We find

opportunity

answers

energy

PETROMINERALES

A PETROBANK COMPANY

2009 ANNUAL REPORT

vision and values

- We focus on innovatively creating long-term shareholder value.
- We recognize that our employees are people and we treat them, and their families, with respect, providing opportunities for professional and personal growth, and reward them consistent with their efforts and performance.
- We encourage everyone involved in the operations of the Company to act as shareholders, and always in the best interests of shareholders.
- We act with honesty and integrity, conducting ourselves in an ethically and morally correct fashion in all of our business dealings.
- We recognize that our industry has an impact on the environment and we improve on best practices and apply technology to minimize our environmental footprint within the realities of our operations.
- All our communication is conducted openly, honestly and with respect for individuals, communities and cultures.
- Safety is integral to everything we do.
- We encourage innovative thinking and treat mistakes as opportunities to learn and improve our future performance.

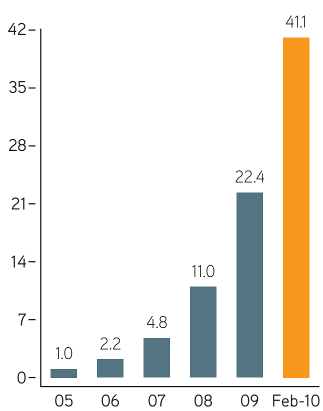
CONTENTS

Petrominerales has rapidly become one of the largest and most active independent oil companies in Colombia and Peru. We began accumulating exploration blocks in Colombia in the early 2000s, and we are now one of Colombia's largest land holders with 1.9 million exploration acres. In Peru, Petrominerales has more than 9.3 million exploration acres. In 2009, we were one of Colombia's most active exploration companies drilling a total of 45 wells in the country, and acquiring almost 600 square kilometres of 3D seismic in both Colombia and Peru. Petrominerales continues to be Colombia's fastest growing producer with average production reaching 24,555 bopd during the fourth quarter of 2009. Petrominerales is headquartered in Bogotá, Colombia and trades on the Toronto Stock Exchange under the symbol, PMG. We are a 66% owned subsidiary of Petrobank Energy and Resources Ltd. based in Calgary, Canada, which trades on the Toronto Stock Exchange under the symbol PBG.

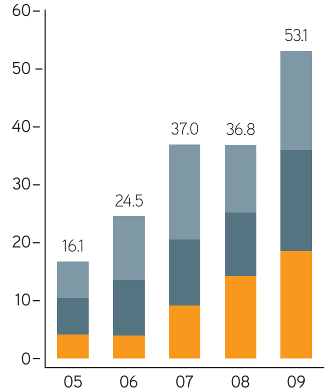
Petrominerales is one of the most active explorers in Colombia. Our exploration success has delivered production growth of more than twenty times over the last five years. We believe that we have just started to unlock the value in our assets. We have a huge land base, a multi-year exploration and development portfolio and a top quality, experienced team.

We find

PRODUCTION
bopd (thousands)

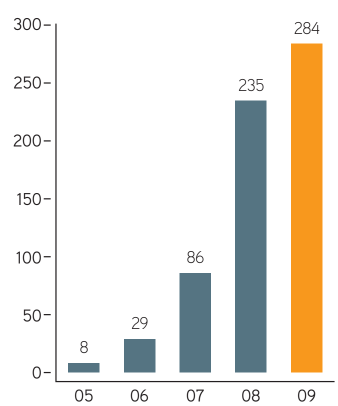


RESERVES
Gross Working Interest (mmbbl)



Probable
Proved undeveloped
Proved developed producing

FUNDS FLOW FROM OPERATIONS
(millions of $US)



We find

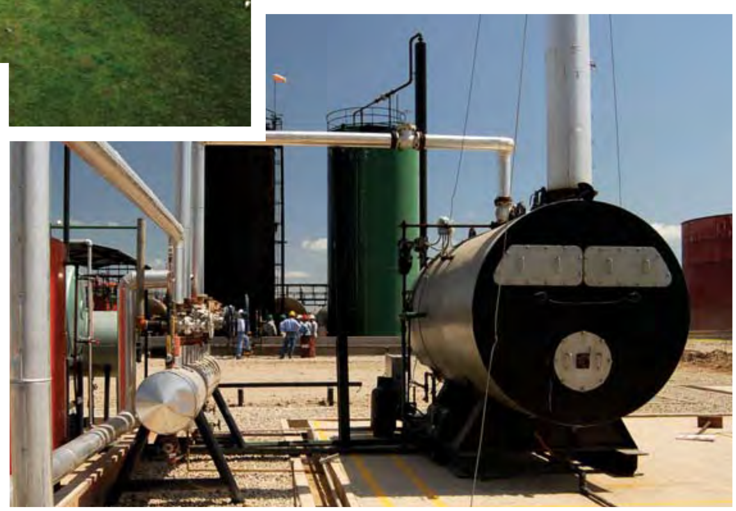
opportunity.

Focusing on the big picture, managing the details.

With a practical plan to succeed as Latin America's leader in exploration and production, we've solidified our position as a powerful player in the region with 1.9 million acres in Colombia's most prospective basins and 9.3 million acres in the relatively unexplored hydrocarbon basins of Peru.

Includes acreage from the acquisition of PanAndean Resources plc which is expected to close on April 13, 2010

We find

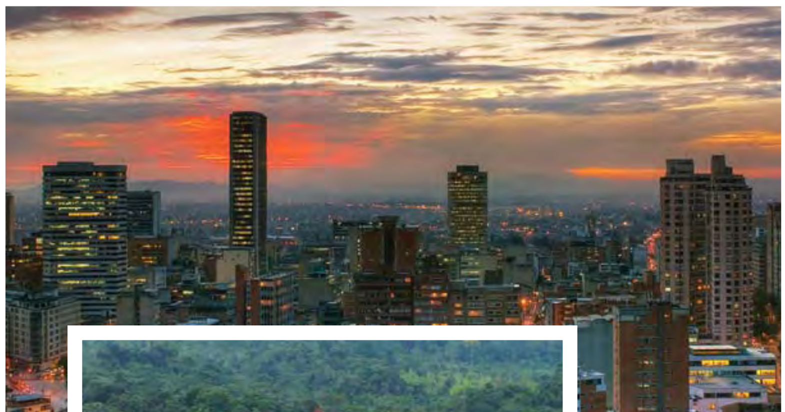


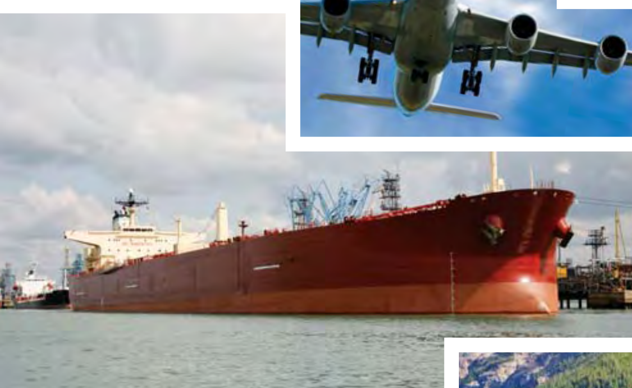
answers.

We challenge ourselves to surpass how things have been done before.

We have a unique approach to exploration and a philosophy of rapid commercialization of our exploration successes. Our results speak for themselves.

We find





energy.

Our end users tend to like our results.

We've delivered impressive exploration success and production growth. With reserves of more than 50 million barrels of oil, and a highly underexplored land base, the potential of Petrominerales remains largely untapped.

Four years of production growth in excess of

100%

each year

5 years of Petrominerales

(US$000s unless otherwise noted)	2009	2008	2007	2006	2005
Financial					
Crude oil revenue	**463,655**	343,182	124,761	43,676	16,671
Funds flow from operations [(1)]	**283,824**	234,534	85,883	28,789	8,020
Per share – basic ($)	**2.89**	2.34	0.89	0.33	0.10
– diluted ($)	**2.78**	2.25	0.88	0.33	0.10
Net income	**100,146**	131,144	47,551	14,798	2,253
Per share – basic ($)	**1.02**	1.31	0.49	0.17	0.03
– diluted ($)	**1.00**	1.28	0.49	0.17	0.03
Capital expenditures	**280,879**	268,153	143,022	73,365	32,206
Total assets	**720,116**	565,705	441,462	181,407	88,317
Common shares outstanding, end of year (000s)					
Basic	**98,611**	99,399	100,289	95,000	79,000
Diluted [(2)]	**104,789**	105,631	105,197	98,051	79,000
Operations ($/bbl unless otherwise noted)					
Operating netback [(1)(3)]					
WTI benchmark price	**61.80**	99.75	72.41	66.25	56.70
Crude oil revenue [(4)]	**50.43**	82.27	70.00	54.54	44.30
Royalties	**5.14**	8.02	6.55	4.38	3.54
Production expenses	**7.09**	8.46	7.16	6.87	7.84
Operating netback	**38.20**	65.79	56.29	43.29	32.92
Average daily crude oil production (bopd)[(5)]	**22,360**	10,967	4,767	2,194	1,031
Proved plus probable reserves (mbbls)[(6)]	**53,107**	36,849	36,977	24,531	16,085
Net present value 10% before tax ($ millions)	**2,082.2**	1,229.4	1,314.9	521.8	271.0

(1) Non-GAAP measure. See "Non-GAAP Measures" section within MD&A.
(2) Consists of common shares, stock options, deferred common shares and incentive shares outstanding as at the year-end date.
(3) Excludes gains and losses on risk management contracts.
(4) Net of transportation and other expenses.
(5) Represents crude oil sold during the year. Actual sales volumes for the year ended December 31, 2009 were 22,490 bopd, and were different than reported production due to crude oil in transit.
(6) Company working interest before deduction of royalties.

John Wright,
President, Chief Executive Officer and Director

Letter to Shareholders

Petrominerales delivered in 2009.

I am happy to report another year of excellent effort and results from our dedicated team of professionals. Petrominerales was fortunate to be the most active explorer in Colombia in 2009, and our recent series of successful discoveries, coupled with an unrivaled ability to execute on our drilling and completion programs, we were once again able to quickly convert our prospects to production and our ideas to cash flow for our shareholders. In 2009, implementing our most aggressive capital program to date, our average production base grew to exceed 20,000 bopd and, despite volatility in the international commodity and equity markets, we improved on an already strong balance sheet and delivered record cash flow and reserves growth.

FINDING OPPORTUNITIES AND ANSWERS

With a land base covering 1.9 million acres in Colombia, and 9.3 million acres in Peru, we've established a large inventory of prospective land for our exploration programs. Our extensive repertoire of exploration techniques, which our team has utilized extensively in more mature basins (particularly the western Canadian sedimentary basin or "WCSB") gives us the confidence to challenge ourselves to find those opportunities which offer the greatest potential to meaningfully impact Petrominerales' growth and shareholder value. Our experienced and talented geoscientists understand the art of exploration and are able to translate their global experience into answers in Colombia. The Petrominerales team has now delivered huge discoveries at Corcel, Mapache and most recently, at Candelilla on the Guatiquia block. Early results from the first Candelilla wells place them among the most productive ever drilled in Colombia. The Candelilla-1 well was drilled in late 2009 and placed on production at the end of December. To the end of February 2010, this well has been flowing 44° API light oil naturally at an average sustained rate of almost 12,600 bopd. Candelilla-2 was drilled soon after and began production in mid-February 2010 at rates in excess of 15,800 bopd; the third well into the structure is currently being completed.

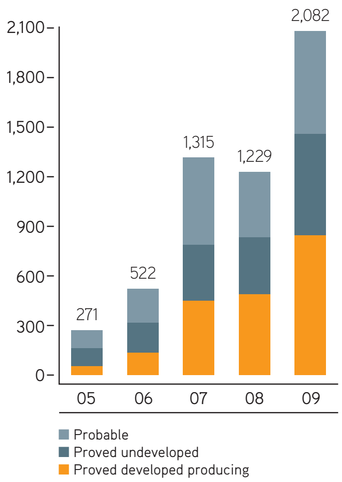
Overall, our exploration team has developed an opportunity-rich portfolio of more than 140 exploration prospects and more than 90 development locations. As we further delineate the potential of our acreage, we have been able to expand our universe of targets, while reducing our overall exploration risk profile and, as a result, our prospect portfolio is now diversified across 20 exploration blocks and multiple play types.

OPERATING SUCCESS UNDERPINS OUR GROWTH

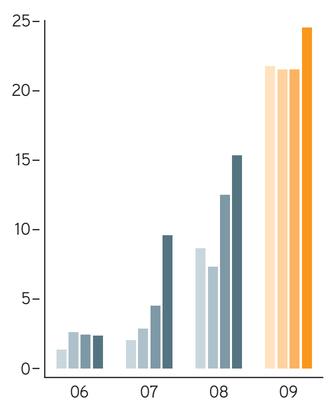
While exploration defines our potential, our operational methods also differentiate Petrominerales. We're always looking for ways to expand our ability to think strategically, move decisively, and efficiently turn exploration success into production. The size of our production base and our active operational program allow us to be a key player in the Colombian oil industry. Leveraging our knowledge of successful production techniques and new technologies being applied in the WCSB, including horizontal drilling and specialized completion methods, we're now applying western Canadian standards to our production teams in Colombia and Peru, and we constantly strive to be the best operator in Colombia.

Corporately, we endeavour to learn and improve with each new well and field operation. Our results in this regard are sometimes remarkable. The first Corcel well required 74 days to drill, from spud to rig release. Our most recent Candelilla well achieved the same milestone in 34 days, even though it was drilled to a deeper final depth. From a facilities perspective, one of the biggest challenges facing Colombia's oil industry is access to reliable, regional infrastructure, including oil off-take facilities and fluid processing facilities. We have been able to move ahead of our competition by prudently investing in infrastructure to handle our increasing volumes of production. In 2009, we constructed the Monterrey crude oil

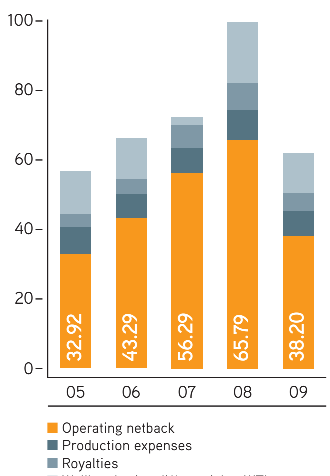
NET PRESENT VALUE
at 10% before taxes (US$ millions)



PRODUCTION BY QUARTER
bopd (thousands)



OPERATING NETBACKS
US$ per bbl



offloading facility, 77 km from our Corcel production base. Through this investment, we were able to guarantee access to delivery capacity, initially set at 11,500 bopd, and increasing to 20,000 bopd in 2010. We have now negotiated delivery of an additional 10,000 bopd to the Cusiana offloading station roughly 126 km from Corcel. Trucking costs for production delivered to Monterrey have now dropped to less than $3 per barrel (from in excess of $7 per barrel). Finally, at Corcel, we have also constructed a central fluid processing facility able to handle 140,000 barrels of fluid per day, which will be further expanded during 2010.

DELIVERING RESULTS

2009 was Petrominerales' most active year ever operationally. We averaged production of 22,360 bopd, more than double our 2008 rate of 10,967 bopd. In February 2010, with production additions from our first two Candelilla wells, average production exceeded 41,000 bopd. We drilled a total of 45 wells in Colombia in 2009: 31 development locations at Neiva, a further three development wells at Orito, six exploration and delineation wells on the Corcel block, two exploration wells on the Guatiquia block, and three heavy oil exploration targets at Chiguiro Oeste, Chiguiro Este and Rio Ariari. We acquired 423 km^2 of 3D seismic on our blocks in the Llanos with a further 150 km^2 of 3D seismic and 50 km of 2D seismic acquired on our Block 126 in Peru.

Our operational results were impressive and we delivered these results while strengthening our balance sheet. Our operating netbacks remained top decile in the sector at US$38.20 per barrel. Our total operating costs increased by 71 percent over 2008 because of our far larger production base, but declined on a per-barrel of production basis by 16 percent to $7.09 per barrel. We continue to carry no bank debt on our balance sheet, and we have access to a significant undrawn credit facility.

In 2009, year over year, total proved oil reserves increased by 43 percent to 36.0 million barrels and proved plus probable reserves increased by 44 percent to 53.1 million barrels. Total proved reserve additions replaced 2009 production by 232 percent and delivered a recycle ratio of 2.1 times, while proved plus probable reserves additions replaced 299 percent of production and resulted in a recycle ratio of 2.7 times. To date, our growth has been organic through internally generated exploration. To continue to fuel our growth and feed our prospect inventory, in December 2009 we agreed to acquire PanAndean Resources plc. This transaction has now been approved and is set to close on April 13, 2010. PanAndean's assets include 6.7 million gross acres (2.6 million net acres) of exploration interests in Peru and a 100 percent interest in the Antorcha block in Colombia's Middle Magdalena Basin.

2009 was a volatile year in the international capital markets, with equity markets finally finding their lows in March 2009, but delivering solid returns throughout the rest of the year. For Petrominerales, our operating results translated into healthy returns in the stock market as well. While the S&P TSX composite index returned around 35 percent during 2009, Petrominerales' share price increased from Cdn$5.74 at the end of 2008 to Cdn$18.80 at the end of 2009 (an increase of more than 200 percent). We also purchased and retired almost two million shares at an average price of Cdn$10.94 to further concentrate the gains for shareholders. Since the beginning of 2010, our exciting operational results from Candelilla and continuing strength in global oil prices have driven our share price above Cdn$30 per-share.

OPERATING IN COLOMBIA AND PERU

Colombia and Peru are two of the most economically attractive and legally reliable countries in Latin America and both have been significantly underexplored for hydrocarbons. The Colombian government continues to be stable and committed to economic progress, resulting in growing confidence in the economy and a burgeoning sense of security. Since 2002, Colombia has taken great strides to create a stable security situation that has been well recognized internationally. Consequently, foreign investment in the country has continued to expand. Steady growth in average national oil production in Colombia over the last several years is a result and reflection of this inflow of investment dollars, reaching 734,000 bopd in 2009, an increase of around 200,000 bopd since 2005.

Our community focus in Colombia has evolved to meet the changing realities of Colombian life. We are in the process of establishing representation offices in each of the areas where we operate sizeable capital programs. These offices will be tasked with building relationships with community members to give us the ability to proactively deal with social issues at a local level. We assist local communities to access their legitimate proportion of oil royalties, which are required by law to be re-invested back in the communities by the Federal Government. These funds are earmarked specifically for schools, sanitation and medical facilities. As part of the Colombian regulatory framework, through our Fundación Vichituni, we are working with local communities to find innovative solutions and joint venture partners to help implement these projects. Also through the Fundación, we have been investigating the development of microcredit and loan programs and we anticipate this will progress during 2010 and beyond.

Late in 2008, Petrominerales entered Peru with the acquisition of a 55 percent working interest in 2.6 million exploration acres in the Ucayali Basin. Peru is a constitutional republic with a stable government and market-oriented economy. Development in the Peruvian oil and gas industry is at an earlier stage than Colombia's, with average daily production of around 130,000 bopd in 2009 from six hydrocarbon basins. The government has established a welcoming regime for foreign investors in the oil and gas sector, including low royalties and competitive tax rates. Despite the embryonic state of Peru's oil and gas industry, the country can boast several world class oil discoveries. Only 50 wells have been drilled in the Ucayali Basin, but since the 1930s they have yielded collectively more than 50 million bopd from three oil fields. During 2009, we acquired 150 km^2 of 3D seismic around the existing La Colpa well, which has tested oil. We have identified three leads in the area, and anticipate drilling our first exploration well in early 2011, after civil construction late in 2010.

MAINTAINING MOMENTUM IN 2010

After a successful year operationally and in the equity markets, what comes next for Petrominerales and our shareholders?

2010 will be substantially more active than 2009. Because of the massive size of our land base, our exploration activities have been steadily intensifying. In 2010, we plan to drill at least 25 exploratory wells across at least nine of our Blocks. We plan to drill 13 exploration wells at Corcel and Guatiquia in the Deep Llanos Basin. So far, we have only drilled wells on 15 percent of the Corcel Block, and we're keen to investigate the prospectivity in the northeast portion, where we plan to begin drilling in April. We have 13 locations planned in the Central Llanos area at Mapache, Castor, Casanare Este and Casimena. Additionally, we've identified three further heavy oil target locations in the Llanos heavy oil play. We anticipate drilling around 31 development locations at Neiva in the Upper Magdalena Basin, and, with the completion of the PanAndean acquisition, we will drill at least one well on the Antorcha Block. We will also be acquiring additional 3D seismic on Block 31 and on the Corcel and Chiguiro Este Blocks in Colombia, and making further investments to enhance our growing infrastructure.

Our corporate results are driven by a first-class team of professionals, utilizing an innovative, foresighted approach to effectively identify and realize the potential of Petrominerales' prospects and opportunities. We've established Petrominerales as an influential, effective operator in Colombia and Peru, and built a unique platform for future growth which can never be duplicated. There are challenges associated with operating in Colombia and Peru, but we have established a strong corporate culture of proactivity, versatility and open and honest communication with all stakeholders, which we believe will permit us to continue to deliver strong results and value for Petrominerales and all of our shareholders. Because all of our employees and directors are also shareholders, we have shared and experienced the same highs and lows that recent volatile times have given us. I am humbled to be able to work every day with such an impressive group of people, and I cannot express my thanks deeply enough to everyone who has contributed to our success. Our Board has also always provided wise strategic direction as we strive to align the Company's direction with the best interests of all shareholders. I am confident that this team will continue to realize all that is possible from our asset base and provide future avenues of growth, based on the Vision and Values that we all share.

Respectfully submitted on behalf of all Petrominerales employees and our Board of Directors.

John D. Wright
26 March, 2010


4
Antorcha
2
Jaguar
Joropo
Castor
Casanare Este
Mapache
Casimena
Block 25
BOGOTA
1
Block 31
Corcel
Guatiquia
Chiguiro Oeste
Chiguiro Este
5
Neiva
3
Rio Ariari
COLOMBIA
6
Orito
Las Aguilas
ECUADOR
SOUTH AMERICA
BRAZIL
PERU
7
Block 161
PUCALLPA
Block 114
Block 131
Block 126
BOLIVIA
LIMA
8
Block 141

opportunity

We have amassed an unparalleled exploration land base in Colombia. We own 100 percent working interest in all of our blocks. As an early entrant to Colombia, our exploration contracts are all governed under the post-2004 ANH regime and are subject to sliding scale royalties starting at eight percent.

COLOMBIA

1. DEEP LLANOS BASIN

- High impact potential on trend with super giant fields including Cusiana-Cupiagua
- 439,872 contiguous acres, 100% working interest
- Major discoveries at Corcel that created a new oil producing province
- World-class discovery at Guatiquia
- 12 of 13 successful oil wells on Corcel Block
- Current inventory of 34 drillable prospects

2. CENTRAL LLANOS BASIN

- High impact light oil exploration opportunities
- 540,347 contiguous acres, 100% working interest
- Extensive 2D and 3D seismic coverage
- Two discoveries at Mapache
- Current inventory of 19 prospects and leads

3. LLANOS BASIN HEAVY OIL

- Rio Ariari discovery in Q4 2009
- 818,650 acres, 100% working interest
- Extensive 2D seismic
- Good prospectivity - multiple play types and trapping opportunities
- Geology conducive to large resource-type plays
- THAI™ technology licensing agreement

4. MIDDLE MAGDALENA BASIN

Antorcha Block*

- A heavy oil opportunity in the Middle Magdalena Basin
- Block is located adjacent to existing heavy oil production

5. UPPER MAGDALENA BASIN

Neiva

- Lower risk, infill drilling program on a proven field
- Multiple reservoir horizons
- Production increases due to our success in applying multi-stage fracturing and drilling methods
- 2,346 bopd in 2009, more than five times 2008 levels

6. PUTUMAYO BASIN

Orito

- The largest oil field in the basin
- Produced over 230 million barrels of oil-to-date
- More than 50 development locations
- Enhanced secondary recovery opportunities

Las Aguilas

- 32,215 acre exploration block adjacent to Orito
- Targeting light oil opportunities

PERU

7. UCAYALI BASIN

Block 126

- 2.6 million acres, 55% working interest
- Underexplored with only 3 wells drilled on the entire block
- Well drilled by previous operator tested oil
- Recently acquired 2D and 3D seismic

Block 114, Block 131, Block 161*

- 5.5 million gross (2.6 million net) acres
- Some existing 2D seismic; plans for additional 2D and 3D seismic acquisition
- Early stage exploration opportunities
- Will give us a dominant land position in the Ucayali Basin

8. TITICACA BASIN

Block 141*

- 1.3 million gross (0.1 million net) acres
- Frontier underexplored basin

* Acquisition of PanAndean Resources plc is expected to close on April 13, 2010

Jack Scott,
Executive Vice President
and Country Manager

operations

THE COLOMBIAN OPPORTUNITY

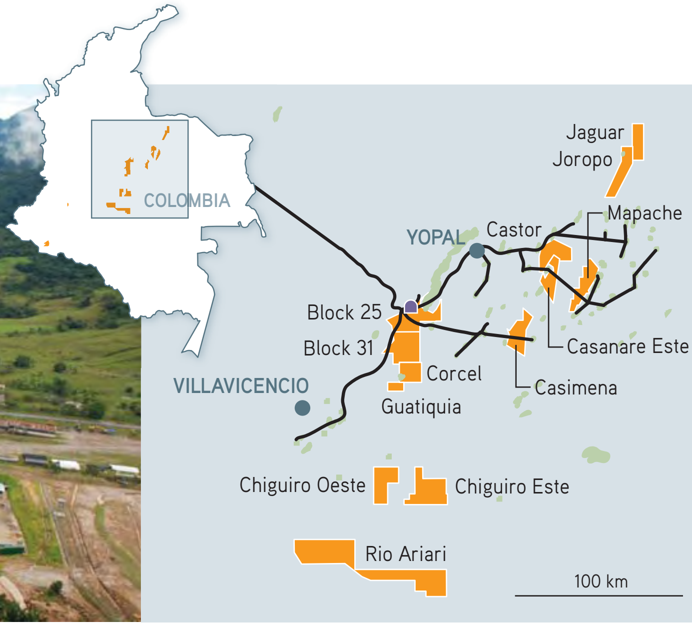
Colombia represents an ideal combination of geological opportunity, fiscal regime, and geopolitical stability in the international exploration world.

More than 150 international oil and gas companies are now operating in Colombia. Geologically, Colombia's relatively underexplored basins offer tremendous hydrocarbon accumulation potential. Colombia had over 2.5 billion barrels of proven crude oil reserves at the end of 2009, the fifth-largest in South America. By the end of 2009, daily oil production from the country was 734,000 barrels, the highest in a decade, making Colombia the third largest oil producer in South America.

Colombia has become a strategic destination for direct foreign investment, particularly in oil and mineral exploration, where 2010 foreign direct investment is expected to exceed $3 billion. The country's free market economy demonstrates strong business continuity and respects the sanctity of contracts. Improved domestic security and the continued disintegration of illegal rebel groups are generating increased confidence in regions once difficult to access. Colombia is now also a signatory to many international environmental covenants, including those governing biodiversity protection, climate change and endangered species protection.

Colombia's infrastructure is also undergoing rapid change with the development of new refineries, pipeline capacity and export facilities to sustain continued growth. With access to both the Atlantic and Pacific Ocean coasts, Colombia has strategic access to the Gulf of Mexico, the North American west coast, and to Asian markets.

Colombia's post-2004 fiscal regime is one of the most attractive in the world due to its relatively low royalties, full risk/reward for the contracting oil company with no state back-in after exploration success and consistent application of contractual rights. As an early entrant to Colombia's restructured oil industry, all of Petrominerales' exploration contracts are subject to the post-2004 fiscal regime which is more favourable than older contracts. Royalties start at eight percent until the Company's production per field exceeds 5,000 bopd, and then the royalty rate increases by one percent for each incremental 10,000 bopd of production per field until the field reaches 125,000 bopd and the royalty rate reaches 20 percent. On our exploration blocks, an additional royalty can apply to an oil field after it has produced five million barrels, provided world oil prices exceed threshold amounts.



Oil pools
Pipelines
Monterrey offloading station
Cities/Towns

FINDING ENERGY: 2009 OPERATIONAL HIGHLIGHTS

- We were the most active exploration company in Colombia drilling 10 exploration wells, 35 development wells and acquiring 573 km^2 of 3D seismic in Colombia and Peru.
- We increased production by 104 percent, averaging 22,360 bopd with production additions from exploration successes at Corcel and Mapache, and development drilling at Neiva and Orito.
- We discovered the Candelilla structure on the Guatiquia Block at the end of 2009 leading to significant production additions in 2010. January production averaged 28,600 bopd; February production averaged 41,102 bopd.
- We identified more than 90 development locations, 70 prospects and leads together with 60 additional contingent locations on our 1.8 million acres of exploration land in Colombia.
- Our Colombian prospects are now diversified across 14 exploration blocks and multiple play-types.
- We had four drilling rigs active in Colombia during 2009 at Corcel, Guatiquia, Neiva, Orito and on our heavy oil acreage.
- Our Monterrey crude oil offloading facility was constructed near Corcel; with oil deliveries to the facility beginning in mid-2009.

COLOMBIAN OPERATIONS

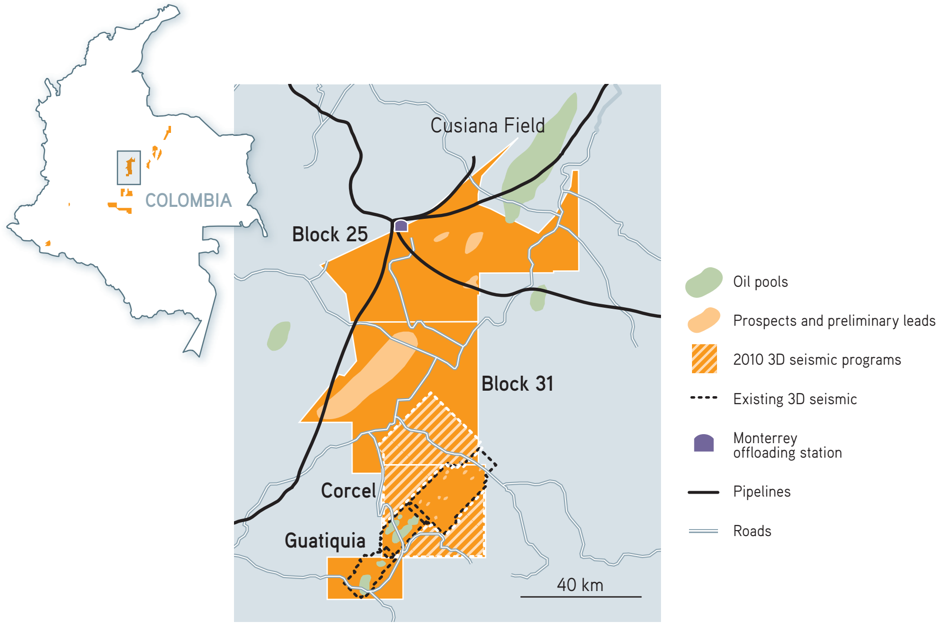
LLANOS BASIN

Located in central Colombia, the significantly underexplored Llanos Basin is a vast plain covering an area of about 175,000 km^2. The exceptional prospectivity of this basin has produced impressive discoveries, including the giant fields of Castilla, Cano-Limón and Cusiana-Cupiagua. Corcel, Petrominerales' 2007 discovery, is the seventh largest producing field in the basin. While only 1,700 wells have been drilled in the entire basin so far, discoveries have averaged approximately four million barrels of petroleum-initially-in-place per pool. The grasslands of the Llanos are subject to flooding during the rainy season from mid-April to December, which requires planning, proper roads and other infrastructure to conduct year-round operations.

Our exploration operations in the Llanos Basin are focused on three tremendous opportunities: the Deep Llanos Basin, which includes Corcel and Guatiquia, the Central Llanos area and the Llanos heavy oil belt. Llanos production is characterized by superior reservoir parameters that generate high flow rates. There is a large regional aquifer present in the basin which leads to high fluid production, constant pressure support and high recovery factors for Llanos reservoirs of over 60 percent of petroleum-initially-in-place. Anticipating the productive characteristics of the Llanos reservoirs, we install high productivity pumps in our wells and we have built large fluid handing facilities to efficiently handle significant volumes of oil and water.

Infrastructure

One of the biggest challenges facing the oil industry in Colombia is access to reliable, regional infrastructure, including fluid handling facilities, oil off-take facilities, roads and pipelines. Petrominerales has always taken a strategic perspective to investing in the infrastructure necessary to rapidly commercialize our successes. This strategy, while adding to our upfront investment, ultimately translates to low per-barrel operating and transportation costs, allowing us to produce our reserves in a cost-effective manner.



FINDING ENERGY, DEFINING OPPORTUNITY

DEEP LLANOS BASIN

Petrominerales operates four contiguous blocks in the Deep Llanos Basin covering 439,872 acres. At the heart of our Basin operations is the impressive Corcel Block, where we have drilled 13 wells, 12 of which were successful oil wells, on about 15 percent of the block. We have initially identified a large portfolio of additional drilling locations on the unexplored portions of this large land area. We continue to expand this portfolio through the acquisition of high quality 3D seismic which we use as a primary exploration tool.

The Guatiquia Block covering 26,349 acres, is on trend and contiguous with the southwest portion of the Corcel Block. Guatiquia is the site of the hugely successful Candelilla-1 and Candelilla-2 wells. Candelilla-1 was drilled and put on production late in 2009. Candelilla-2 and 3 were drilled in early 2010. Candelilla-2 is now on production, while Candelilla-3 is being cased as an oil well to begin production at the end of March.

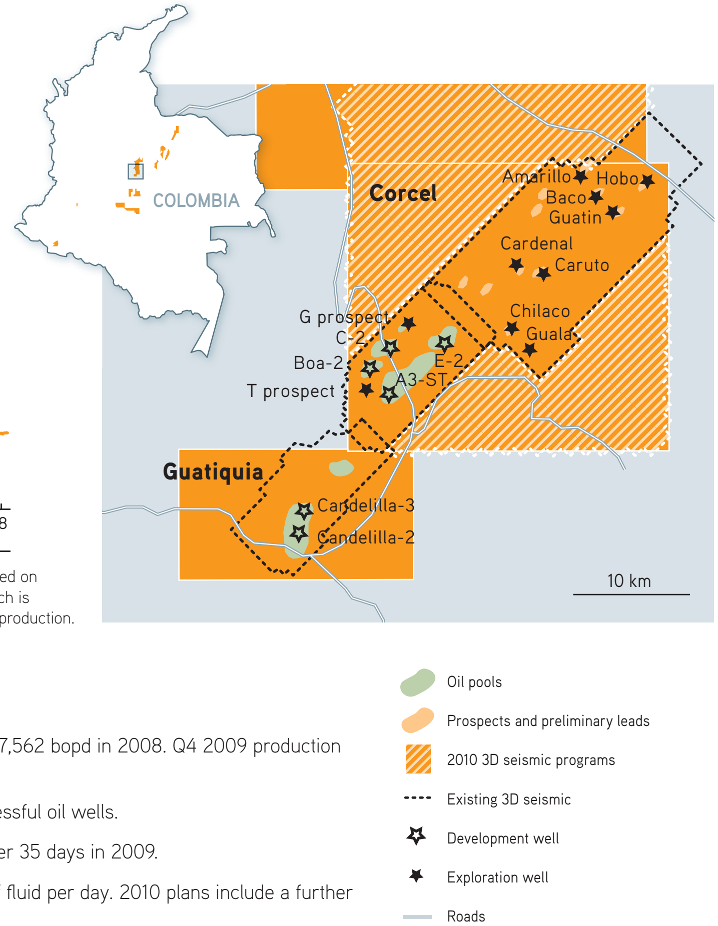
At the end of 2008, Petrominerales acquired Blocks 25 and 31, encompassing 333,708 acres and located north of Corcel and on-trend with the billion-barrel "super-giant" Cusiana-Cupiagua fields. Several preliminary leads have been identified from 2D seismic, and a large 3D seismic program has been planned for 2010 to evaluate the southern portion of Block 31.

The Deep Llanos Basin has huge potential offering a broad spectrum of risk-reward opportunities.

Composite Corcel Well Profile

Bopd against Number of Months on Production

The Corcel composite production profile is the average daily production of each Corcel well drilled on the block. The composite production profile demonstrates the prolific nature of these wells, which is characterized by high initial rates, steep initial declines followed by a long period of low decline production.



Corcel

2009 Operational Highlights

- Production averaged 15,537 bopd in 2009, an increase of 105 percent from 7,562 bopd in 2008. Q4 2009 production was 17,558 bopd.
- A total of six wells were drilled in the Corcel Block, of which five were successful oil wells.
- Average drilling times per well decreased from over 70 days in 2007 to under 35 days in 2009.
- Central fluid processing facility capacity was increased to 140,000 barrels of fluid per day. 2010 plans include a further increase in capacity to 180,000 barrels of fluid per day.
- The Monterrey offloading facility, 77 km north of the Corcel Block, was completed. Petrominerales had initial guaranteed delivery capacity into the facility of 11,500 bopd. For 2010, this has increased to 20,000 bopd.
- Our current inventory includes over 24 drillable exploration prospects in the area and four development locations.

Corcel Central Processing Facility

Leveraging our technical team's experience in similar geological settings, we anticipated a need to handle very large volumes of fluid to recover a high proportion of the oil in place on the Corcel Block. We proactively invested in fluid-handling infrastructure to allow us to operate at peak efficiency, increasing our total production capacity and extending the reserve life of our assets.

Petrominerales is now maximizing our competitive advantage in the region by further expanding the central processing facility. The capacity of the fluid processing plant was increased from 70,000 to 140,000-barrels of fluid per day in 2009. In 2010, Petrominerales has plans to expand the facility even further to 180,000 barrels of fluid per day to accommodate our future drilling plans.

The construction of Monterrey has allowed us to secure strategic offloading capacity in the Llanos Basin

Monterrey Offloading Facility

Located 77 kilometres from Corcel, Monterrey has allowed us to secure strategic offloading capacity in the Llanos Basin and has reduced our trucking costs for delivered volumes to less than $3 per barrel from more than $7 per barrel.

Petrominerales invested $26 million in the facility. In addition to the reduced trucking costs, we also benefit from reduced pipeline and offloading tariffs. The facility was completed in July 2009, with initial deliveries to the station commencing on July 9, 2009 at a capacity of 11,500 bopd and increasing in 2010 to 20,000 bopd. Preferential access to this facility helps ensure access to export pipelines that transport our oil to market.

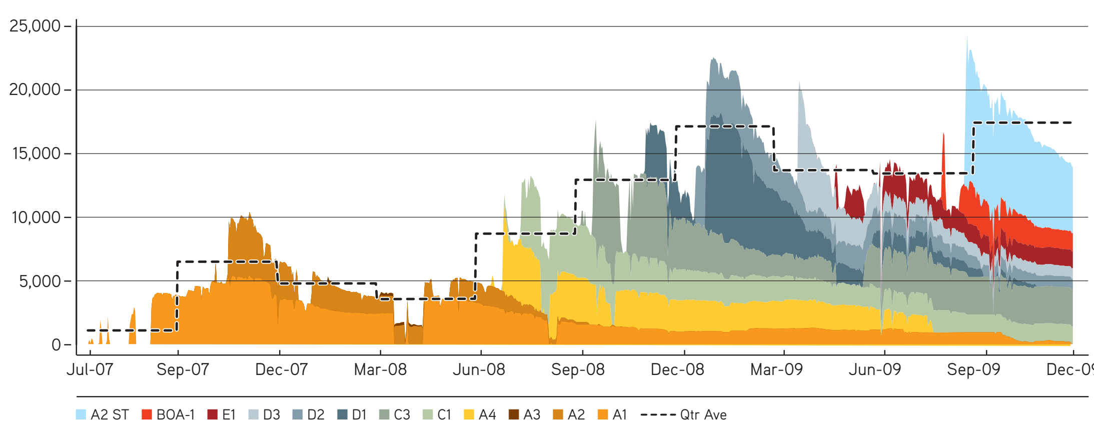
Drilling Activity in 2009

During 2009, six wells were drilled on the Corcel Block, five of which were successful oil wells. In Q1, Corcel-D2 was completed and placed on production. The next two exploration wells, Corcel-E1 and D3, were then successfully placed on production in Q2. A test well, Corcel-F1 was the first well drilled into the east side of the main Corcel fault and all three formations, Lower Sand 1, Guadalupe and Mirador, showed that oil had migrated through the reservoir but there was no trap mechanism in place. Although this well was unsuccessful from the perspective of oil production, data from the well has been incorporated into our geological models and the well was completed for water injection. Our 2010 3D seismic program is expected to confirm additional opportunities on the east side of the Corcel Block.

The Corcel-Boa-1 and Corcel-A2 wells were completed in Q3. The A2 well is a side-track well, targeting the top of the Corcel A structure. Initial production from the A2 side-track well was at rates in excess of 10,000 bopd.

Since our initial discovery here in 2007, results have been extremely successful and an increasing proportion of Corcel production now consists of a solid base of lower decline production.

Historical Corcel Production by Well
bopd



This graph shows the daily production of each Corcel well and illustrates how we have developed a solid base of lower decline production.

Opportunities in 2010

- Drill 11 wells on the Block, of which seven are exploration wells.
- Acquire approximately 220 km^2 of 3D seismic providing seismic coverage over the rest of the Corcel Block.
- Further expand the Corcel central fluid handling facility.
- Continue to further improve operations and reduce operating costs.

Petrominerales has a two-rig drilling program planned for the Corcel Block commencing in 2010. The first rig will initially focus on the central portion of the block, where six locations have been identified, including our first horizontal well at Boa-2. Follow-up development locations are planned for the Corcel C, E and A structures, the first well on the G structure, and the Corcel T well targeting a new geological concept.

The second rig will focus on drilling our initial eight northeast exploration prospects identified from our 2008 3D seismic survey, beginning with the Amarillo structure.

Guatiquia

2009 Operational Highlights

- Candelilla-1 drilled and on production by the end of December 2009.
- Initial production results place Candelilla-1 as one of Colombia's most productive wells ever with average sustained production of more than 12,500 bopd for the first 10 weeks of production.
- Subsequent to year end, Candelilla-2 was drilled and completed with initial production of 15,800 bopd, and Candelilla-3 was drilled and cased.
- Percheron-1 tested 11° API oil in the Lower Sand 1 formation.

The Candelilla wells were drilled into a significant prospect which had been identified from the interpretation of 3D seismic that was acquired in 2007. The first two wells have delivered significant initial production and both are among Colombia's most productive oil wells. The Candelilla wells are currently being produced to temporary production facilities on the block that now have a capacity of 45,000 barrels of fluid per day. We plan to tie this production into the Corcel central processing facility during the second quarter of 2010.

Well logs from the first three wells indicated sizeable net oil pay in the Lower Sand 3 formation that is currently on production. In addition, the well logs from Candelilla-2 and 3 indicate significant potential net oil pay in the Guadalupe formation of 51 feet and 46 feet respectively. We plan to evaluate this additional productive interval later in 2010.

Drilling started on the Percheron-1 exploration well on September 30th. Well logs indicated potential net oil pay of four feet in the Guadalupe formation, 51 feet of potential net oil pay in the Lower Sand 1 zone and 25 feet of potential net pay in the Lower Sand 3. The well tested 11° API oil in the Lower Sand 1 formation.

Opportunities in 2010

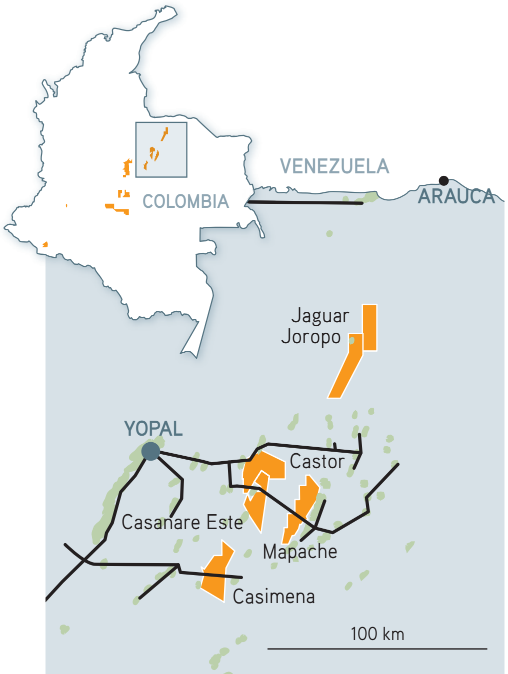
- Complete Candelilla-3 and place on production.
- Tie-in Candelilla production into Corcel's central fluid processing facility.
- Update geological model to identify future exploration potential of the block.

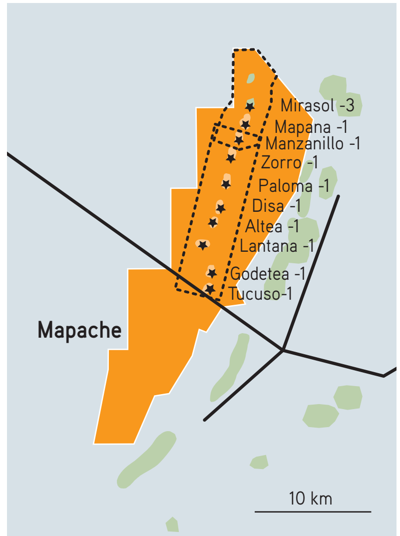
Blocks 25 & 31

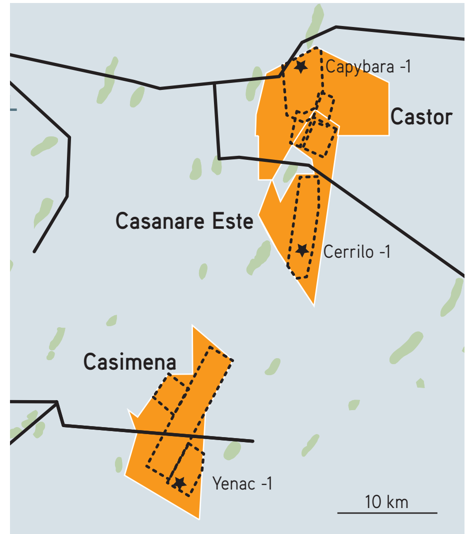
These two contiguous blocks north of Corcel were acquired in the 2008 Colombian Mini-Round and together represent 333,708 acres immediately to the north of our Corcel Block and are on-trend with the "super-giant" Cusiana-Cupiagua fields to the northeast which are expected to recover more than one billion barrels of oil.

We currently have 1,315 kilometres of existing 2D seismic on these blocks. In addition, a large 3D seismic acquisition program commenced in October 2009 designed to provide full 3D coverage of the entire Corcel Block and the contiguous portion of Block 31. On the southern portion of Block 31, we are targeting Corcel-type prospects.

Following the reprocessing and interpretation of existing 2D seismic on Block 25, we have identified three new prospects. The play-types on Block 25 are deeper than our Corcel wells and are targeting large resource accumulations on-trend with Cusiana-Cupiagua. We plan to drill our first exploration wells on both blocks in 2011 after selecting locations later this year.







Oil pools

Prospects and preliminary leads

Existing 3D seismic

Pipelines

2010 exploration well

Cities

CENTRAL LLANOS BASIN

Petrominerales has a significant presence in the Central Llanos Basin, with six exploration blocks covering 540,347 acres in the northern and central plains region.

The geology of the Central Llanos Basin is characterized by sandstone reservoirs, trapped against down to basement faults. Wells in these pools often produce as much as 2,000 bopd of light oil per well. Existing pools in the region range between three and 25 million barrels each on average. We explore for these targets using 3D seismic surveys to help define the faults and the extent of the potential reservoirs.

Mapache

Early in 2009, the Mapache-1 and Mirasol-1 discovery wells in the north of the block were bought on production from the Mirador and Carbonera formations. Then, in April 2009, 91 km^2 of 3D seismic was acquired to the south and on-trend with these two discoveries. This program has confirmed an extensive fault trend extending along the length of the block. Interpretation of this data has allowed us to identify 10 additional exploration locations in the area. The Mapache and Mirasol wells were placed on production and together averaged 1,139 bopd during the year.

A 10-well program is planned at Mapache this year. Following our strategy of rapid commercialization, we have positioned ourselves to start commercial production immediately upon exploration success.

Casanare Este, Casimena and Castor

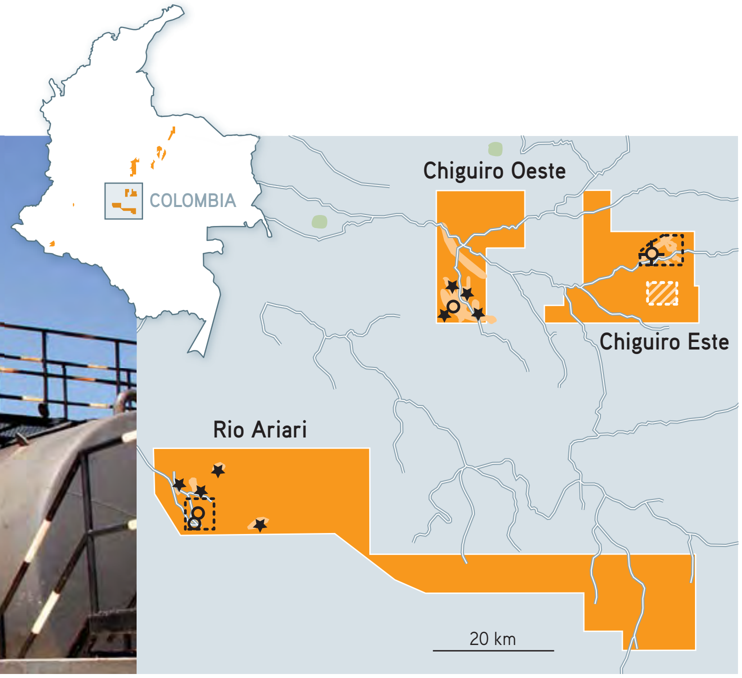
These three blocks cover 295,260 acres in the Central Llanos Basin. We plan to drill one exploration well on each of these blocks in 2010.

Drilling operations began in late January 2010 on the Yenac-1 well on the Casimena Block. The well was cased as a potential oil well based on logs that indicated 42 feet of potential net oil pay in the Mirador formation. We plan to conduct a multi-zone testing program.

Following Yenac-1, the drilling rig moved to the Castor Block and began drilling Capybara-1 on March 1, 2010, the next exploration well in the Central Llanos Basin exploration program.

Joropo and Jaguar

We hold two blocks in the northern region of the Llanos Basin, covering 137,226 acres. On the Joropo Block, four wells have been drilled to date, two of which were light crude oil discoveries. The wells have been shut-in awaiting follow-up drilling and we are now considering a disposition of the Joropo-Jaguar assets.



LLANOS BASIN HEAVY OIL

Rio Ariari, Chiguiro Este, Chiguiro Oeste

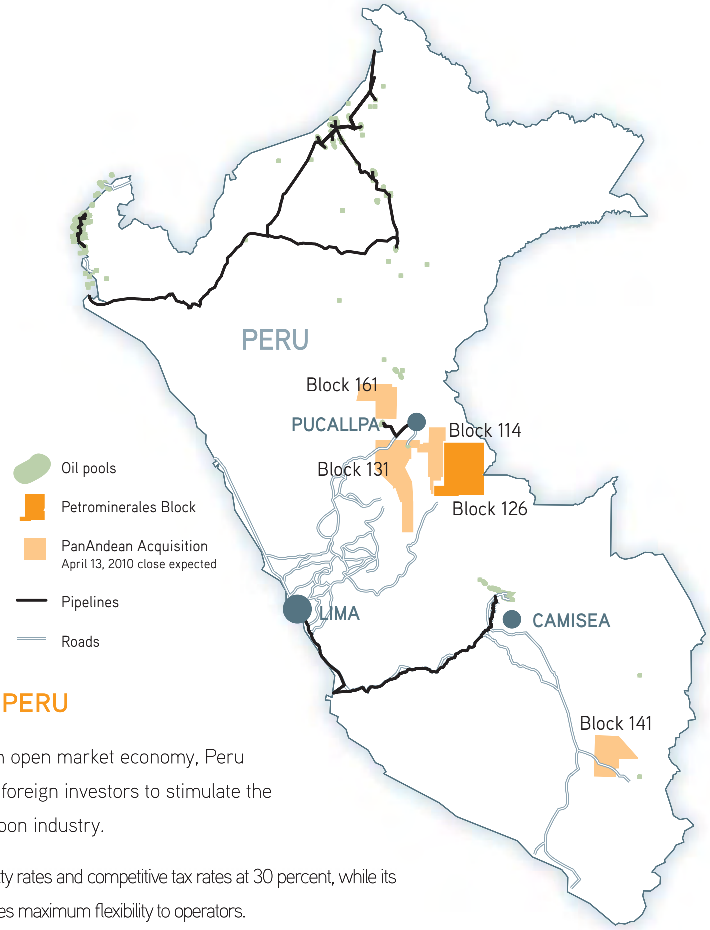
Petrominerales has three large blocks in the southern Llanos Basin heavy oil belt along the southern edge of the Llanos Basin. The Rio Ariari (514,426 acres), Chiguiro Oeste (135,952 acres) and Chiguiro Este (178,272 acres) blocks cover 43 percent of our Colombian exploration land base and give Petrominerales an attractive 818,650-acre land position under good fiscal terms in a highly prospective region.

We launched a three-well exploration program on all these blocks in 2009. Our Rio Ariari-1 well was drilled in early November 2009 based on a location identified through the interpretation of a 50 km^2 3D seismic program acquired earlier in 2009. The Rio-Ariari-1 well discovered a potentially large heavy oil fairway. In the step-out well, Rio-Ariari-2, the core analysis confirmed the potential of the discovery. This second well was drilled and completed in early 2010 to further evaluate the prospect. Results from these two wells will be evaluated during 2010 and we anticipate drilling multiple exploration prospects as well as additional step-out locations to follow-up on our initial Rio Ariari discovery.

In Q2 2009, the rig drilled Chiguiro Oeste-1, reaching a total depth of 4,984 feet. Logs indicated 56 feet of potential net oil pay in the Mirador formation, and the well was cased as a potential oil producer. We cored the entire Mirador zone and observed moveable oil in several sections of the core. The testing program on this well was temporarily suspended in order to complete drilling operations at Rio-Ariari-1 within the contractual time frame. In 2010, we plan to complete the testing program at Chiguiro-Oeste-1, and drill one additional exploration well to satisfy current phase exploration work commitments.

After spudding Chiquiro Este-1 in Q2 2009, the well was abandoned after logs indicated the sands in the Carbonera and Mirador formations were predominantly wet or contained non-commercial hydrocarbon accumulations. We are now planning a 78 km^2 3D seismic program in 2010 to define a new play concept on the Chiquiro Este block and satisfy our current exploration work commitments.

Heavy oil in Colombia is central to our long-term growth strategy. In the short-term, we are focused on finding multiple, large-scale resource accumulations. Once heavy oil opportunities are defined, we will use the optimal exploitation process to develop the reserves, which may include Petrobank's proprietary THAI™ technology.



FINDING OPPORTUNITY IN PERU

A constitutional government based on an open market economy, Peru has established a welcoming regime for foreign investors to stimulate the development of its early-stage hydrocarbon industry.

The country offers favourable five percent royalty rates and competitive tax rates at 30 percent, while its attractive exploration and regulatory system gives maximum flexibility to operators.

As in Colombia, license contracts include similar levels of exploration commitments, but are defined in terms of exploration work units. This means an operator can make adjustments to its operational activities – for example, from drilling to seismic – without having to obtain regulatory approval.

Peru's six producing hydrocarbon basins cover about 370,000 km^2, and the country is currently producing about 130,000 bopd. Peterominerales plans to drill our first exploratory well in Peru during the first quarter of 2011.

THE UCAYALI BASIN

Tremendous opportunities exist in the vast, highly under-explored 105,000 km^2 Ucayali Basin in east-central Peru. Multiple source rocks and reservoirs, migration pathways and intriguing stratigraphy offer compelling prospectivity for a variety of play types.

Only about 50 wells have been drilled to date in the Basin, but they have collectively produced more than 50 million barrels of oil equivalent from three oil fields since the 1930s. The world class, giant Camisea gas and condensate complex was also discovered in the southern portion of the Basin in the late 1980s.

While the region has seen little drilling to date, the Ucayali presents a similar tectonic history to the western Canadian sedimentary basin, with multiple opportunities to trap hydrocarbons. Because of the technical experience and skills sets of our exploration team, Petrominerales can draw on proven Canadian knowledge and technical ability to exploit these resources and rapidly turn exploration success into production. In addition, basin vegetation is not as dense as found in other areas of Peru, so wells can more easily be placed on production immediately following discovery.

Petrominerales holds the oil and gas exploration rights to a significant concentration of land in the Ucayali Basin. In 2008, we acquired a 55 percent working interest in Block 126, a 2.6 million-acre parcel that features existing infrastructure including a road, airstrip and pier.

The existing La Colpa well has tested oil, and after imaging and interpreting more than 150 km^2 of 3D seismic, we expect to start construction of drilling pads during the third quarter of 2010 and begin drilling our first exploration well during the first quarter of 2011.

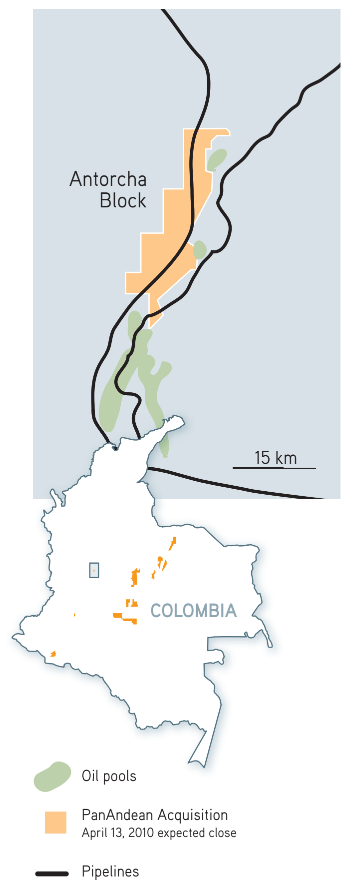
We draw on our experience and technical ability to rapidly turn exploration success into production

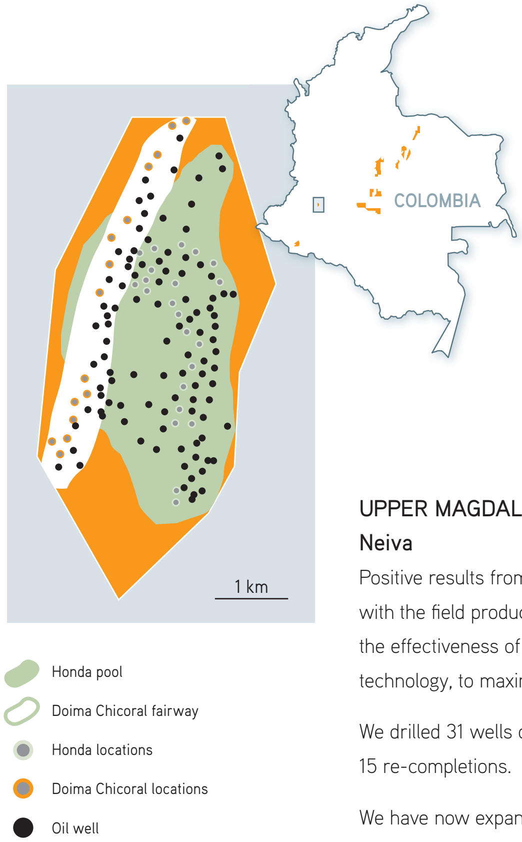
PANANDEAN ACQUISITION

In December 2009, Petrominerales announced the acquisition of PanAndean Resources plc for approximately $29 million, which is expected to close on April 13, 2010. The acquisition will bring 6.7 million gross acres (2.6 million net acres) in Peru and a 100 percent working interest in the Antorcha block in the Middle Magdalena Basin of Colombia. In addition to the asset base, one of the other main benefits of the acquisition is that Petrominerales will be carried for approximately $30 million of exploration costs on the Peruvian blocks. The acquisition of this acreage will give Petrominerales a strategically significant land position in this underexplored basin.

The PanAndean assets consist of:

- Block 114, Ucayali Basin, Peru.
  30 percent working interest in 1.8 million acres, contiguous with Block 126. In 2010,seismic will be acquired; the first well on the block is expected to be drilled in late 2010 or early 2011. Our partners will pay Petrominerales' share of initial seismic work, the first exploration well, and 50 percent of our costs for the second exploration well.
- Block 131, Ucayali Basin, Peru.
  30 percent working interest covers 2.4 million acres near Block 126. Again, in 2010, seismic acquisition is planned, and the first well drilled potentially in late 2011 or early 2012. Our partners will pay Petrominerales' share of initial seismic work, the first exploration well and 50 percent of our costs for the second exploration well.
- Block 161, Ucayali Basin, Peru.
  100 percent working interest in 1.2 million acres northwest of Block 126. Commitments include a geological and geophysical report from the evaluation of existing data and reprocessing of 2D seismic by June 2012.
- Block 141, Titicaca Basin, Peru.
  10 percent working interest in 1.3 million acres in southern Peru includes the right to increase working interest upon commercialization.
- Antorcha Block, Middle Magdalena Basin, Colombia.
  This 100 percent working interest area encompasses 87,383 acres in proximity to proven heavy oil fields such as the Velasquez, Moriche and Nare-Norte fields surrounding Antorcha, which combined have over 500 million barrels of recoverable oil. Our commitment in 2010 is to drill one exploration well by the end of May at an expected cost of approximately $2 million. The addition of this block provides Petrominerales with a further highly prospective heavy oil exploration opportunity in an area close to infrastructure in the Middle Magdalena Basin.





UPPER MAGDALENA BASIN

Neiva

Positive results from our multi-well drilling program represent a significant improvement over historical performance, with the field producing a 2009 yearly average of 2,346 bopd, more than five times 2008 levels of 438 bopd. This reflects the effectiveness of our operational team and our use of leading-edge technologies, such as multi-stage fracturing technology, to maximize results.

We drilled 31 wells on the block in 2009, including 15 in the Doima Chicoral and 16 in the Honda formation, along with 15 re-completions.

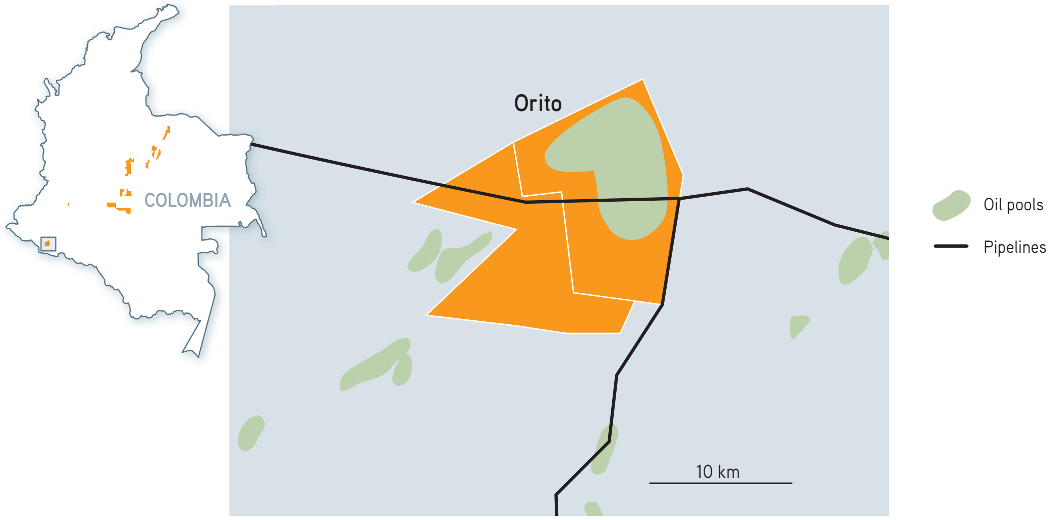
We have now expanded our inventory of drilling locations and plan to keep a rig actively dedicated to the block in 2010, envisioning 31 wells and 21 workovers using our multi-stage fracture stimulation technology. Fifteen wells are targeting the Doima Chicoral zone, with 16 focused on the Honda formation.

THE PUTUMAYO BASIN

The Orito field is the largest oil field in the Putumayo Basin of southern Colombia, and has produced over 230 million barrels primarily from the Caballos formation.

Orito production averaged 3,338 bopd during 2009, after successfully drilling and completing three wells in 2009. There is a signficant amount of future infill drillng opportunities on the block. Our reserve evaluators have estimated 26 drilling locations and we have identified an additional 27 locations.

In addition, given the relatively low amount of oil recovered from this field, (233 million barrels from an estimated one billion barrels of petroleum-initially-in-place), further potential exists through enhanced and secondary recovery techniques.



We find answers

Our Technological Opportunity

Our application of established, proven exploration and production methodologies utilized in more mature basins, especially the western Canadian sedimentary basin, gives us a competitive advantage in our Latin American operations and beyond. This includes the interpretation of 2D and 3D seismic data acquired in our areas of geological interest, using 3D seismic as an exploration tool and searching for a broad spectrum of play-types found in other international basins.

As a member of the Petrobank group of companies, we have access to a growing body of research and results relating to the use of horizontal drilling techniques, multi-stage fracturing models and other enhanced oil recovery methods to maximize potential production and ultimate recovery factors from our prospects. Our sister company, PetroBakken has been breaking new ground with the application of these methods in the huge Bakken light oil resource play in southeast Saskatchewan.

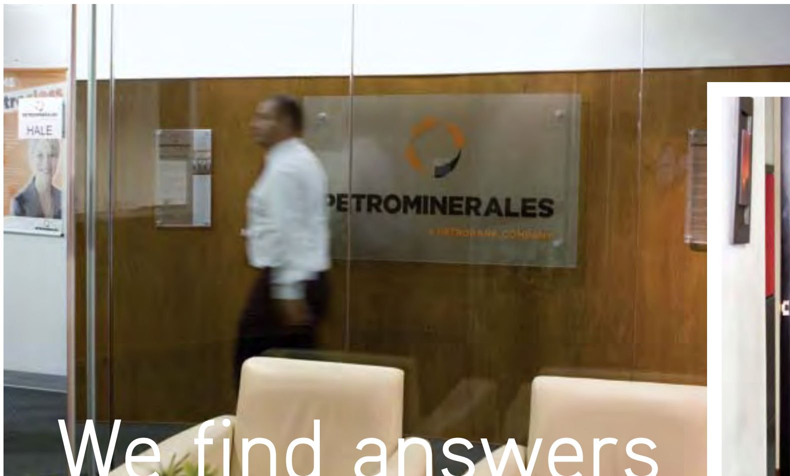
We are also looking forward to apply leading edge, innovative technologies to the production of heavy oil in Colombia through the application of the patented THAI™ technology that is being pioneered by Petrobank. The revolutionary THAI™ process sets the bar for unlocking the potential of heavy oil resources around the globe through high temperature in-situ combustion. The THAI™ (Toe to Heel Air Injection) process combines a horizontal production well with a vertical air injection well placed at the toe.

THAI™ offers distinct operational, economic and environmental advantages over other processes, including:

- Improved oil recovery factors.
- Partial in-situ upgrading delivering higher netbacks and an easier to transport product.
- Substantially reduced environmental impacts, with minimal water use, fewer greenhouse gas emissions and independent power generation potential from produced gas, eliminating the need to run power lines to remote areas.
- Fewer wells with no steam or water handling facilities.

Field-proven in the Canadian oilsands, the THAI™ technology has been licensed to Petrominerales for use in Colombia by Archon Technologies Ltd. (Archon), a 100 per cent-owned subsidiary of Petrobank. The license grants the right to use the technology in the evaluation of our exploration blocks, subject to a licensing fee equal to 10 per cent of gross production and an option to Archon for the right to acquire a working interest (at full cost) in the project of between 10 and 50 percent.

Our strategy of applying modern methods and technology to a broad spectrum of opportunities continues to create successful new ventures while keeping an eye on the bottom line. From the application of world-class conventional drilling and completion technologies proven in western Canada's sedimentary basin to the licensing of superior processes such as THAI™, Petrominerales is commanding international attention as we unlock the tremendous hydrocarbon potential of Colombia and Peru.



We find answers

A Commitment to our Stakeholders

TEAM

At the heart of our success is operational excellence. But the spirit of the Company lies within our people.

We hold our international staff to the highest ethical and performance standards. Each team member contributes to our success and every last one contributes to reinforcing a progressive company that epitomizes an ongoing commitment to best practices in all aspects of their work.

Our business plan encourages open communication at all levels of our operation, environmental stewardship, local employment, respect for individuals, communities and cultures and the highest possible standards of workplace health and safety.

Our community coordinators play a key role in forging positive, culturally affirming relationships on the ground in Colombia. This team includes Petrominerales staff in Bogotá and at Fundación Vichituni, an organization Petrominerales created to help address the complex needs of the Colombian societies in which we operate. Our efforts have been rewarded with recognition from the local Colombian governments and support from the communities where we operate.

Quite simply, in addition to adding shareholder value, we strive to develop a lasting legacy of community goodwill and positive economic benefits.

Our approach to developing a deeper relationship with our Colombian stakeholders includes working with local communities, applying their cultural and aboriginal knowledge and expertise and offering employment opportunities as well as educational and training programs. From that trickles down greater hope, education, opportunity and stronger, self-sustaining local economies.

Our commitment to our shareholders includes sound management practices and disciplined risk taking. This has created a solid foundation for aggressive but sustainable long-term growth, with a strong balance sheet including a significant undrawn credit facility and an asset base generating significant cash flows. We have worked to position ourselves for even more exploration and development success. Agile, value-based decision making and efficient performance has created shareholder value and cemented our reputation as a premier investment in Colombia and Peru.

In 2010, we plan to further strengthen our community relationships

We understand that our strength flows from the environment in which we operate – the people, the resources and the land. Our commitment to sustainable operations includes minimizing our environmental footprint through proactive means whenever possible.

Using our best-in-class technology, we can create a smaller surface footprint for our drilling operations. We employ local and indigenous expertise for environmental impact studies, taking into account the evolution and protection of natural resources such as water, soil, vegetation and animal life.

HEALTH, SAFETY, ENVIRONMENT &COMMUNITY

Petrominerales' commitment to our people extends beyond the strong local regulatory environment. Our first-class team of multi-disciplinary experts includes our Health, Safety, Environment and Community (HSEC) Team. The team works toward 100 percent compliance with local environmental management and legislative requirements, to both protect nature and maintain our reputation. Their efficient and knowledgeable approach has resulted in faster approval of environmental licenses, which contributes to operating efficiencies.

Our community professionals also monitor local government economic development plans, land-use policies and other institutional issues that can often positively and synergistically influence our operations.

The HSEC group works closely with local representatives, ensuring the wishes and traditional knowledge of community members and indigenous peoples are heard and respected. Elected Community Action (ECA) Councils provide a window for an open consultative process that promotes clear communication of our goals and allows for a community representative to act as a liaison during project development.

In 2010, we plan to further strengthen our community relationships by opening a representation office in every community where we have production or an active capital program. These local offices will be tasked with handling local job applications, local concerns and stakeholder relations which will give us the ability to proactively deal with issues onsite.

The ECA Councils also conduct local hiring and job-sharing initiatives to supply Petrominerales and our contractors with both skilled and unskilled labour, further enhancing our standing as a respectful operator in the local community.

Most of our operations use local third-party contractors, with a typical drilling rig employing up to 150 people through different subcontracting groups and a typical seismic crew using up to 120 people, primarily third-party contractors. The ability to fill these employment opportunities locally is a win-win situation.

Conservation and positive economic growth, for our shareholders and local communities, go hand-in-hand. Together, they integrate with our long-term growth.

Fundación Vichituni – working with communities, working for Colombia.

FUNDACIÓN VICHITUNI

Across Colombia, communities and entire regions have relied upon oil companies to provide a range of social programming and economic support within the communities in which they operate. While these initiatives have been of use to varying degrees, the majority of long-term needs and solutions in the communities have been neglected, meaning sustainable opportunities have not been fully developed. The petroleum industry is not in a position of, nor is it solely responsible for, providing the level of support required in achieving a sustainable socio-economic balance in its areas of influence.

Considering the stability of Petrominerales' operations and our respect for the communities in the areas where we operate, we created Fundación Vichituni in 2005. Vichituni, a traditional Embera term meaning "you are worthy", embodies an ideology that guides the foundation in its approach in designing and implementing the programs with which the beneficiaries will realize the true effects of our development strategies. The Fundación is a separate legal entity, but is closely integrated with our community development strategies.

Through the cooperative efforts of communities, governments and partners, Fundación Vichituni coordinates educational opportunities to enrich social and economic conditions, and ensure a sustainable and optimistic future for residents of areas influenced by Petrominerales' operations. The Fundación develops programs that serve as catalysts for change, for growth, for generating confidence and empowerment, and ultimately for the creation of opportunities leading to social and economic sustainability. Fundación Vichituni works to link community needs and programs with supporting partners, often development organizations or private enterprise. The Fundación's autonomous nature allows for flexibility, immediacy, and equally importantly, the creation of opportunities outside of Petrominerales' direct areas of impact, impacting positively even on those who are not necessarily direct beneficiaries of Petrominerales' investments in the community.

The role of Fundación Vichituni continued evolving during 2009 as it became increasingly established and involved in the communities in which Petrominerales' scope and scale of operations have grown. During 2009, some of Fundación Vichituni's activities and programs included:

- completion of a nation-wide 2-year diploma program in public administration and program management for elected municipal councillors;
- research and program design for strengthening associations of agriculture producers, including access to credit, technical assistance, market expansion, and job creation; and
- designed a program addressing gender equality and women's empowerment, leading to community leadership and business opportunities.

Going forward, Fundación Vichituni will maintain a key role in the design and implementation of programs geared toward economic growth, community leadership and social cohesion. Environmental initiatives, agricultural productivity and small business opportunities will comprise the main focus of the Fundación's activities in the next year, along with a comprehensive study of cultural inventory and research into the design and operation of a micro-credit system. Together, we are building stronger communities through stronger relations.

Operations Statistical Review

HIGHLIGHTS

- Total proved reserves increased by 43% to 36.0 million barrels of oil and proved plus probable reserves increased by 44% to 53.1 million barrels of oil.
- Total proved reserve additions replaced production by 232% and proved plus probable reserve additions replaced 299% of production.
- Total proved plus probable NPV 10% (before tax) is $2.1 billion.
- D&M's total proved plus probable forecasted production for 2010 is 37,923 bopd.
- Based on capital expenditures of US$281 million, total proved and proved plus probable finding and development costs ("F&D") are $18.51/bbl and $13.98/bbl in 2009, respectively, including changes in future development costs.

D&M completed an evaluation effective as at December 31, 2009 of the Company's Orito and Neiva properties and portions of the Corcel, Guatiquia, Mapache and Rio Ariari blocks. D&M's report did not include any evaluation of the Company's remaining 1.7 million acres of exploration land in Colombia or 2.6 million acres in Peru. All reserves stated below are based on forecast prices and costs and are Company interest reserves before royalties.

Average Daily Production

(bopd)	February 2010	D&M 2010 forecast[1]	**Q4 2009**	**2009 Average**	2008 Average
Guatiquia	23,888	14,150	**-**	**-**	-
Corcel	11,318	15,805	**17,558**	**15,537**	7,562
Orito	3,234	3,315	**3,201**	**3,338**	2,946
Neiva	2,495	4,162	**2,658**	**2,346**	459
Mapache and others	167	490	**1,138**	**1,139**	-
Total	**41,102**	**37,922**	**24,555**	**22,360**	**10,967**

(1) Proved plus probable company gross production forecast estimated by DeGolyer and MacNaughton ("D&M")

Company Gross Reserves Reconciliation

(forecast prices, mbbl)	Proved Developed Producing	Total Proved	Proved Plus Probable
December 31, 2008 reserves	14,229	25,174	36,849
2009 production	(8,162)	(8,162)	(8,162)
Net additions	12,466	18,975	24,420
December 31, 2009 reserves	**18,533**	**35,987**	**53,107**
Increase in reserves	**30%**	**43%**	**44%**
Production replacement	**153%**	**232%**	**299%**

Net present value – before tax – forecast prices

($ millions)

As at December 31, 2009	0%	8%	10%	15%
Proved developed producing	1,085	898	844	760
Total proved	2,018	1,588	1,458	1,277
Proved + probable	2,930	2,353	2,082	1,810

Net present value – after tax – forecast prices

($ millions)

As at December 31, 2009	0%	8%	10%	15%
Proved developed producing	922	749	715	642
Total proved	1,557	1,201	1,134	994
Proved + probable	2,173	1,652	1,555	1,353

Reserves information by property

Company gross reserves by block (mbbl)	Corcel	Orito	Neiva	Guatiquia	Other	Total
Proved developed	7,136	4,250	3,436	3,414	297	18,533
Total proved	10,612	10,612	8,152	6,314	297	35,987
Probable	6,540	4,676	1,841	4,063	-	17,120
Total proved plus probable	**17,152**	**15,288**	**9,993**	**10,377**	**297**	**53,107**

2009 drilling program

	Exploration		Development		Total	
	Gross	Net	Gross	Net	**Gross**	**Net**
Oil	7.0	7.0	36.0	26.0	**43.0**	**33.0**
Service Well	-	-	1.0	1.0	**1.0**	**1.0**
Dry	2.0	2.0	-	-	**2.0**	**2.0**
Total	**9.0**	**9.0**	**37.0**	**27.0**	**46.0**	**36.0**
Success Rate	**78%**	**78%**	**100%**	**100%**	**96%**	**94%**

Finding and development costs ("F&D")(1)

Petrominerales' all-in 2009 F&D costs of $18.51/bbl for total proved reserves and $13.98/bbl for total proved plus probable reserves include $53 million (2008 - $57 million) of exploration costs incurred on exploration acreage not evaluated by D&M. In addition, Petrominerales spent $78 million (2008 - $50 million) on facilities and infrastructure in the year.

	2009	2008	Three year average
Capital expenditures ($ millions)	**281**	268	231
Change in future costs to develop ($ millions)			
Total proved	**70**	(54)	33
Proved plus probable	**60**	(149)	26
Total costs ($ millions)			
Total proved	**351**	214	263
Proved plus probable	**341**	119	256
Net reserve additions (mbbl)			
Total proved	**18,975**	8,591	12,113
Proved plus probable	**24,420**	3,886	14,164
F&D costs ($ per barrel)			
Total proved	**18.51**	**24.95**	**21.75**
Proved plus probable	**13.98**	**30.66**	**18.10**

(1) The aggregate of the exploration and development costs incurred in the most recent financial year and the change during that year in estimated future development costs generally will not reflect total finding and development costs related to reserve additions for that year.

(2) The total undiscounted future development costs included in the December 31, 2009 D&M report was $204.3 (2008 - $133.9 million) for total proved reserves and $294.8 million (2008 - $234.4 million) for proved plus probable reserves.

Corey C. Ruttan,
Vice President Finance and
Chief Financial Officer

Management's Discussion & Analysis

Summary of Annual Results

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

	2009	2008	2007
Financial			
($000s, except where noted)			
Crude oil revenue	**463,655**	343,182	124,761
Funds flow from operations [(1)]	**283,824**	234,534	85,883
Per share – basic ($)	**2.89**	2.34	0.89
– diluted ($)	**2.78**	2.25	0.88
Net income	**100,146**	131,144	47,551
Per share – basic ($)	**1.02**	1.31	0.49
– diluted ($)	**1.00**	1.28	0.49
Capital expenditures	**280,879**	268,153	143,022
Total assets	**720,116**	565,705	441,462
Net debt [(1)]	**68,191**	32,801	(10,203)
Common shares outstanding, end of year (000s)			
Basic	**98,611**	99,399	100,289
Diluted [(2)]	**104,789**	105,631	105,197
Operations			
Operating netback ($/bbl) [(1)] [(3)]			
WTI benchmark price	**61.80**	99.75	72.41
Crude oil revenue [(4)]	**50.43**	82.27	70.00
Royalties	**5.14**	8.02	6.55
Production expenses	**7.09**	8.46	7.16
Operating netback	**38.20**	65.79	56.29
Average daily crude oil production (bopd) [(5)]	**22,360**	10,967	4,767

(1) Non-GAAP measure. See "Non-GAAP Measures" section within MD&A.
(2) Consists of common shares, stock options, deferred common shares and incentive shares outstanding as at the year-end date.
(3) Excludes gains and losses on risk management contracts.
(4) Net of transportation and other expenses.
(5) Actual production sold for the year ended December 31, 2009 was 22,490 bopd (2008 – 10,967 bopd).

The following Management's Discussion and Analysis ("MD&A") is dated March 1, 2010 and should be read in conjunction with the consolidated financial statements and accompanying notes of Petrominerales Ltd. ("Petrominerales" or the "Company") as at and for the years ended December 31, 2009 and 2008. The consolidated financial statements and comparative information have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). Additional information for the Company, including the Annual Information Form ("AIF") can be found on SEDAR at www.sedar.com or at www.petrominerales.com.

All amounts contained in this MD&A are in United States dollars, unless otherwise stated and all tabular amounts are in thousands of United States dollars, except as otherwise noted.

Forward-Looking Satements

In addition to historical information, the MD&A contains forward-looking statements that are generally identifiable as any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions or future events of performance (often, but not always, through the use of words or phrases such as "will likely result," "expected," "is anticipated," "believes," "estimated," "intends," "plans," "projection" and "outlook"). These statements are not historical facts and may be forward-looking and may involve estimates, assumptions and uncertainties which could cause actual results or outcomes to differ materially from those expressed in such forward-looking statements. 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. Such factors include, but are not limited to: general economic, market and business conditions; fluctuations in oil and gas prices; the results of exploration and development drilling and related activities; 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 expected trucking cost savings and other factors, many of which are beyond the control of the Company. Accordingly, 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 forecasted. Except to the extent required by law, Petrominerales assumes no obligation to publicly update or revise any forward-looking statements made in this MD&A or otherwise, whether as a result of new information, future events or otherwise. All subsequent forward-looking statements, whether written or oral, attributable to Petrominerales or persons acting on the Company's behalf, are qualified in their entirety by these cautionary statements.

Non-GAAP Measures

This report contains financial terms that are not considered measures under Canadian generally accepted accounting principles ("GAAP"), such as funds flow from operations, funds flow per share, net debt and operating netback. These measures are commonly utilized in the oil and gas industry and are considered informative for management and shareholders. Specifically, funds flow from operations and funds flow per share reflect cash generated from operating activities before changes in non-cash working capital. Management considers funds flow from operations and funds flow per share important as they help evaluate performance and demonstrate the Company's ability to generate sufficient cash to fund future growth opportunities and repay debt. Net debt includes bank debt, principal amount of convertible debentures and accounts payable and accrued liabilities less current assets, and is used to evaluate the Company's financial leverage. Operating netback is determined by dividing oil sales less royalties, transportation and other and operating expenses by sales volumes. Management considers operating netback important as it is a measure of profitability per barrel sold and reflects the quality of production. Funds flow from operations, funds flow per share, net debt 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 GAAP.

Highlights and Significant Transactions

(Annual comparisons are 2009 compared to 2008 and quarterly comparisons are fourth quarter 2009 compared to the fourth quarter of 2008 unless otherwise noted)

- Crude oil production increased by 104%, averaging 22,360 barrels per day ("bopd") in 2009, mainly due to production additions from our exploration successes at Corcel and Mapache, as well as success in our development drilling program at Neiva.
- Discovered the Candelilla structure on our Guatiquia block that has significantly increased production in 2010.
- Production increased to 24,555 bopd in the fourth quarter of 2009 and averaged over 40,000 bopd in February 2010, mainly due to production additions from our Candelilla discovery on the Guatiquia Block.
- Most active exploration company in Colombia in 2009 drilling 10 exploration and 36 development wells.
- Constructed the Monterrey crude oil offloading facility providing strategic offloading capacity.
- Funds flow from operations increased by 21% to $283.8 million in 2009 despite 38% lower world oil prices.
- Strong financial position with an undrawn $150 million credit facility, top-decile operating netbacks combined with significant production and cash flow growth.
- Repurchased 1,991,000 common shares.
- Entered an agreement to acquire all of the outstanding shares of PanAndean Resources PLC (AIM:PRE) for £18.7 million ($28.5 million). PanAndean assets include four blocks in Peru and one in Colombia totalling 6.3 million gross (2.7 million net) acres.

Nature of Business

Petrominerales Ltd. ("Petrominerales" or the "Company"), is a public company listed on the Toronto Stock Exchange and was incorporated in the Bahamas on April 20, 2006. Petrominerales is involved in the exploration, development and production of crude oil in Colombia and Peru.

Financial and Operational Review

Average Daily Crude Oil Production[1]

	Three months ended December 31,			Years ended December 31,		
	2009	2008	Change	**2009**	2008	Change
Corcel	**17,558**	13,023	35%	**15,537**	7,562	105%
Orito	**3,201**	1,844	74%	**3,338**	2,946	13%
Neiva	**2,658**	477	457%	**2,346**	438	436%
Mapache & Others	**1,138**	-	-	**1,139**	21	-
Total (bopd)	**24,555**	15,344	60%	**22,360**	10,967	104%

(1) Represents crude oil produced in the period. Actual sales volumes may be different due to crude oil in transit at the period end date. Sales volumes in the fourth quarter of 2009 were 25,607 bopd (2008 – 15,344 bopd) and for the year ended December 31, 2009 were 22,490 bopd (2008 – 10,967 bopd).

In 2009, production increased 104% to 22,360 bopd, primarily due to exploration drilling success at Corcel and Mapache along with additions from our development drilling program at Neiva. In Corcel, production increased 105% to 15,537 bopd, from five new wells. In Mapache, two successful exploration wells, Mapache-1 and Mirasol-1, were brought on production in March of 2009 creating a new production area for the Company. In Neiva, production increased 436% to 2,346 bopd, from 28 new wells drilled and completed using our multi-stage fracture completion technique.

Production for the fourth quarter increased 60% over the comparable 2008 period. Production increases are primarily due to drilling successes in Corcel, Mapache and Neiva. In Orito, production was higher in the fourth quarter of 2009 due to production additions from three new wells and in 2008 there was a general strike in the Putumayo region of southern Colombia that resulted in production being shut-in from November 20, 2008 through to January 5, 2009.

Production has continued to increase subsequent to year-end, averaging over 40,000 bopd in February 2010. The increase relates to production additions from the Candelilla-1 and 2 wells on our Guatiquia block.

Average Benchmark and Realized Prices

	Three months ended December 31,			Years ended December 31,		
($/bbl)	**2009**	2008	Change	**2009**	2008	Change
WTI	**76.19**	59.08	29%	**61.80**	99.75	(38%)
Sales price	**68.19**	50.02	36%	**56.49**	85.50	(34%)
Transportation	**4.57**	4.45	3%	**5.24**	3.23	62%
Other	**1.87**	-	-	**0.82**	-	-
Realized oil price	**61.75**	45.57	36%	**50.43**	82.27	(39%)
Discount as a percent of WTI	**19%**	23%	(17%)	**19%**	18%	6%

The majority of the Company's production is priced in relation to the Colombian Vasconia crude oil stream. During 2009, the discount between Vasconia and WTI narrowed, consistent with the general narrowing of heavy crude oil differentials. The Company's 2009 average realized oil prices changed mainly due to changes in the benchmark WTI price and the narrowing of the Vasconia crude discount compared to WTI.

All Corcel and Mapache production is trucked to various offloading stations. Transportation expenses increased to $5.24 per barrel from $3.23 per barrel in 2009, averaged over total Company sales volumes. Transportation expenses increased due to a higher proportion of production being trucked and an increasing proportion of oil was delivered to more distant stations. Fourth quarter 2009 transportation expenses were consistent with 2008 as the Company realized savings in trucking expenses from delivering to Monterrey which offset higher transportation expenses incurred from delivering higher production levels to more distant stations.

Other expenses relate to third party oil purchases made on a short-term basis to meet oil specifications at one offloading station. Oil purchases are recorded in the statement of operations as transportation and other expenses.

Access to pipeline and offloading infrastructure is critical to growing production in the region. Petrominerales has secured additional offloading capacity with the construction of the Monterrey facility that will give Petrominerales up to an additional 20,000 bopd of incremental offloading capacity in 2010. Monterrey is the closest offloading station to Corcel, and since oil deliveries commenced on July 9, 2009, our trucking costs for volumes delivered to Monterrey have been reduced to under $3.00 per barrel.

In addition, Petrominerales has entered into a contract to deliver a minimum of 10,000 bopd to an offloading station at Cusiana. Initial deliveries to this station are expected to commence in the second quarter of 2010.

Oil Revenue

Oil revenue in 2009 increased 35% due to a 105% increase in sales volumes, offset by 39% lower realized crude oil prices. Fourth quarter oil revenue increased 128% due to a 36% increase in crude oil prices and a 67% increase in sales volume over the comparable quarter.

Reconciliation of Changes in Revenue

	Three months ended December 31,	Year ended December 31,
Oil revenue, December 31, 2008	**70,610**	**343,182**
Sales volume variance	**47,231**	**358,642**
Price variance	**42,805**	**(238,169)**
Oil revenue, December 31, 2009	**160,646**	**463,655**
$ change in revenue	**90,036**	**120,473**
% change in revenue	**128%**	**35%**

Royalties

	Three months ended December 31,			Years ended December 31,		
	2009	2008	Change	**2009**	2008	Change
Royalties	**15,923**	5,510	189%	**42,159**	32,201	31%
$ per bbl	**6.76**	3.90	73%	**5.14**	8.02	(36%)
Royalties as a percent of realized oil price	**11%**	9%	22%	**10%**	10%	-

Colombian government royalties are fixed at a rate of eight percent until the Company's net production per field exceeds 5,000 bopd and then increase by one percent for each incremental 10,000 bopd of production per field. In addition, there is an eight percent net profits interest ("NPI") applicable to the Corcel Block. The NPI account is a cumulative balance that includes the deduction of capital investments such that when negative, no amount is payable.

In 2009, royalties increased 31% due to higher production offset by lower crude oil prices. In the fourth quarter, royalties increased 189% due to higher production combined with higher crude oil prices. Royalties as a percent of revenue increased to 11% in the fourth quarter of 2009 due to higher NPI charges and higher government royalties associated with the Corcel A structure as production exceeded 5,000 bopd during the quarter. On a year-to-date basis, royalties as a percentage of revenue in 2009 were consistent with the prior year.

Production Expenses

	Three months ended December 31,			Years ended December 31,		
	2009	2008	Change	**2009**	2008	Change
Production expenses	**17,945**	9,101	97%	**58,203**	33,995	71%
$ per bbl	**7.62**	6.45	18%	**7.09**	8.46	(16%)

In 2009, production expenses increased 71% primarily due to 104% higher production levels, on a per barrel basis production expenses decreased 16% to $7.09 per barrel. The reduction is primarily related to expansions of the Corcel central processing facilities in the third quarter of 2008 to increase fluid handling capacity. These permanent facilities replaced higher cost, less efficient temporary facilities resulting in improved production expenses through the last two quarters of 2008 and into 2009. In addition, as a portion of the Company's production expenses are fixed, when combined with higher production, has resulted in lower per barrel production expenses.

The fourth quarter production expenses on a per barrel basis increased to $7.62 mainly due to higher fluid volumes that resulted in higher water handling and water treatment costs.

The Colombian national oil company, Ecopetrol, is responsible for primary production operations at Orito and Neiva at a cost (subject to annual inflation, currency, and other adjustments) of $4.83 per barrel and $2.63 per barrel, respectively, in 2009.

General and Administrative Expenses

	Three months ended December 31,			Three months ended December 31,		
	2009	2008	Change	**2009**	2008	Change
General and administrative expenses	**3,859**	2,413	60%	**12,091**	10,076	20%
$ per bbl	**1.64**	1.71	(4%)	**1.47**	2.51	(41%)

In 2009, the increases in general and administrative expenses were primarily due to additional personnel as a result of expanding operations. On a per barrel basis, the fourth quarter costs decreased 4% to $1.64 per barrel while the year-to-date costs decreased 41% to $1.47 per barrel mainly due to higher production levels.

Stock-Based Compensation Expenses

	Three months ended December 31,			Three months ended December 31,		
	2009	2008	Change	**2009**	2008	Change
Stock-based compensation expenses	**1,094**	792	38%	**4,513**	2,631	72%

Stock-based compensation expenses relate to stock options, deferred common shares and incentive shares granted. The calculation of this non-cash expense is based on the fair value of stock options, deferred common shares and incentive shares granted, amortized over the vesting period of the option and incentive share, or immediately upon grant of the deferred common shares.

The increase in 2009 stock-based compensation is due to higher stock options outstanding associated with higher staffing levels.

Interest Income

	Three months ended December 31,			Years ended December 31,		
	2009	2008	Change	**2009**	2008	Change
Interest Income	**15**	411	(96%)	**348**	2,379	(85%)

In 2009, interest income on cash and cash equivalents decreased due to lower cash balances and interest rates.

Interest Expense

	Three months ended December 31,			Years ended December 31,		
	2009	2008	Change	**2009**	2008	Change
Cash interest and other charges	**1,191**	1,274	(7%)	**4,866**	5,473	(11%)
Accretion on convertible debentures	**1,156**	1,124	3%	**4,426**	4,763	(7%)
Amortization of deferred financing costs	**129**	129	-	**517**	475	9%
Interest Income	**2,476**	2,527	(2%)	**9,809**	10,711	(8%)

Interest expense includes interest on bank debt and convertible debentures, fees on letters of credit, amortization of deferred financing costs and non-cash accretion expense related to convertible debentures. Interest expense decreased in the year ended December 31, 2009 mainly due to $18.3 million of convertible debentures repurchased in the fourth quarter of 2008. Interest expense for the fourth quarter was consistent with the comparable 2008 period; lower interest expense incurred on convertible debentures was offset by interest incurred on bank debt and local credit lines.

Foreign Exchange (Gain) Loss

	Three months ended December 31,			Years ended December 31,		
	2009	2008	Change	**2009**	2008	Change
Foreign exchange (gain) loss	**(2,033)**	773	-	**8.274**	956	766%

The Colombian peso devaluated 6% relative to the U.S. dollar in the three months ended December 31, 2009, from 1,922:1 at September 30, 2009 to 2,044:1 at December 31, 2009. This change in exchange rates resulted in a $2.0 million foreign exchange gain primarily on Colombian peso denominated accounts payable and future income tax liabilities. During the year ended December 31, 2009, the Colombian peso appreciated 9% relative to the U.S. dollar which resulted in an $8.3 million foreign exchange loss. Changes in the Colombian peso exchange rate also impact the Company's U.S. dollar denominated expenses and expenditures as approximately 60% of the Company's expenditures are incurred in Colombian pesos.

Depletion, Depreciation and Accretion ("DD&A") Expenses

	Three months ended December 31,			Years ended December 31,		
	2009	2008	Change	**2009**	2008	Change
DD&A expenses	**42,797**	28,834	48%	**159,609**	83,302	92%
$ per bbl	**18.17**	20.43	(11%)	**19.44**	20.75	(6%)

DD&A expenses increased in 2009 mainly due to production increases. The annual and fourth quarter rates per barrel decreased by 6% and 11%, respectively, mainly due to a 43% increase in gross total proved reserves to 36.0 million barrels.

Tax Expense

	Three months ended December 31,			Years ended December 31,		
	2009	2008	Change	**2009**	2008	Change
Equity and presumptive income tax	**503**	443	(14%)	**1,869**	2,057	(9%)
Current income tax (recovery)	**2,098**	(11,355)	(119%)	**7,336**	4,736	55%
Future income tax	**9,605**	13,731	(30%)	**10,251**	22,964	(55%)
Tax expense	**12,206**	2,819	333%	**19,456**	29,757	(35%)
Effective tax rate	**19%**	14%	(43%)	**16%**	19%	16%

The Company's pre-tax income is subject to the Colombian statutory income tax rate of 33%. Equity tax is based on equity capitalization levels in Colombia. Presumptive income tax is charged in periods where taxable income is below certain thresholds, and when paid, can be carried forward for five years and be recovered against income taxes in future periods. The Company had an effective tax rate of 19% in the fourth quarter of 2009 and 16% for year-to-date 2009. The effective tax rates are lower than the Colombian statutory income tax rate largely as a result of enhanced tax allowances for the acquisition of fixed assets.

Net Income

In 2009, net income decreased 24% to $100.1 million primarily due to lower commodity prices and higher depletion offset by higher sales volumes. For the fourth quarter, net income increased 153% to $51.2 million mainly due to higher sales volumes and commodity prices.

Petrominerales has generated significant growth in sales volumes organically, without issuing new equity. The number of Petrominerales common shares outstanding in 2009 decreased by 788,514 common shares due to the net effect of a share repurchase program. As a result, while net income decreased 24% in 2009, net income per share only decreased by 22%.

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

Reconciliation of Changes in Net Income

	Three months ended December 31,		Years ended December 31,	
		Per share, diluted		Per share, diluted
Net income, December 31, 2008	20,278	0.20	131,144	1.28
Increase (decrease) due to:				
Sales volumes	47,231	0.46	358,642	3.49
Realized oil prices	42,805	0.41	(238,169)	(2.31)
Royalties	(10,413)	(0.10)	(9,958)	(0.10)
Operating expenses	(8,844)	(0.09)	(24,208)	(0.23)
Transportation and other expenses	(8,907)	(0.08)	(36,781)	(0.37)
General and administrative expenses	(1,446)	(0.01)	(2,015)	(0.02)
DD&A	(13,963)	(0.13)	(76,307)	(0.75)
Taxes	(9,387)	(0.09)	10,301	0.11
Other [(1)]	(6,143)	(0.06)	(12,503)	(0.10)
Net income, December 31, 2009	**51,211**	**0.51**	**100,146**	**1.00**

(1) Other includes interest income, gain (loss) on risk management contracts, stock-based compensation expenses, interest expense, gain on repurchase of convertible debentures and foreign exchange (gain) loss.

Funds Flow from Operations

In 2009, funds flow from operations increased 21% to $283.8 million primarily due to higher sales volumes offset by lower commodity prices and related transportation and operating expenses. For the fourth quarter, funds flow from operations increased 84% to $106.2 million mainly due to higher sales volumes and commodity prices. On a per share basis, funds flow from operations increased 24% in 2009 and 84% in the fourth quarter, reflecting accretive per share production growth.

The following table summarizes the changes in funds flow from operations.

Reconciliation of Changes in Funds Flow from Operations

	Three months ended December 31,		Years ended December 31,	
		Per share, diluted		Per share, diluted
Funds flow from operations, 2008	57,813	0.56	234,534	2.25
Increase (decrease) due to:				
Sales volumes	47,231	0.46	358,642	3.49
Realized oil prices	42,805	0.41	(238,169)	(2.31)
Royalties	(10,413)	(0.10)	(9,958)	(0.10)
Operating expenses	(8,844)	(0.09)	(24,208)	(0.23)
Transportation and other expenses	(8,907)	(0.08)	(36,781)	(0.37)
General and administrative expenses	(1,446)	(0.01)	(2,015)	(0.02)
Foreign exchange	1,842	0.01	(4,729)	(0.03)
Interest	831	0.01	352	0.02
Risk management contracts	(1,228)	(0.02)	8,568	0.09
Taxes	(13,513)	(0.12)	(2,412)	(0.01)
Funds flow from operations, 2009	**106,171**	**1.03**	**283,824**	**2.78**

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

	Three months ended December 31,			Years ended December 31,		
	2009	2008	Change	**2009**	2008	Change
Funds flow from operations: Non-GAAP	**106,171**	57,811	84%	**283,824**	234,534	21%
Changes in non-cash working capital	**43,708**	61,173	(29%)	**(4,809)**	(25,171)	81%
Cash flow from operating activities: GAAP	**149,879**	118,984	26%	**279,015**	209,363	33%

Capital Expenditures Three months ended December 31, 2009	Seismic, Geological & Geophysical	Drilling and Completions	Facilities and Infrastructure	HSEC	Total
Corcel	1,126	2,815	18,198	907	23,046
Neiva	100	15,663	1,940	447	18,150
Guatiquia	28	13,113	4,095	569	17,805
Peru	6,759	-	-	-	6,759
Heavy Oil	288	5,872	-	386	6,546
Mapache	49	2,383	3,219	395	6,046
Exploration	422	-	282	1,170	1,874
Orito	18	143	1,500	96	1,757
Total	**8,790**	**39,989**	**29,234**	**3,970**	**81,983**

Fourth quarter capital expenditures at Corcel included facilities costs at the Corcel central processing facility to increase fluid handling, completion costs for the A2 side-track well, initial costs related to the 2010 3D seismic acquisition program and civil construction costs related to the 2010 drilling program. Neiva expenditures included drilling and completing eight oil wells and five well optimizations. Guatiquia expenditures related to drilling, completing and testing the Percheron-1 and Candelilla-1 wells and initial production facilities on the block. Activities in Peru related to the acquisition of 150 square kilometres of 3D seismic on Block 126. Heavy oil block expenditures related to drilling, completion and testing of the Rio Ariari-1 well. Mapache expenditures included costs for facilities expansion to increase fluid handling capacity and well optimizations performed on the Mirasol-1 and Mapache-1 wells. Exploration activity included civil construction costs associated with 2010 central Llanos exploration wells. Orito expenditures related primarily to a water flood pilot project.

Capital Expenditures Year ended December 31, 2009	Seismic, Geological & Geophysical	Drilling and Completions	Facilities and Infrastructure	HSEC	Total
Corcel	1,459	45,415	41,397	3,521	91,792
Neiva	406	57,378	7,765	1,297	66,846
Orito	181	22,045	3,484	520	26,230
Heavy Oil	4,892	11,296	7,915	1,186	25,289
Guatiquia	98	13,163	7,706	1,107	22,074
Mapache	4,706	5,542	9,173	758	20,179
Exploration	15,002	767	800	2,154	18,723
Peru	9,746	-	-	-	9,746
Total	**36,490**	**155,606**	**78,240**	**10,543**	**280,879**

Year to date capital expenditures at Corcel included costs associated with drilling and completing six wells, expansions at the Corcel central processing facility to increase fluid handling capacity to 140,000 barrels of fluid per day and initial costs related with the 2010 3D seismic acquisition program. Neiva expenditures included drilling 31 oil wells, completing 28 wells and performing well optimizations on 15 wells. Orito expenditures included drilling three oil wells and completing four wells and facilities costs related primarily to a water flood pilot project. Heavy oil block expenditures related to drilling three wells and the acquisition of 50 square kilometres of 3D seismic on the Rio Ariari block. Guatiquia expenditures related to drilling, completing and testing the Percheron-1 and Candelilla-1 wells and initial production facilities on the block. Mapache expenditures included completion of Mapache-1 and Mirasol-1 wells, facilities costs for increasing fluid handling capacity, and the acquisition of 91 square kilometres of 3D seismic to the south of our initial discoveries. Exploration activity included the acquisition of 297 square kilometres of 3D seismic on our Casimena, Castor and Casanare Este blocks. Activities in Peru related to the acquisition of 150 square kilometres of 3D seismic on Block 126.

SUMMARY OF QUARTERLY RESULTS

				2009				2008
Financial	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
($000s except where noted)								
Crude oil revenue	**160,646**	**121,833**	**104,823**	**76,352**	70,610	125,065	77,915	69,592
Funds flow from operations	**106,171**	**71,709**	**64,098**	**41,846**	57,813	78,343	53,225	45,153
Per share – basic ($)	**1.08**	**0.73**	**0.65**	**0.42**	0.58	0.78	0.53	0.45
– diluted ($)	**1.03**	**0.71**	**0.63**	**0.42**	0.56	0.75	0.51	0.43
Net income	**51,211**	**26,224**	**15,323**	**7,388**	20,278	57,951	30,687	22,228
Per share – basic ($)	**0.52**	**0.27**	**0.16**	**0.07**	0.20	0.58	0.31	0.22
– diluted ($)	**0.51**	**0.26**	**0.15**	**0.07**	0.20	0.57	0.30	0.21
Capital expenditures	**81,983**	**53,998**	**79,527**	**65,371**	46,861	73,080	79,714	68,498
Operations								
Operating netback ($/bbl)								
WTI benchmark price	**76.19**	**68.24**	**59.79**	**43.08**	59.08	118.22	123.80	97.82
Crude oil sales price	**61.75**	**55.56**	**47.96**	**33.79**	45.57	105.90	114.57	86.19
Royalties	**6.76**	**5.45**	**4.30**	**3.67**	3.90	11.22	10.83	8.22
Production expenses	**7.62**	**7.92**	**6.76**	**5.92**	6.45	8.02	10.75	10.82
Operating netback	**47.37**	**42.19**	**36.90**	**24.20**	35.22	86.66	92.99	67.15
Crude oil production (bopd)	**24,555**	**21,546**	**21,548**	**21,771**	15,344	12,485	7,339	8,635

Significant factors influencing quarterly results were:

- Since mid-2007, production has grown from 7,339 bopd to 24,555 bopd in Q4 2009, mainly due to drilling successes on the Corcel block.
- Second quarter 2008 production was impacted by the Corcel-A1 and A2 wells being offline for 24 and 15 days, respectively, for workover operations.
- Fourth quarter 2008 production increased due mainly to new production additions from the Corcel-C3 and D1 wells, offset by a temporary suspension of operations at the Orito field from November 20, 2008 to January 5, 2009 due to a general strike in the Putumayo region.
- First quarter 2009 production increased due mainly to the Corcel-D2 well, two wells on the Mapache block, and six new wells at Neiva.
- Between the end of the third quarter of 2008 and the third quarter of 2009, crude oil prices declined significantly, negatively affecting crude oil revenues, funds flow from operations and net income for those periods.
- Second and third quarter production in 2009 has remained constant due to new production additions offsetting natural production declines.
- Fourth quarter 2009 production increased mainly due to the Corcel-A2 side-track well.

Commitments

The following is a summary of the Company's contractual commitments as at December 31, 2009:

Type of Obligation	Total	< 1 Year	1-3 Years	Thereafter
Convertible debentures (1)	**81,700**	81,700	-	-
Colombia - Exploration contracts (2)	**68,100**	40,900	27,200	-
Transportation contract (3)	**53,365**	5,915	35,588	11,862
Peru – Exploration contract (2)	**1,400**	1,400	-	-
Monterrey - offloading facility	**2,400**	2,400	-	-
Office lease	**9,400**	1,800	3,800	3,800
Total	**216,365**	**134,115**	**66,588**	**15,662**

(1) The convertible debentures mature on December 6, 2010.

(2) Pursuant to exploration contracts, the Company has work commitments totaling $69.4 million to be completed during the next three years. The work commitments are normal course of business exploration activities that include property costs, acquisition and processing of seismic data and drilling exploration wells. The Company has issued letters of credit totaling $18.8 million and pledged $1.4 million in restricted cash to guarantee the obligations under these exploration contracts

(3) The Company entered into a take-or-pay transportation contract to deliver up to 10,000 barrels of oil per day in the Llanos Basin of Colombia.

Liquidity and Capital Resources

Petrominerales' 2009 capital program was funded internally from operating cash flows. The 2010 capital program will be funded through a combination of existing cash balances, operating cash flows, and prudent use of its credit facilities. At December 31, 2009, Petrominerales had cash and cash equivalents of $61.6 million and an undrawn $150 million borrowing base. The Company believes it is well positioned financially with significant available credit capacity, assets that are providing strong production growth and operating netbacks along with an extensive inventory of exploration prospects.

Petrominerales has a revolving credit facility with a $150 million borrowing base that is undrawn. The borrowing base is reviewed with the lender semi-annually. The Company also has $81.7 million of convertible debentures outstanding that mature on December 6, 2010. The debentures are convertible into common shares of the Company at the option of the holder at a conversion price of $27.3485 per share. If the convertible debentures are not converted to equity before maturity, Petrominerales has an option to force conversion of the debentures at the prevailing conversion price should the price of the Company's common shares exceed 130 percent of the prevailing conversion price of the debentures for 20 trading days within a period of 30 consecutive trading days. Petrominerales has a number of alternatives to repay the debentures on maturity that include, but are not limited to, issuing additional debt, using the revolving credit facility, issuing equity or using potential cash on hand to be generated from operations. Petrominerales also maintains local Colombian operating lines of credit of $31.4 million that are primarily used to issue letters of credit to support exploration contracts. At December 31, 2009, letters of credit issued against the Colombian operating lines of credit totalling $18.9 million.

The Company is in compliance with the covenants contained in our credit facility and convertible debenture agreements. The credit facility contains financial covenants to maintain a ratio of bank debt to trailing twelve month earnings before interest, tax, depletion, depreciation and amortization under 3.0 times and to maintain a current ratio greater than 1.0 time (current assets divided by current liabilities less unused bank debt and the liability portion of convertible debentures). The convertible debentures have financial covenants to maintain a ratio of book value of equity to total assets of at least 30% and to limit the amount of security and encumbrances the Company has on book value its total assets to 27.5%.

Petrominerales' assets provide significant funds flow from operations and are the Company's largest resource of liquidity. The Company has a history of generating positive funds flow from operations, and recorded funds flow from operations of $106.2 million in the fourth quarter of 2009 and $283.8 million for the year ended December 31, 2009.

During the year ended December 31, 2009, the Company repurchased 1,991,000 (2008 – 1,326,000) common shares under a Normal Course Issuer Bid ("NCIB") at an average cost of $9.20 (Cdn.$10.94) per share at a total cost of $18.3 million (2008 - $11.6 million). During the NCIB, from August 17, 2008 to August 17, 2009, Petrominerales repurchased a total of 3,317,000 common shares. All common shares acquired under the NCIB were cancelled.

Outstanding Share Data

The aggregate number of Petrominerales common shares, stock options, deferred common shares and incentive shares outstanding at February 26, 2010 was 104,850,673 (common shares – 98,713,010, stock options – 5,992,089, deferred common shares - 97,844, incentive shares – 47,730).

Transactions with Related Parties

The Company is party to a Management Services Agreement with Petrobank providing for the services of the President and Chief Executive Officer, Vice-President Finance and Chief Financial Officer, as well as other services, including corporate, administration, financial, treasury, accounting, information technology, human resources support and office space for Petrominerales employees located in Calgary, Alberta. The fee is based on a negotiated value for services provided. From January 1, 2009 to March 31, 2009, Petrominerales paid a monthly fee of Cdn$75,000. Effective April 1, 2009, the monthly fee was increased to Cdn$130,000. Amounts paid to Petrobank under this agreement totalled $1.3 million for the year ended December 31, 2009 (2008 – $0.8 million) and were recorded as general and administrative expense.

Risks and Uncertainties

Petrominerales is exposed to a variety of risks including, but not limited to, competitive, operational, political, environmental and financial risks.

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

The Company is exposed to a high level of exploration risk. The volume of production from oil and natural gas properties generally declines as reserves are depleted, with the rate of decline depending on reservoir characteristics. The Company's proved reserves will decline as reserves are produced from its properties unless it is able to acquire or develop new reserves. The business of exploring for, developing or acquiring reserves is capital intensive and is subject to numerous estimates and interpretations of geological and geophysical data. There can be no assurance the Company's future exploration, development and acquisition activities will result in additional proved reserves. To manage this risk, Petrominerales employs highly experienced geologists and geophysicists, uses technology and 3D seismic as primary exploration tools and focuses exploration efforts in known hydrocarbon producing basins. In addition, Petrominerales takes a portfolio approach to exploration drilling by having drilling locations spread out among different exploration blocks, geological basins and targeting multiple play-types.

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

Due to overall increased crude oil production in Llanos region, pipeline capacity can be constrained. When this occurs, some producer's ability to transport oil through the pipeline system may be restricted. In order to mitigate the risk of reducing production, Petrominerales has participated in the construction of the Monterrey offloading station which secures Petrominerales access of 20,000 bopd. We have also signed a contract to secure access and transportation for an additional 10,000 bopd of oil offloading capacity at Cusiana and signed contracts with companies that have ownership in refineries or pipelines to secure additional capacity.

Petrominerales currently has operations in Colombia and Peru and from time to time may evaluate additional projects internationally. To help mitigate the risks associated with operating in foreign jurisdictions, the Company seeks to operate in regions where the petroleum industry is a key component of the economy. Petrominerales believes that management's experience operating both in Colombia and in other international jurisdictions helps reduce these risks. Some countries in which the Company may operate may be considered politically and economically unstable. In Colombia and Peru, the governments have a long history of democracy and an established legal framework that, in Petrominerales' opinion, minimizes political risks. The Company and its personnel may be subject to security risks, but through effective security and social programs, Petrominerales believes these risks can be effectively managed. It is difficult to obtain insurance coverage to protect against terrorist incidents and as a result the Company's insurance program excludes this coverage. Consequently, incidents like this in the future could have a material adverse impact on the Company's operations.

Petrominerales is exposed to a number of operational risks inherent in the industry including accidents, well blowouts, uncontrolled flows, labour strikes and environmental risks. Operational risks are managed using prudent field operating procedures. The Company has a detailed emergency response plan to deal with potential incidents and maintains a comprehensive insurance program to reduce the risk of significant economic loss; however, not all risks can be eliminated. Losses resulting from the occurrence of these risks could have a material adverse impact on the Company's operations.

The Company is subject to extensive governmental and environmental approvals and regulations in its operating jurisdictions. Delays in obtaining regulatory approvals could result in project delays and our inability to meet contractual obligations. Changes to these regulations could increase the costs of conducting business in these jurisdictions. Environmental risks inherent in the oil and gas industry are subject to increasingly stringent legislation and regulation. The Company operates in accordance with all relevant environmental legislation and strives to minimize the environmental impact of its operations by providing for safety and environmental issues in all of its business plans.

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

The Company is exposed to normal financial risks inherent within the oil and gas industry, including commodity price risk, exchange rate risk, interest rate risk and credit risk. Management believes it is neither appropriate nor possible to eliminate 100 percent of the Company's exposure to these risks. As described in Note 13 to the Company's 2009 consolidated financial statements, the Company monitors market conditions, and may periodically utilizes derivative instruments to mitigate these risks.

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

Sensitivities

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

Change of:			**(millions)**
Crude oil	$1.00/bbl WTI reference price (assuming 45,000 bopd)	**$**	**14.0**
	1,000 bopd of production @ $75/bbl WTI	**$**	**15.2**

Critical Accounting Policies and Estimates

The Company's financial statements are prepared in accordance with Canadian GAAP, which require management to make judgements, estimates and assumptions, which may have a significant impact on the financial statements. A summary of the Company's significant accounting policies can be found in Note 2 to the Company's 2009 consolidated financial statements. The following is a discussion of those accounting policies and estimates that are considered critical in the determination of the Company's financial results.

Capital Assets — Full Cost Accounting

The Company follows the full cost method of accounting and alternatively, could follow the successful efforts method of accounting whereby all costs related to non-productive wells are expensed in the period in which they are incurred.

Under the full cost method of accounting, capitalized costs are subject to a country-by-country cost centre impairment test. Under the successful efforts method of accounting, the costs are aggregated on a property-by-property basis and the carrying value of each property is subject to an impairment test. These policies may result in a different carrying value for capital assets and a different net income. The full cost method is the method most commonly followed by Petrominerales' peer group of companies.

Under full cost accounting, a limit is placed on the carrying value of the net capitalized costs in each cost centre in order to test impairment. Impairment exists when the carrying value of developed properties of a cost centre exceeds the estimated undiscounted future net cash flows associated with the cost centre's proved reserves. Costs relating to undeveloped properties are subject to individual impairment assessments until it can be determined whether or not proved reserves exist. If impairment is determined to exist, the costs carried on the balance sheet in excess of the discounted future net cash flows associated with the cost centre's proved plus probable reserves are charged to income.

Reserve Estimates

Reserve estimates can have a significant impact on net income and the carrying value of capital assets. The process of estimating reserves requires significant judgement based on available geological, geophysical, engineering, and economic data, projected rates of production, estimated commodity price forecasts and the timing of future expenditures, all of which are subject to interpretation and uncertainty. Reserve estimates impact net income through depletion expense and the application of impairment tests. Revisions or changes in reserve estimates can have either a positive or a negative impact on net income and can impact the carrying amount of capital assets.

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

Future Income Taxes

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

Changes in Accounting Policies

Goodwill and Intangible Assets

On January 1, 2009, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3064, "Goodwill and Intangible Assets". The new section replaces the previous goodwill and intangible asset standard and revises the requirement for recognition, measurement, presentation and disclosure of intangible assets. The adoption of this standard had no impact on the Company's consolidated financial statements.

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

On January 1, 2009, the Company adopted the CICA's EIC-173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities". The EIC provides guidance on how to take into account credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments. The adoption of this EIC had no impact on the Company's consolidated financial statements.

Business Combinations

On January 1, 2009, the Company adopted CICA Section 1582, "Business Combinations", which will replace the former guidance on business combinations. Under the new standard, the purchase price used in a business combination is based on the fair value of consideration exchanged at the date of exchange. Currently the purchase price used is based on the fair value of the consideration for a reasonable period before and after the date of acquisition is agreed upon and announced. The new standard requires all acquisition costs be expensed, which are currently capitalized as part of the purchase price. In addition, the new standard modified the accounting for contingent consideration and negative goodwill. The adoption of this standard will impact the accounting treatment of future business combinations

Consolidated Financial Statements

On January 1, 2009, the Company adopted CICA Sections 1601, "Consolidated Financial Statements", and 1602, "Non-controlling Interests", which replaces existing guidance. Section 1601 establishes standards for the preparation of consolidated financial statements and Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary subsequent to a business combination. The adoption of these standards had no impact on the Company's consolidated financial statements.

Financial Instruments – Amended Disclosures

Effective December 31, 2009, Petrominerales adopted CICA issued amendments to Handbook Section 3862, "Financial Instruments – Disclosures". The amendments include enhanced disclosures relating to the fair value of financial instruments and the liquidity risk associated with financial instruments. Section 3862 now requires that all financial instruments measured at fair value be categorized into one of three hierarchy levels. Refer to Note 13 Financial Instruments and Financial Risk Management for enhanced fair value disclosures. The amendments are consistent with recent amendments to financial instrument disclosure standards in IFRS.

International Financial Reporting Standards

In February 2008, the AcSB confirmed the convergence of Canadian GAAP with International Financial Reporting Standards ("IFRS") will be required for interim and annual financial statements effective for fiscal years beginning on or after January 1, 2011, including comparatives for 2010.

Petrominerales has established a project plan and project team to complete the transition to IFRS on January 1, 2011 including the preparation of comparative information for 2010. Education and training sessions have commenced for employees throughout the organization. Discussions and coordination with Petrominerales' external auditors are underway and will continue throughout the balance of the year. Regular project status reporting is provided to senior management and to the Audit Committee of the Board of Directors.

The project plan consists of three phases: Phase 1 Initial Scoping; Phase 2 Detailed Assessment and Design and Phase 3 Implementation. Petrominerales completed the first phase during 2008 and 2009, which involved: a high level review of the major differences between Canadian GAAP and IFRS; a detailed timeline for assessing resources; initial assessments of the impacts to accounting and reporting processes; information systems; business processes; external disclosures and training requirements.

The Company is currently engaged in the Detailed Assessment and Design phase and the Implementation phase of the project. Work teams are assessing and preparing comprehensive analyses of the impact of IFRS differences from Canadian GAAP identified in the initial scoping phase. In addition, an evaluation of the impact of IFRS on financial systems, internal controls over financial reporting and an analysis of IFRS 1 is underway.

The transition to IFRS requires the Company to apply IFRS 1, which prescribes requirements for preparing IFRS-compliant financial statements in the first reporting period after the changeover date (January 1, 2010). IFRS 1 includes a requirement for retrospective application of each IFRS as if they were always in effect. IFRS 1 also mandates certain exemptions for retrospective application and provides optional exemptions from retrospective application to ease the transition to IFRS in the transition year.

In July 2009, the International Accounting Standards Board approved amendments and released additional exemptions to IFRS 1 "Additional Exemptions for First-time Adopters" which prescribes transitional exemptions for oil and gas companies following full cost accounting. The amendment allows an entity that used full cost accounting under its previous GAAP to elect, at its time of adoption, to measure exploration and evaluation assets at the amount determined under the entity's previous GAAP and to measure oil and natural gas assets in the development or production phases by allocating the amount determined under the entity's previous GAAP for those assets, to the underlying assets pro rata using reserve volumes or reserve values as of the date of transition, subject to an impairment test as prescribed under IFRS. This exemption will allow Petrominerales to apply IFRS to its full cost pools on a prospective basis, from date of transition to IFRS.

Significant differences that have been identified between Canadian GAAP and IFRS are: accounting for property, plant & equipment (PP&E), including exploration costs, depletion and depreciation, impairment testing, capitalized interest, asset retirement obligations and share-based payments. At this time, the impact on the consolidated financial statements is not reasonably determinable.

As the Company identifies and adopts IFRS policies, implementation of the necessary changes to business processes, financial systems, accounting policies, disclosure controls and procedures and internal controls over financial reporting will be executed.

Petrominerales continues to perform the necessary research to develop and document IFRS policies by monitoring the development of standards issued by the International Accounting Standards Board and the Canadian Accounting Standards Board, as well as regulatory pronouncements issued by the Canadian Securities Administrators, which may affect the timing, nature or disclosure of the Company's adoption of IFRS. In addition, IFRS may change prior to adoption in 2011, and the impact of these potential changes is not known. At this time, the impact of the adoption of IFRS on the Company's future financial position and results of operations is not reasonably determinable. Key information will be disclosed as it becomes available during the transition period.

The Company will also continue to monitor standards development as issued by the IASB and the AcSB as well as regulatory developments as issued by the Canadian Securities Administrators (CSA), which may affect the timing, nature or disclosure of its adoption of IFRS.

Regulatory Policies

Certification of Disclosures in Annual Filings

In accordance with Multilateral Instrument 52-109 of the Canadian Securities Administrators, the Company annually issues a "Certification of Annual 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.

The certifying officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Company's DC&P and ICFR and, based on such evaluation, concluded that the Company maintained effective DC&P and ICFR as of December 31, 2009.

During the year ended December 31, 2009, 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

In addition to the plans discussed in this MD&A, please see the Company's 2009 Annual Report and press release outlining the Company's expanded 2010 drilling campaign, issued on November 30, 2009.

Management's Report

Management is responsible for the integrity and objectivity of the information contained in this report and for the consistency between the consolidated financial statements and other financial and operating data contained elsewhere in this report. The accompanying consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada using estimates and careful judgement, particularly in those circumstances where transactions affecting a current period are dependent upon future events. The accompanying consolidated financial statements have been prepared using policies and procedures established by management and fairly reflect the Company's financial position, results of operations and changes in financial position, within Canadian generally accepted accounting principles. Management has established and maintains a system of internal controls that is designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and the financial information is reliable and accurate.

The Company's external auditors, Deloitte & Touche LLP, have examined the consolidated financial statements. Their examination provides an independent view as to management's discharge of its responsibilities insofar as they relate to the fairness of reported financial results and the financial condition of the Company.

The Audit Committee of the Board of Directors has reviewed in detail the consolidated financial statements with management and the external auditors. The Audit Committee has reported its findings to the Board of Directors who have approved the consolidated financial statements.

John D. Wright
President & Chief Executive Officer

Corey C. Ruttan
Vice President Finance & Chief Financial Officer

Calgary, Canada
March 1, 2010

Auditors' Report

To the Shareholders of Petrominerales Ltd.:

We have audited the consolidated balance sheets of Petrominerales Ltd. (the "Company") as at December 31, 2009 and 2008 and the consolidated statements of operations and retained earnings, comprehensive income and cash flow for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Petrominerales Ltd. as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Calgary, Canada
March 1, 2010

Deloitte & Touche LLP
Chartered Accountants

Consolidated Balance Sheets

(Thousands of United States dollars)

As at December 31,		2009		2008
Assets				
Current assets				
Cash and cash equivalents	$	61,600	$	82,174
Restricted cash (Note 7)		1,375		4,481
Accounts receivable (Note 13)		55,992		24,968
Inventory		1,376		-
		120,343		111,623
Other assets (Note 4)		26,594		2,657
Capital assets (Note 5)		573,179		451,425
Total assets	$	720,116	$	565,705
Liabilities and Shareholders' Equity				
Current liabilities				
Accounts payable and accrued liabilities	$	106,834	$	62,724
Convertible debentures (Note 8)		76,829		-
		183,663		62,724
Future income tax liabilities (Note 10)		34,724		21,885
Convertible debentures (Note 8)		-		72,403
Asset retirement obligations (Note 9)		6,748		5,412
		225,135		162,424
Shareholders' equity				
Convertible debentures (Note 8)		10,407		10,407
Common shares (Note 6)		197,709		194,859
Contributed surplus (Note 6)		7,328		4,191
Accumulated other comprehensive income (Note 6)		16,024		16,024
Retained earnings		263,513		177,800
		494,981		403,281
Total liabilities and shareholders' equity	$	720,116	$	565,705

Commitments and contingencies (Note 15)

See accompanying notes to these consolidated financial statements.

Signed on behalf of the Board:

Jerald L. Oaks
Chairman

Kenneth R. McKinnon
Director

Consolidated Statements of Operations and Retained Earnings

(Thousands of United States dollars, expcept per share amounts)

Years ended December 31,	2009	2008
Revenues		
Oil	$ 463,655	$ 343,182
Royalties	(42,159)	(32,201)
Loss on risk management contracts (Note 13)	-	(2,772)
Interest income	348	2,379
	421,844	310,588
Expenses		
Production	58,203	33,995
Transportation and other	49,743	12,962
General and administrative	12,091	10,076
Stock-based compensation (Note 6)	4,513	2,631
Interest (Note 8)	9,809	10,711
Foreign exchange loss	8,274	956
Gain on repurchase of convertible debentures (Note 8)	-	(4,946)
Depletion, depreciation and accretion	159,609	83,302
	302,242	149,687
Income before taxes	119,602	160,901
Tax expense (Note 10)	19,456	29,757
Net income	100,146	131,144
Retained earnings, beginning of year	177,800	53,393
Repurchase of common shares (Note 6)	(14,433)	(9,037)
Repurchase of convertible debentures (Note 8)	-	2,300
Retained earnings, end of year	$ 263,513	$ 177,800
Basic earnings per share (Note 6)	$ 1.02	$ 1.31
Diluted earnings per share (Note 6)	$ 1.00	$ 1.28

See accompanying notes to these consolidated financial statements.

Consolidated Statements of Comprehensive Income

(Thousands of United States dollars)

Years ended December 31,	2009	2008
Net income	$ 100,146	$ 131,144
Other comprehensive income	-	-
Comprehensive income	$ 100,146	$ 131,144

See accompanying notes to these consolidated financial statements.

Consolidated Statements of Cash Flow

(Thousands of United States dollars)

Years ended December 31,	2009	2008
Operating Activities		
Net income	$ 100,146	$ 131,144
Depletion, depreciation and accretion	159,609	83,302
Future income taxes	10,251	22,964
Accretion on convertible debentures	4,426	4,761
Stock-based compensation	4,513	2,631
Unrealized foreign exchange loss	2,588	-
Amortization of other assets	2,291	475
Unrealized gain on risk management contracts	-	(5,797)
Gain on repurchase of convertible debentures	-	(4,946)
	283,824	234,534
Changes in non-cash working capital (Note 14)	(4,809)	(25,171)
	279,015	209,363
Financing Activities		
Issuance of common shares – net of costs	5,365	1,715
Financing costs	(5,421)	(300)
Repurchase of common shares (Note 6)	(18,324)	(11,636)
Repurchase of convertible debentures	-	(11,143)
Repayment of bank debt	-	(10,000)
	(18,380)	(31,364)
Investing Activities		
Expenditures on capital assets	(280,879)	(267,763)
Expenditures on other assets	(20,696)	(2,141)
Changes in restricted cash	3,106	(4,481)
Changes in non-cash working capital (Note 14)	17,260	7,464
	(281,209)	(266,921)
Net change in cash and cash equivalents	(20,574)	(88,922)
Cash and cash equivalents, beginning of year	82,174	171,096
Cash and cash equivalents, end of year	$ 61,600	$ 82,174
Cash and cash equivalents consist of:		
Cash	$ 5,121	$ 4,873
Cash equivalents	$ 56,479	$ 77,301
Other cash flow information:		
Cash taxes paid	$ 1,905	$ 3,964
Cash interest paid	$ 5,039	$ 5,155
Cash interest received	$ 347	$ 2,193

See accompanying notes to these consolidated financial statements.

Notes to the Consolidated Financial Statements

As at and for the years ended December 31, 2009 and 2008

(All tabular amounts are expressed in thousands of United States dollars, except share amounts or as otherwise noted)

NOTE 1 – FORMATION OF THE COMPANY AND BASIS OF PRESENTATION

Petrominerales Ltd. ("Petrominerales" or the "Company"), is a public company listed on the Toronto Stock Exchange and was incorporated in the Bahamas on April 20, 2006. Petrominerales is involved in the exploration, development and production of crude oil in Colombia and Peru.

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") as described in Note 2.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

Consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries as at and for the years ended December 31, 2009 and 2008. Inter-company transactions and balances are eliminated upon consolidation.

Measurement Uncertainty

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

Amounts recorded for depletion, depreciation and accretion expense and amounts used for ceiling test calculations are based on estimates of crude oil reserves and future costs required to develop those reserves. Stock-based compensation is based upon expected volatility and option life estimates. Asset retirement obligations are based on estimates of abandonment costs, timing of abandonment, inflation and interest rates. The provision for income taxes is based on judgements in applying income tax law and estimates on the timing, likelihood and reversal of temporary differences between the accounting and tax bases of assets and liabilities. These estimates are subject to measurement uncertainty and changes in these estimates could materially impact the financial statements of future periods.

Capital Assets

All costs related to the acquisition of crude oil properties are capitalized. These costs include land and lease acquisition costs, annual charges on non-producing properties, geological and geophysical costs, and costs of drilling and equipping productive and non-productive wells.

Gains and losses are not recognized upon disposition of crude oil properties unless crediting the proceeds against accumulated costs would result in a change in the rate of depletion of more than 20 percent.

Capitalized costs are accumulated in cost centres on a country-by-country basis and are depleted and depreciated using the unit-of-production method based upon estimated proved reserves before royalties as determined by independent engineers. The Company has two cost centres, Colombia and Peru. Included in costs subject to depletion are estimated costs to develop proved reserves. Costs relating to undeveloped properties are excluded from the depletion base until it is determined whether or not proved reserves exist or if impairment of such costs has occurred. These properties are assessed at least annually to determine whether impairment has occurred.

Depreciation of corporate and other fixed assets is calculated using the straight-line method over the estimated life of the asset.

A limit is placed on the carrying value of the net capitalized costs in each cost centre in order to test impairment. The Company is required to perform this impairment test at least annually. An impairment loss may be indicated when the carrying value of a cost centre exceeds the estimated undiscounted future net cash flows associated with the cost centre's proved reserves. If there is indication of an impairment loss, the costs carried on the balance sheet in excess of the discounted future net cash flows associated with the cost centre's proved plus probable reserves are charged to depletion, depreciation and accretion on the statement of operations. Reserves are determined pursuant to the Canadian Securities Administrators' National Instrument 51-101 ''Standards of Disclosure for Oil and Gas Activities''.

The Company does not capitalize indirect general and administrative overhead or interest.

Asset Retirement Obligations

The Company recognizes the estimated fair value of future retirement obligations associated with capital assets as a liability in the period in which they are incurred, normally when the asset is purchased or developed. The fair value is capitalized and amortized over the same period as the underlying asset. The Company estimates the liability based on the estimated costs to abandon and reclaim the wells and well sites that are either expected to be inactive upon expiration of the Incremental Production Contract's ("IPC's") on June 6, 2023, or are required to be abandoned under the terms of the exploration contracts. Only wells and well sites that the Company has constructed, drilled, completed workovers on, or performed enhancements to, are included in the estimate. This estimate is evaluated on a periodic basis and any adjustment to the estimate is applied prospectively. The change in net present value of the future retirement obligation due to the passage of time is expensed as accretion. Actual retirement obligations settled during the period reduce the asset retirement liability.

Joint Operations

A portion of the Company's crude oil operations are conducted jointly with others and accordingly these financial statements reflect only the Company's proportionate interest in such activities.

Revenue Recognition

Revenues from the sale of crude oil are recognized when title passes to the customer.

Foreign Currency Translation

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

Earnings Per Share

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

Stock-Based Compensation

The Company accounts for stock-based compensation using the fair-value method of accounting for stock options, deferred common shares and incentive shares (collectively referred to as "Rights") granted to directors, officers, employees and consultants using the Black-Scholes option-pricing model. Stock-based compensation expense is recorded and reflected as stock-based compensation expense over the vesting period with a corresponding amount reflected in contributed surplus. Stock-based compensation expense is calculated as the estimated fair value for the related Rights at the time of grant, amortized over their vesting period. When Rights are exercised, the associated amounts previously recorded as contributed surplus are reclassified to common share capital. The Company has not incorporated an estimated forfeiture rate for stock options that will not vest, rather, the Company accounts for actual forfeitures as they occur.

Income Taxes

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

Convertible Debentures

The Company presents outstanding convertible debentures in their debt and equity component parts on the consolidated balance sheet. The debt component represents the total discounted present value of the semi-annual interest obligations to be satisfied by cash and the principal payment due at maturity, using the rate of interest that would have been applicable to a non-convertible debt instrument of comparable term and risk at the date of issue. This results in an accounting value assigned to the debt component of the convertible debentures which is less than the principal amount due at maturity. The debt component presented on the balance sheet increases over the term of the debenture to the full face value of the outstanding debentures at maturity. The difference, accretion on convertible debentures, is reflected as increased interest expense with the result that adjusted interest expense reflects the effective yield of the debt component of the convertible debentures.

The equity component of the convertible debentures is presented under shareholders' equity in the consolidated balance sheet. The equity component represents the fair value of the conversion right granted to the holder, which remains a fixed amount over the term of the related debentures. Upon conversion of the debentures into common shares by the holders, the debt and equity components would be transferred to common share capital.

Cash and Cash Equivalents

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

Inventory

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

Financial Instruments

Financial instruments are measured at fair value on initial recognition of the instrument, and classified into one of the following five categories: held-for-trading, loans and receivables, held-to-maturity investments, available-for-sale financial assets or other financial liabilities.

Subsequent measurement of financial instruments is based on their initial classification. Held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired. The remaining categories of financial instruments are recognized at amortized cost using the effective interest rate method.

All risk management contracts are recorded in the balance sheet at fair value unless they qualify for the normal sale and normal purchase exemption. All changes in their fair value are recorded in net income unless cash flow hedge accounting is used, in which case changes in fair value are recorded in other comprehensive income until the underlying hedged transaction is recognized in net income. Any hedge ineffectiveness is immediately recognized in net income. The Company has elected not to use cash flow hedge accounting on its risk management contracts with financial counterparties resulting in all changes in fair value being recorded in net income.

Cash and cash equivalents and restricted cash are classified as held-for-trading and are measured at fair value which equals the carrying value. Accounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities and bank debt are classified as other financial liabilities, which are measured at amortized cost.

The convertible debentures are classified as other financial liabilities. Upon issuance, the convertible debentures were classified into equity and financial liability components on the balance sheet at their fair value. The financial liability, net of issuance costs, is accreted, which is included within interest expense over the maturity of the debentures using the effective interest rate method.

For financial assets and financial liabilities that are not classified as held-for-trading, the transaction costs that are directly attributable to the acquisition or issue of a financial asset or financial liability are adjusted to the fair value initially recognized for that financial instrument. These costs are expensed using the effective interest rate method and are recorded within interest expense.

Risk Management Contracts

The Company is exposed to market risks resulting from fluctuations in crude oil prices, foreign currency exchange rates and interest rates in the normal course of its business. The Company may use a variety of instruments to manage these exposures. For transactions where hedge accounting is not applied, the Company accounts for such instruments using the fair value method by initially recording an asset or liability, and recognizing changes in the fair value of the instruments in income as gains or losses on risk management contracts. Fair values of financial instruments are determined from third party quotes or valuations provided by independent third parties. Any realized gains or losses on risk management contracts are recognized in income in the period they occur.

NOTE 3 – CHANGES IN ACCOUNTING POLICIES

Goodwill and Intangible Assets

On January 1, 2009, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3064, "Goodwill and Intangible Assets". The new section replaces the previous goodwill and intangible asset standard and revises the requirement for recognition, measurement, presentation and disclosure of intangible assets. The adoption of this standard had no impact on the Company's consolidated financial statements.

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

On January 1, 2009, the Company adopted the CICA's EIC-173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities". The EIC provides guidance on how to take into account credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments. The adoption of this EIC had no impact on the Company's consolidated financial statements.

Business Combinations

On January 1, 2009, the Company adopted CICA Section 1582, "Business Combinations", which replaced the former guidance on business combinations. Under the new standard, the purchase price used in a business combination is based on the fair value of consideration exchanged at the date of exchange. Under former guidance, the purchase price used was based on the fair value of the consideration for a reasonable period before and after the date of acquisition was agreed upon and announced. The new standard requires all acquisition costs be expensed, which are currently capitalized as part of the purchase price. In addition, the new standard modified the accounting for contingent consideration and negative goodwill. The adoption of this standard will impact the accounting treatment of future business combinations.

Consolidated Financial Statements

On January 1, 2009, the Company adopted CICA Sections 1601, "Consolidated Financial Statements", and 1602, "Non-controlling Interests", which replaced existing guidance. Section 1601 establishes standards for the preparation of consolidated financial statements and Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary subsequent to a business combination. The adoption of these standards had no impact on the Company's consolidated financial statements.

Financial Instruments – Amended Disclosures

Effective December 31, 2009, Petrominerales adopted CICA issued amendments to Handbook Section 3862, "Financial Instruments – Disclosures". The amendments include enhanced disclosures relating to the fair value of financial instruments and the liquidity risk associated with financial instruments. Section 3862 now requires that all financial instruments measured at fair value be categorized into one of three hierarchy levels. Refer to Note 13 Financial Instruments and Financial Risk Management for enhanced fair value disclosures. The amendments are consistent with recent amendments to financial instrument disclosure standards in IFRS.

Recent Accounting Pronouncements

The Accounting Standards Board has confirmed the convergence of Canadian GAAP with International Financial Reporting Standards ("IFRS") will be effective January 1, 2011. The Company has developed a project plan in order to ensure successful implementation within the required timeframe. The impact on the Company's consolidated financial statements is not reasonably determinable at this time. Key information will be disclosed as it becomes available during the transition period.

NOTE 4 – OTHER ASSETS

	Prepaid Pipeline Tariffs	Deferred Charges	Total Other Assets
Balance at December 31, 2007	$ -	$ -	$ -
Reclassification from Bank Debt	-	691	691
Additions	2,141	300	2,441
Less: amortization	-	(475)	(475)
Balance at December 31, 2008	2,141	516	2,657
Additions	20,807	5,421	26,228
Less: amortization	(1,774)	(517)	(2,291)
Balance at December 31, 2009	**$ 21,174**	**$ 5,420**	**$ 26,594**

Prepaid pipeline tariffs consist of costs incurred on the construction of the Monterrey crude oil offloading facility. The costs incurred are being amortized using the unit of production method based on the barrels of oil delivered to the facility.

NOTE 5 – CAPITAL ASSETS

December 31, 2009		Cost		Accumulated Depletion and Depreciation		Net Book Value
Crude oil assets	**$**	**880,509**	**$**	**320,244**	**$**	**560,265**
Corporate and other		**16,490**		**3,576**		**12,914**
	$	**896,999**	**$**	**323,820**	**$**	**573,179**

December 31, 2008		Cost		Accumulated Depletion and Depreciation		Net Book Value
Crude oil assets		609,781	$	161,523	$	448,258
Corporate and other		5,510		2,343		3,167
	$	615,291	$	163,866	$	451,425

At December 31, 2009, crude oil assets included $84.7 million (2008 – $72.1 million) relating to unproved properties that have been excluded from the depletion calculation. Substantially all of the unproved properties are in Colombia except for $11.3 million in Peru (2008 – $1.5 million). The Peruvian unproved properties represent the Company's entire investment in Peru at December 31, 2009.

An impairment test calculation was performed for the Colombian cost centre at December 31, 2009 in which the estimated undiscounted future net cash flows associated with the proved reserves exceeded the carrying amounts. In determining the undiscounted future net cash flow, the Company utilized the following benchmark prices:

Year	WTI Crude Oil [1] – $/bbl
2010	80.00
2011	82.88
2012	85.83
2013	88.88
2014	92.01
Thereafter inflation % change	2.0%

(1) Actual prices used in the impairment tests were adjusted for crude oil quality differentials, transportation and marketing costs specific to the Company's operations.

NOTE 6 – SHARE CAPITAL

Authorized

The Company has authorized capital of 200,000,000 common shares, with a par value of $1.00 per common share.

Common Shares

Common Share Continuity	**Number**		**Amount**
Balance at December 31, 2007	100,288,775	$	195,214
Repurchased and cancelled common shares	(1,326,000)		(2,599)
Exercise of stock options	423,031		1,714
Exercise of deferred common shares	13,625		1
Transfer from contributed surplus related to stock options and deferred common shares exercised	-		529
Balance at December 31, 2008	99,399,431		194,859
Repurchased and cancelled common shares	(1,991,000)		(3,891)
Exercise of stock options	1,224,786		5,365
Other cancellations	(22,300)		-
Transfer from contributed surplus related to stock options and deferred common shares exercised	-		1,376
Balance at December 31, 2009	**98,610,917**	**$**	**197,709**

Normal Course Issuer Bid

During the year ended December 31, 2009, the Company repurchased 1,991,000 (2008 – 1,326,000) common shares under a Normal Course Issuer Bid ("NCIB") at an average cost of $9.20 (Cdn.$10.94) per share, at a total cost of $18.3 million (2008 - $11.6 million). During the NCIB, from August 17, 2008 to August 17, 2009, Petrominerales repurchased a total of 3,317,000 common shares. All common shares acquired under the NCIB were cancelled.

Of the amount paid to repurchase the common shares during the year ended December 31, 2009, share capital was reduced by $3.9 million (2008 - $2.6 million) and the remaining $14.4 million (2008 - $9.0 million) was recorded as a reduction of retained earnings.

Contributed Surplus

Changes in Contributed Surplus		**Amount**
Balance at December 31, 2007	$	1,698
Stock-based compensation		2,631
Stock-based costs related to property acquisition		391
Transfer to common shares related to stock options exercised		(529)
Balance at December 31, 2008		4,191
Stock-based compensation		4,513
Transfer to common shares related to stock options exercised		(1,376)
Balance at December 31, 2009	**$**	**7,328**

Accumulated Other Comprehensive Income

There has been no change to accumulated other comprehensive income as at and for the years ended December 31, 2009 and 2008.

Stock Options

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

The following is a continuity of stock options outstanding:

		2009		2008
	Stock Options	**Weighted-Average Exercise Price (Cdn.$)**	Stock Options	Weighted-Average Exercise Price (Cdn.$)
Opening	**6,192,723**	**6.11**	4,870,784	4.99
Granted	**1,389,684**	**13.06**	2,640,470	13.19
Exercised	**(1,224,786)**	**4.78**	(423,031)	4.14
Forfeited	**(311,439)**	**6.15**	(895,500)	10.82
Closing	**6,046,182**	**7.98**	6,192,723	6.11

In December 2008, the Company modified the terms of certain non-executive stock options that resulted in the exercise price on 1,382,961 options being reduced from a weighted average of Cdn.$14.58 to Cdn.$7.48 and the forfeiture of 460,975 options with a weighted average exercise price of Cdn.$14.58 (the remaining 434,525 forfeited options related to normal course employee movements). The incremental fair value attributed to the modification is being recorded as stock-based compensation over the vesting period of the modified options.

The following summarizes information about stock options outstanding as at December 31, 2009:

	Stock Options Outstanding			Stock Options Exercisable	
Range of Exercise Prices (Cdn.$)	Number	Weighted-Average Remaining Contractual Life(Years)	Weighted-Average Exercise Price (Cdn.$)	Number	Weighted-Average Exercise Price (Cdn.$)
3.11 – 3.99	1,270,201	4.08	3.74	750,076	3.75
4.00 – 5.99	1,205,300	4.99	4.41	336,925	4.41
6.00 – 7.99	1,444,016	4.22	7.39	167,457	7.48
8.00 – 11.49	692,620	4.65	9.51	92,981	8.68
11.50 – 14.99	804,445	5.92	12.54	50,625	12.54
15.00 – 21.57	629,600	6.82	17.19	21,875	18.50
	6,046,182	**4.89**	**7.98**	**1,419,939**	**5.21**

Deferred Common Share Compensation Plan

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

Deferred Common Share Continuity	Number
Balance at December 31, 2007	37,500
Granted	15,388
Exercised	(13,625)
Balance at December 31, 2008	39,263
Granted	58,581
Balance at December 31, 2009	**97,844**

Incentive Share Plan

In the fourth quarter of 2009, the Company established an incentive share plan for directors, officers and employees. The plan allows the holder to receive one common share upon the vesting and payment of $0.05 per share exercise price. The terms of the incentive shares granted are determined by the Company's Board of Directors but typically, incentive shares vest evenly over a period of four years from the date of grant and expire between five and 10 years after the date of grant. The incentive plan and the grants to December 31, 2009 are subject to shareholder approval.

The Company granted 34,130 incentive shares during the year ended December 31, 2009. All of these incentive shares were outstanding and none were exercisable as at December 31, 2009.

Stock-Based Compensation

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

Years ended December 31,	2009	2008
Risk free interest rate	**1.75% – 2.25%**	1.5% – 3.25%
Dividend rate	**0%**	0%
Expected life – options (years)	**3.0 – 4.0**	3.3 – 4.0
Expected life – deferred common shares and incentive shares (years)	**8**	8
Expected volatility	**37.5% – 42.5%**	37.5% – 42.5%
Fair value of stock options granted	**3.64**	3.34
Fair value of deferred common shares granted	**9.29**	16.53
Fair value of incentive shares granted	**16.30**	-

Stock-based compensation expense for the year ended December 31, 2009 totalled $4.5 million (2008 – $2.6 million).

Earnings Per Share

The following table summarizes the weighted average number of common shares used in calculating basic and diluted earnings per share. No adjustments were required to net income.

Years ended December 31,	**2009**	2008
Weighted average common shares outstanding, basic	**98,378,521**	100,253,508
Effect of stock options, deferred common shares and incentive shares	**1,609,888**	1,831,073
Weighted average common shares outstanding, diluted	**99,988,409**	102,084,581

The convertible debentures were not included in the diluted number of weighted average common shares outstanding as they were anti-dilutive.

NOTE 7 – BANK DEBT AND RESTRICTED CASH

At December 31, 2009, the Company had an undrawn $150 million secured credit facility. The facility is secured against all assets of the Company, is reviewed semi-annually with the lender and expires on December 30, 2013.

The Company also has lines of credit available in Colombia totalling $30.3 million. Advances under the facility are collateralized by a promissory note provided by the Company.

At December 31, 2009, the Company had letters of credit totalling $20.2 million outstanding to guarantee work commitments under exploration blocks. Letters of credit issued against the Colombian operating line of credit ($18.8 million) reduce the amounts available under the facility. The Company had restricted cash of $1.4 million (2008 – $4.5 million) relating to cash deposited as collateral for a letter of credit.

NOTE 8 – CONVERTIBLE DEBENTURES

On December 6, 2007, the Company issued $100 million of convertible debentures due December 6, 2010. The debentures are convertible into common shares of the Company at a conversion price of $27.3485 per share, which represented a 38 percent premium to the share price when initially priced, and have an annual coupon of 3.375 percent. Interest on the debentures is payable semi-annually in cash or common shares.

The debentures have been classified into their debt and equity components based on fair values. On issuance, this resulted in $83.4 million being classified as a liability and $12.7 million being classified as equity. The liability portion will accrete up to the principal balance over the term of the debentures. The accretion, and the interest accrued are expensed as interest expense in the consolidated statement of operations, creating an effective yield of 9.7 percent.

In October and November 2008, the Company repurchased debentures with a face value of $18.3 million for $11.1 million. As a result, the Company recorded a gain settling the liability portion of $4.9 million and an increase to retained earnings on the equity portion of $2.3 million.

As at December 31, 2009, the principal balance of the debentures is $81.7 million. If converted, a total of 2,987,367 common shares may be issued, subject to normal provisions for adjustments of the conversion price such as a special distribution to shareholders or upon a change of control of the Company. Petrominerales has an option to force conversion of the debentures at the prevailing conversion price should the price of the Company's common shares exceed 130 percent of the prevailing conversion price of the debentures for 20 trading days within a period of 30 consecutive trading days.

The following table summarizes the changes in convertible debentures:

		Amount
Gross proceeds	$	100,000
Costs		(3,882)
Net proceeds		96,118
Fair value of equity component on issuance		12,738
Amount attributed to liability component on issuance		83,380
Accretion		5,081
Carrying amount of liability repurchased		(16,058)
Balance of liability component, December 31, 2008		72,403
Accretion		4,426
Balance of liability component, December 31, 2009	**$**	**76,829**

Interest Expense

Interest expense consists of:

Years ended December 31,	2009	2008
Cash interest and standby charges	$ 4,866	$ 5,475
Accretion on convertible debentures	4,426	4,761
Amortization of deferred financing costs	517	475
Interest expense	$ 9,809	$ 10,711

NOTE 9 – ASSET RETIREMENT OBLIGATIONS

The total future asset retirement obligations were estimated by management based on the estimated costs to reclaim and abandon the wells, well sites and certain facilities based on the Company's contractual requirements.

Changes to asset retirement obligations were as follows:

Years ended December 31,	2009	2008
Asset retirement obligations, beginning of year	$ 5,412	$ 1,482
Obligations incurred	1,132	1,492
Accretion expense	508	150
Change in estimates	(304)	2,288
Asset retirement obligations, end of year	$ 6,748	$ 5,412

The obligations have been calculated using an inflation rate of four percent and discounted using a credit-adjusted risk free rate of nine percent per annum. The majority of these obligations are expected to be paid before the end of the related IPC, approximately 14 years in the future, or are required to be abandoned under the terms of the exploration contract; and are expected to be funded from the Company's general resources available at the time of settlement. The total undiscounted amount of estimated cash flows required to settle the obligations at December 31, 2009 is $38.1 million (2008 – $26.2 million).

NOTE 10 – TAXES

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

Years ended December 31,	2009	2008
Income before taxes	$ 119,602	$ 160,901
Statutory income tax rate	33.0%	33.0%
Expected tax expense	$ 39,468	$ 53,097
Increase (decrease) in income tax provision resulting from:		
Non-deductible expenses	5,830	2,352
Enhanced tax allowances	(28,475)	(31,960)
Stock-based compensation	1,489	868
Change in estimates and others	1,144	3,343
Future and current income tax expense	19,456	27,700
Consisting of:		
Current income tax expense	7,336	4,736
Future income tax expense	10,251	22,964
	17,587	27,700
Presumptive income and equity taxes	1,869	2,057
Tax expense	$ 19,456	$ 29,757

Presumptive income and equity taxes are based on equity levels in Colombia. Presumptive income tax paid can be carried forward for five years and recovered against income taxes in future periods. The Company's pre-tax income is subject to Colombian income tax at a statutory rate of 33%.

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

As at December 31,	2009		2008	
	Future Income Tax Assets	**Future Income Tax Liabilities**	Future Income Tax Assets	Future Income Tax Liabilities
Loss carry forwards	**$ 650**	**$ -**	$ 901	$ -
Capital assets	**-**	**40,077**	-	25,036
Asset retirement obligations	**2,172**	**-**	1,786	-
Provisions and others	**2,531**	**-**	464	-
	5,353	**40,077**	3,151	25,036
Valuation allowance	**-**	**-**	-	-
Net future tax asset (liability)	**$ -**	**$ (34,724)**	$ -	$ (21,885)

Included in the net future tax liability is a $1.4 million liability relating to Peru.

As at December 31, 2009, non-capital losses in Colombia totalled $1.9 million that can be carried forward indefinitely.

NOTE 11 – RELATED PARTY TRANSACTIONS

The Company is party to a Management Services Agreement with Petrobank providing for the services of the President and Chief Executive Officer, Vice-President Finance and Chief Financial Officer, as well as other services, including corporate, administration, financial, treasury, accounting, information technology, human resources support and office space for Petrominerales employees located in Calgary, Alberta. The fee is based on a negotiated value for services provided. From January 1, 2009 to March 31, 2009, Petrominerales paid a monthly fee of Cdn$75,000. Effective April 1, 2009, the monthly fee was increased to Cdn$130,000. Amounts paid to Petrobank under this agreement totalled $1.3 million for the year ended December 31, 2009 (2008 – $0.8 million) and were recorded as general and administrative expense.

NOTE 12 – CAPITAL MANAGEMENT

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

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

As at December 31,	2009	2008
Bank debt [(1)]	**$ -**	$ -
Working capital surplus	**$ (13,509)**	$ (48,899)
Convertible debentures – principal amount [(2)]	**$ 81,700**	$ 81,700
Common share capital	**$ 197,709**	$ 194,859

(1) Petrominerales has a revolving credit facility with a $150 million borrowing base and a Colombian operating line of credit of $30.3 million.

(2) The debentures mature December 6, 2010, are convertible into common shares at $27.3485 per share and have an annual coupon of 3.375%, payable semi-annually in cash or common shares. If the convertible debentures are not converted to equity before maturity, Petrominerales has an option to force conversion of the debentures at the prevailing conversion price should the price of the Company's common shares exceed 130% of the prevailing conversion price of the debentures for 20 trading days within a period of 30 consecutive trading days.

The Company monitors leverage and adjusts its capital structure based on the ratio of net debt to annualized cash flow. This ratio is calculated as net debt, a non-GAAP measure the Company defines as outstanding bank debt plus the principal amount of convertible debentures and working capital deficiency, divided by cash flow from operations before changes in non-cash working capital for the most recent calendar quarter, annualized. At December 31, 2009, the ratio of net debt to annualized cash flow was 0.1 to 1, well within the range acceptable to the Company. Petrominerales uses the ratio of net debt to cash flow as a key indicator of the Company's leverage and to monitor the strength of the balance sheet. In order to facilitate the management of this ratio, the Company prepares annual budgets, which are updated as necessary depending on varying factors including current and forecast crude oil prices, changes in capital structure, execution of the Company's business plan and general industry conditions. The annual budget is approved by the Board of Directors and updates are prepared and reviewed as required.

The Company is in compliance with the covenants contained in its convertible debenture and credit facility agreements. The Credit facility has financial covenants to maintain a ratio of bank debt to trailing twelve month earnings before interest, tax, depletion, depreciation and amortization under 3.0 times and to maintain a current ratio greater than 1.0 times (current assets divided by current liabilities less unused bank debt and the liability portion of convertible debentures). The convertible debentures have financial covenants to maintain a ratio of equity to total assets of at least 30% and to limit the amount of security and encumbrances the Company has on its total assets to 27.5% of total assets.

The Company has not paid or declared any dividends since the date of incorporation.

NOTE 13 – FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

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

The Board of Directors has overall responsibility for the establishment and oversight of the Company's financial risk management framework and monitors risk management activities. The Company identifies and analyzes the risks faced by the Company and may utilize financial instruments to mitigate these risks.

Credit Risk

Crude oil production is sold, as determined by market based prices adjusted for quality differentials, to four main counterparties. The majority of crude oil production is sold to Ecopetrol, the Colombian state oil company, and the remainder to three international oil companies. Typically, the Company's maximum credit exposure to customers is up to two months' sales revenue except for the production month of December where November sales and part of December sales from our main oil purchaser are received before the end of the year. The Company does not anticipate non-performance by any of the counterparties. In addition, the Company reduced its credit risk to certain counterparties in 2009 through credit insurance.

The following is the Company's accounts receivables breakdown:

As at December 31,		**2009**		2008
Crude oil customers	**$**	**37,712**	$	11,497
Tax receivable		**8,462**		8,238
Other receivables		**9,818**		5,233
Total	**$**	**55,992**	$	24,968

Receivables from crude oil customers are normally collected approximately 45 days after the month of production. The Company's policy to mitigate credit risk associated with these balances is to establish marketing relationships with large purchasers, negotiate early payment, obtain credit guarantees and or credit insurance. The Company historically has not experienced any collection issues with its crude oil customers.

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 to ensure a stable return, avoiding complex investment vehicles with higher risk such as asset backed commercial paper.

The carrying amount of accounts receivable, cash and cash equivalents and restricted cash represent the maximum credit exposure. The Company does not have an allowance for doubtful accounts as at December 31, 2009, and did not provide for any doubtful accounts nor was it required to write-off any receivables during the years ended December 31, 2009 or 2008.

The Company's accounts receivables are aged as follows:

As at December 31,		**2009**		2008
Not past due (less than 45 days)	**$**	**54,114**	$	23,894
Past due 0-30 days		**77**		738
Past due 31-120 days		**1,801**		336
Total	**$**	**55,992**	$	24,968

Liquidity Risk

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

The Company prepares annual capital expenditure budgets, which are monitored regularly and updated as considered necessary. Crude oil production is monitored daily to provide current cash flow estimates and the Company utilizes authorizations for expenditures on projects to manage capital expenditures. To facilitate the capital expenditure program, the Company has a revolving reserve based credit facility, as outlined in Note 7.

The following are the contractual maturities of financial liabilities as at December 31, 2009:

Financial Liability		Total		< 1 Year		1-2 Years		Thereafter
Accounts payable and accrued liabilities	**$**	**106,834**	$	106,834	$	-	$	-
Letters of credit		**19,852**		5,645		2,375		11,832
Convertible debentures – principal		**81,700**		81,700		-		-
Total	**$**	**208,386**	**$**	**194,179**	**$**	**2,375**	**$**	**11,832**

Market Risk

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

Foreign Currency Risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in foreign currency exchange rates. The Company is exposed to foreign currency fluctuations as certain expenditures are denominated in Colombian pesos and Canadian dollars. As at December 31, 2009, if the U.S. dollar had appreciated five percent against the Colombian peso with all other variables held constant, net income and other comprehensive income for the year would have been $5.0 million higher (2008 – $1.9 million higher), due primarily to peso denominated accounts payable and future income tax liabilities.

The Company had no forward exchange rate contracts in place as at or during the year ended December 31, 2009.

Commodity Price Risk

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

The Company did not have any risk management contracts outstanding during the year ended December 31, 2009. During the year ended December 31, 2008, the Company recorded a $2.8 million loss ($5.8 million unrealized gain). The realized loss related to actual monthly settlements incurred during the period and the unrealized gain represented the change in fair value of the contracts related to estimated future settlements.

Interest Rate Risk

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

The Company had no interest rate swap or financial contracts in place as at or during the year ended December 31, 2009.

Financial Instruments Classification, Measurement and Fair Value

The Company's financial instruments are cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities, bank debt and convertible debentures on the balance sheet. Financial instruments of the Company are carried on the balance sheet at amortized cost with the exception of cash and cash equivalents, which are carried at fair value. There were no significant differences between the carrying value of financial instruments and their estimated fair values as at December 31, 2009, as detailed in the following table:

Financial Instrument	Carrying Value	Fair Value	Interest Expense
Assets Held For Trading			
Cash and cash equivalents [1]	61,600	61,600	-
Restricted cash	1,375	1,375	-
Loans and Receivables			
Accounts receivable	55,992	55,992	-
Other Liabilities			
Accounts payable and accrued liabilities	106,834	106,834	-
Bank debt	-	-	2,627[2]
Convertible debentures	76,829	79,249[3]	7,183[4]

(1) The effective yield on cash equivalents at December 31, 2009 was 0.24% (December 31, 2008 – 0.56%).

(2) Included in interest expense on the statement of operations. Amount includes interest, commitment and other fees associated with credit facilities and amortization of deferred financing costs of $0.5 million in relation to the Company's bank debt. The amortization of deferred financing costs is included on the statement of cash flow.

(3) The fair value of the convertible debentures debt and equity components are difficult to measure reliably due to lack of active trading information. The Company repurchased $18.3 million of debentures in October and November 2008 at 61% of the principal amount. The Company estimated the fair value of the convertible debentures based on recent market transactions. The principal amount of the convertible debentures at December 31, 2009 was $81.7 million.

(4) Included in interest 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 9.7%.

Petrominerales classifies the fair value of these transactions according to the following hierarchy based on the amount of observable inputs used to value the instrument.

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

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

Bank debt bears interest at a floating rate and accordingly the fair value approximates the carrying value. Due to the short term nature of cash and cash equivalents, restricted cash, accounts receivable and accounts payable and accrued liabilities, their carrying values approximate their fair values.

NOTE 14 – CHANGES IN NON-CASH WORKING CAPITAL

Years ended December 31,		2009		2008
Change in:				
Accounts receivable	$	(31,024)	$	(17,957)
Accounts payable and accrued liabilities		44,110		617
Inventory		(1,376)		-
Depletion included in inventory		741		(367)
	$	12,451	$	(17,707)
Changes relating to:				
Attributable to operating activities	$	(4,809)	$	(25,171)
Attributable to investing activities	$	17,260	$	7,464

NOTE 15 – COMMITMENTS AND CONTINGENCIES

The following is a summary of the Company's contractual commitments as at December 31, 2009:

Type of Obligation	Total	< 1 Year	1-3 Years	Thereafter
Convertible debentures (1)	**$ 81,700**	$ 81,700	$ -	$ -
Colombia - Exploration contracts (2)	**68,100**	40,900	27,200	-
Transportation contract (3)	**53,365**	5,915	35,588	11,862
Peru - Exploration contract (2)	**1,400**	1,400	-	-
Monterrey - offloading facility	**2,400**	2,400	-	-
Office lease	**9,400**	1,800	3,800	3,800
Total	**$ 216,365**	**$ 134,115**	**$ 66,588**	**$ 15,662**

(1) The convertible debentures mature on December 6, 2010.

(2) Pursuant to exploration contracts, the Company has work commitments totaling $69.4 million to be completed during the next three years. The work commitments are normal course of business exploration activities that include property costs, acquisition and processing of seismic data and drilling exploration wells. The Company has issued letters of credit totaling $18.8 million and pledged $1.4 million in restricted cash to guarantee the obligations under these exploration contracts.

(3) The Company entered into a take-or-pay transportation contract to deliver up to 10,000 barrels of oil per day in the Llanos Basin of Colombia.

PanAndean Acquisition

Petrominerales has made an offer to purchase all of the issued and outstanding shares of PanAndean Resources PLC (AIM:PRE) by way of scheme of arrangement. The cash consideration is approximately £18.7 million ($28.5 million) before expenses, and is subject to PanAndean shareholder approval, which is expected to occur in April, 2010.

Contingencies

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

Corporate Information

DIRECTORS

Jerald L. Oaks (1)
Denver, Colorado, U.S.A.
Chairman

Alastair Macdonald (2)
Pembroke, Bermuda
Director

Kenneth R. McKinnon (1) (2)
Calgary, Alberta, Canada
Director

Ernesto Sarpi (3)
Naples, Italy
Director

Enrique Umaña Valenzuela (1)
Bogotá D.C., Colombia
Director

John D. Wright (3)
Calgary, Alberta, Canada
President, Chief Executive Officer and Director

Geir Ytreland (2) (3)
Droebak, Norway
Director

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

OFFICERS

John D. Wright
President, Chief Executive Officer and Director

Andrea Hatzinikolas
Assistant Corporate Secretary and General Counsel

Allen Knight
Vice President New Ventures

Erik Lyngberg
Vice President Exploration

Alastair Macdonald
Corporate Secretary and Director

Tannya E. Morales
Corporate Controller

Corey C. Ruttan
Vice President Finance and Chief Financial Officer

John (Jack) F. Scott
Executive Vice President and Country Manager, Colombia

HEAD OFFICE

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Calgary, Alberta, Canada

LEGAL COUNSEL

McCarthy Tétrault LLP
Calgary, Alberta, Canada

BANKERS

Standard Bank
New York, New York, U.S.A.

AUDITORS

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

RESERVE ENGINEERS

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

EXCHANGE LISTING

The Toronto Stock Exchange
SYMBOL: **PMG**

SECURITIES FILINGS

www.sedar.com

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

ABBREVIATIONS

1P	proved
2P	proved + probable
ANH	National Hydrocarbon Agency (Colombia)
bbl(s)	barrel(s)
bopd	barrels of oil per day
Cdn$	Canadian dollars
D&M	DeGolyer and MacNaughton
IPC	Incremental Production Contract
km	kilometres
km^2	square kilometres
m	metres
mbbl	thousand barrels
mmbbl	million barrels
NPV	net present value
THAI™	Toe to Heel Air Injection
WCSB	Western Canadian sedimentary basin
WI	working interest
$	United States Dollars

FORWARD-LOOKING STATEMENTS

Certain statements contained in this Annual Report constitute forward-looking statements. The use of statements that express, or involve discussions as to expectations, beliefs, plans, objectives, assumptions or future events or performance (often, but not always, through the use of words or phrases such as "will likely result," "are expected to," "will continue," "is anticipated," "believes," "estimated," "intends," "plans," "projection", "will" and "outlook") are not historical facts and may be forward-looking and may involve estimates, assumptions and uncertainties which could cause actual results or outcomes to differ materially from those expressed in the forward looking statements. Petrominerales believes the expectations reflected in those forward-looking statements are reasonable, but no assurance can be given that these expectations will prove to be correct. Accordingly, any such forward-looking statements are qualified in their entirety by reference to, and are accompanied by, the factors discussed throughout this Annual Report. Such forward-looking statements included in this Annual Report should not be unduly relied upon. These forward-looking statements speak only as of the date of this Annual Report.

In particular, this Annual Report may contain forward-looking statements pertaining to the following: the performance characteristics of the Company's oil properties; oil production levels; the size of the oil reserves; projections of market prices and costs; supply and demand for oil; expectations regarding the ability to continually add to reserves through acquisitions and development; treatment under governmental regulatory regimes and tax laws; and capital expenditure programs.

With respect to forward looking statements contained in this Annual Report, the Company has made assumptions regarding: oil production levels; commodity prices; general economic and financial market conditions; availability of labour and drilling equipment; timing and amount of capital expenditures; government regulation in the areas of taxation, royalty rates and environmental protection; and expectations and assumptions concerning the obtaining of necessary regulatory approvals.

The actual results could differ materially from those anticipated in these forward-looking statements as a result of the following risk factors and elsewhere in this Annual Report: volatility in market prices for oil; fluctuation in foreign currency exchange rates; financial resources of the Company, liabilities inherent in oil operations; uncertainties associated with estimating oil reserves; competition for, among other things, capital, acquisitions of reserves and undeveloped lands; geological, technical, drilling and processing problems; changes in legislation, risks associated with the Company's international operations, changes in environmental or tax laws; and the other factors discussed under the heading"Risk Factors" in the Company's annual information form.

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

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

ANNUAL GENERAL MEETING

The Annual General Meeting will be held on May 6, 2010 at 10:00 (Bogotá time) in the Millennium Room at the Hotel Radisson, Calle 113 No. 7 – 65, Bogotá, Colombia. All shareholders are cordially invited and encouraged to attend. The meeting will also be webcast. The webcast details will be available on our website in advance of the meeting.

Designed by Bryan Mills Iradesso

PETROMINERALES
A PETROBANK COMPANY

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