.20)
Gain on derivative liability	(23.3)	-	-
Diluted	19.9	115,559,767	0.17

⁽¹⁾ Includes only the 2017 convertible debenture effect since the 2016 convertible debentures were anti-dilutive.

NOTE 14 – NON-CONTROLLING INTEREST

Petrominerales holds a 75 percent interest in Alvopetro Oil and Gas Investments Inc. ("Alvopetro"), whose principal place of operations is Brazil. For the period ended June 30, 2013, Alvopetro generated \$0.8 million of revenue and no income. There were no dividends paid by Alvopetro in the period. The following summarizes the 25 percent non-controlling interest in Alvopetro:

	June 30, 2013	December 31, 2012
Current assets	0.1	0.3
Property, plant and equipment	2.0	1.9
Exploration and evaluation assets	8.0	7.6
Goodwill and other assets	0.9	0.8
Current liabilities	(0.1)	-
Non-current liabilities	(0.4)	(0.3)
Non-controlling interest	10.5	10.3

NOTE 15 – FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Company's financial instruments consist of cash and cash equivalents, trade and other receivables, assets available for sale, trade and other payables, derivative liabilities, risk management contracts, liability for cash settled incentive shares, bank debt and convertible debentures on the consolidated statement of financial position.

Risks Associated with Financial Assets and Liabilities

The Company is exposed to a number of risks associated with its financial assets and liabilities. These risks include commodity price risk, credit risk, liquidity risk, foreign exchange risk and interest rate risk. The Company has several practices and policies in place to help mitigate these risks. A description of the nature and extent of risks arising from the Company's financial assets and liabilities can be found in the notes to the annual Consolidated Financial Statements as at December 31, 2012. The Company's exposure to these risks has not changed significantly since December 31, 2012.

Fair Value of Financial Instruments

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.

- The fair values of cash and cash equivalents, accounts receivable and accounts payable approximate their carrying values due to the short-term nature of maturity of those instruments.
- Bank debt bears interest at a floating rate and accordingly the fair value approximates the carrying value excluding deferred financing costs.
- The risk management contracts and cash settled incentive shares are classified as Level 2, and are recorded at fair value based on the valuation determined using inputs from quoted market prices and broker quotes on the statement of financial position date.
- The liability portion of the convertible debentures are classified as Level 3 but are not recorded at fair value; the fair value disclosed below is based on a Level 1 valuation for the combined liability and derivative liability of the convertible debenture less the Level 3 valuation of the derivative liability of the convertible debenture.
- The derivative liabilities of the convertible debentures are classified as level 3, and are recorded at fair value based on an options pricing model. The range of Petrominerales' share price volatility, which is the significant unobservable input, is 41 to 50 percent. A five percent increase in the volatility rate would result in a \$6.5 million increase the fair value of the liability at June 30, 2013.
- The assets available for sale are classified as Level 3 and are based on a discounted cash flow model. Quantitative information on the significant unobservable inputs, which are obtained from third parties whenever possible and reviewed by the Company for reasonableness, include:
 - The annual dividend from our pipeline assets - ranges from \$20 to \$35 million per year.
 - The discount rate – ranges from 10 to 13 percent.

The effect of using these alternative assumptions on the fair value of pipeline assets as at June 30, 2013 is -\$80 million / + \$150 million.

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. There were no changes in the placement within the fair value hierarchy from December 31, 2012. The carrying value and fair value of these financial instruments at June 30, 2013 is disclosed below by financial instrument category, as well as any related gain and interest expense for six month period ended June 30, 2013:

Financial Instrument	Carrying Value	Fair Value	Finance (Income) Expense
<i>Fair Value through profit or loss</i>			
Cash and cash equivalents ⁽¹⁾	18.6	18.6	-
Assets available for sale	225.0	225.0	-
Derivative liability of convertible debenture ⁽³⁾	23.9	23.9	(23.3) ⁽⁴⁾
Liability of cash settled incentive shares	1.3	1.3	-
Risk management asset	2.0	2.0	(1.9)
Risk management liability	(2.4)	(2.4)	2.4
<i>Loans and Receivables</i>			
Trade and other receivables	108.2	108.2	-
<i>Other Liabilities</i>			
Trade and other payables	258.1	258.1	-
Long-term portion of equity tax	3.2	3.2	0.7
Bank debt	119.0	119.0	1.8 ⁽²⁾
Convertible debentures (liability component) ⁽³⁾	470.2	454.6	23.1 ⁽⁴⁾

⁽¹⁾ The effective yield on cash equivalents at June 30, 2013 was 0.12 percent.

⁽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 \$3.4 million in relation to the Company's bank debt.

⁽³⁾ The principal amount of the convertible debentures at June 30, 2013 was \$543.9 million. The fair value of the combined liability portion of the convertible debentures and the derivative liability component was \$527.3 million, based on recent market transactions. The fair value of the derivative liability is difficult to measure reliably due to lack of active trading information.

⁽⁴⁾ Included in finance expense on the 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 9.0 and 8.7 percent for the 2016 and 2017 debentures, respectively.

Risk Management Contracts

The following is a summary of commodity risk management contracts in place at June 30, 2013:

Term	Volume (bopd)	Average Price (\$/bbl)	Benchmark
January 2013 – December 2013	750	\$100.00 floor / \$120.00 ceiling	US\$ Brent
January 2013 – December 2013 ⁽¹⁾	500	\$100.00 floor / \$119.00 ceiling	US\$ Brent
February 2013 – December 2013	1,250	\$100.00 floor / \$120.00 ceiling	US\$ Brent
March 2013 – December 2013	500	\$100.00 floor / \$120.50 ceiling	US\$ Brent
May 2013 – March 2014	500	\$95.00 floor / \$104.00 ceiling	US\$ Brent
June 2013 – December 2013	500	\$100.00 floor / \$120.00 ceiling	US\$ Brent

⁽¹⁾ On December 31, 2013, the bank has a one-time right to extend the collar for 12 months in 2014.

The fair value of the commodity risk management contracts as at June 30, 2013 is a \$2.0 million asset that is recorded in trade and other receivables.

The following is a summary of the foreign currency risk management contracts in place at June 30, 2013:

Term	USD (per month)	Average Price (COP)	Benchmark
June 2013 – May 2014	\$5.0 million	1,900 floor / 1,950 ceiling	Colombian Peso
January 2014 – December 2014	\$5.0 million	1,925 floor / 2,085 ceiling	Colombian Peso

The fair value of the foreign exchange risk management contracts at June 30, 2013 is a \$2.5 million liability that is recorded in accounts payables and other liabilities.

NOTE 16 – NOTES TO THE STATEMENTS OF CASH FLOW

Effect on Cash Flow from changes in Non-Cash Working Capital

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Change in:				
Trade and other receivables	15.9	73.2	(51.8)	50.3
Trade and other payables	(8.0)	(26.9)	(13.8)	(82.4)
Prepaid expenditures	(4.0)	-	(5.4)	(2.4)
Crude oil inventory	(3.1)	5.8	(3.5)	0.8
Depletion related to crude oil inventory (note 6)	1.4	(2.2)	1.9	-
	2.2	49.9	(72.6)	(33.7)
Other	3.8	-	2.5	2.3
	6.0	49.9	(70.1)	(31.4)
Changes relating to:				
Attributable to operating activities	27.9	85.4	(12.4)	37.5
Attributable to investing activities	(21.9)	(35.5)	(57.7)	(68.9)

NOTE 17 – COMMITMENTS AND CONTINGENCIES

The following is a summary of contractual commitments as at June 30, 2013:

Commitments	< 1 Year	1-3 Years	Thereafter	Total
Transportation contracts ⁽¹⁾	72.2	144.5	625.4	842.1
Exploration contracts ⁽²⁾	50.8	45.0	-	95.8
Leases and other contracts	12.7	4.8	4.3	21.8
Total	135.7	194.3	629.7	959.7

(1) Petrominerales entered into various ship-or-pay transportation and offloading agreements in the Llanos Basin. The Company believes it can meet the transportation commitments with its production and/or purchased oil.

(2) Pursuant to exploration contracts, the Company has work commitments totaling \$95.8 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 \$39.2 million to guarantee the obligations under these exploration contracts.

Contingencies

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

High-Price Participation Dispute

Petrominerales has a dispute with the Agencia Nacional de Hidrocarburos (National Hydrocarbons Agency) (“ANH”) related to the interpretation of the Corcel Exploration and Production 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. 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. As a result, the ANH has claimed additional amounts owing of \$167 million for high price participation payments and related interest costs of US\$70 million covering the period up to December 31, 2012. The ANH has applied the highest legally authorized delinquent interest rate on Colombian Peso liabilities to their claim, resulting in an interest rate estimated over 20%.

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. As a result, Petrominerales initiated arbitration proceedings as provided for in the Corcel Contract. In addition, Petrominerales disagrees with the interest rate used by the ANH for their interest claim. Our interpretation of the Corcel Contract is that the high price participation payment is a U.S. Dollar denominated payment, and consequently, the Corcel Contract states that the interest rate on late payments should be three month LIBOR plus 4%.

The arbitration is in progress and we expect to have a final ruling in the first half of 2014. The Company believes that resolution of this dispute will be in favor of Petrominerales, and accordingly, no additional royalty or interest provision has been made in these financial statements. Had the Company applied the ANH’s interpretation of the high-price royalty application Petrominerales’ 2013 royalty rate would have been 18 percent compared to the recorded rate of 15 percent.

CORPORATE INFORMATION

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

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