Q3 2011 Financial Report

PETROMINERALES

FINANCIAL & OPERATING HIGHLIGHTS

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

	Three months ended September 30,			Nine months ended September 30,		
	2011	2010	% change	**2011**	2010	% change
Financial						
($millions, except where noted)						
Crude oil revenue	**363.0**	231.5	57	**1,090.7**	798.1	37
Funds flow from operations [1]	**196.4**	128.5	53	**572.9**	444.5	29
Per share – basic ($)	**1.93**	1.29	50	**5.56**	4.48	31
– diluted ($)	**1.66**	1.17	34	**4.77**	4.17	12
Adjusted net income [1] [2]	**58.8**	59.1	(1)	**248.5**	248.2	-
Per share – basic ($)	**0.58**	0.59	(2)	**2.41**	2.50	(4)
– diluted ($)	**0.55**	0.58	(5)	**2.22**	2.39	(12)
Net income	**133.7**	27.2	392	**386.2**	216.3	79
Per share – basic ($)	**1.31**	0.27	385	**3.75**	2.18	72
– diluted ($)	**0.55**	0.27	104	**2.22**	2.12	5
Expenditures on PP&E and E&E[3]	**210.4**	119.1	77	**534.7**	343.6	56
Total assets	**2,111.9**	1,640.8	28	**2,111.9**	1640.8	28
Net working capital surplus[1]	**134.0**	517.5	(74)	**134.0**	517.5	(74)
Common shares, end of period (000s)	**100,650**	99,834	1	**100,650**	99,834	1
Fully diluted common shares (000s)[4]	**124,142**	123,946	-	**124,142**	123,946	-
Operations						
Operating netback ($/bbl) [1]						
Brent benchmark price	**113.38**	76.93	47	**111.88**	77.15	45
WTI benchmark price	**89.54**	76.15	18	**95.47**	77.67	23
Realized crude oil price [5]	**87.76**	64.54	36	**90.45**	64.83	40
Royalties	**10.73**	9.08	18	**11.67**	7.47	56
Production expenses	**15.92**	7.61	109	**12.15**	6.79	79
Operating netback [1]	**61.11**	47.85	28	**66.63**	50.57	32
Crude oil production (bopd)	**37,124**	32,667	14	**39,398**	38,298	3
Crude oil sold (bopd)	**39,923**	32,696	22	**39,606**	38,121	4

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

(2) Net income has been adjusted for the IFRS accounting effects of changes in the derivative financial liability. For the three and nine months ended September 30, 2011 adjusted net income includes a $74.9 million and $137.7 million reduction, respectively (2010 - $31.9 million increase for both the three and nine month period). Management considers adjusted net income a better measure of the Company's economic performance.

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

(4) Consists of the sum of common shares, stock options, deferred common shares, incentive shares and potential shares issuable on conversion of convertible debentures outstanding as at the period-end date.

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

HIGHLIGHTS AND SIGNIFICANT TRANSACTIONS DURING THE THIRD QUARTER

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

- Funds flow from operations was $196.4 million or $1.93 per basic share, 53 and 50 percent increases, respectively over 2010.
- Net income of $133.7 million included a $74.9 million non-cash gain from new accounting treatment under International Financial Reporting Standards ("IFRS") for our convertible debentures.
- Production was 37,124 bopd in the third quarter, a 14 percent increase over 2010 despite road blockades in September that caused the Corcel and Guatiquia fields to be shut-in, reducing third quarter average production by approximately 2,200 bopd.
- We drilled five exploration wells in the quarter including our Cobra-1 discovery well that came on production at rates of over 4,000 bopd in August.
- Subsequent to September 30, we completed drilling three wells: Socaco-1, Caspio-1 and Pisingo-1. Pisingo-1 tested at 3,300 bopd, and we expect to have the well on production in mid-November, while Socaco-1 and Caspio-1 have been completed as potential oil wells.
- Our operating netbacks increased to $61.11 per barrel in the third quarter, a 28 percent increase over 2010, primarily due to higher world oil prices.
- We acquired a five percent interest in the Oleoducto Central S.A. ("Ocensa") crude oil pipeline for US$281 million. The Ocensa pipeline is strategic to Petrominerales because it secures pipeline capacity, is the lowest cost option to transport crude oil out of the Llanos Basin, and provides us with access to international oil markets. We began transporting our crude oil through the Ocensa pipeline as owners starting September 1, 2011, the full benefit of which will be realized in the fourth quarter.
- Our balance sheet remains strong. We ended the quarter with a working capital surplus of $134 million.
- We continued repurchasing our common shares under a normal course issuer bid ("NCIB") during the quarter. We are authorized to purchase up to 8.2 million shares under the NCIB. Since the NCIB started, we have repurchased 4.4 million shares, representing nearly four percent of our outstanding common shares, at an average price of Cdn.$26.92.
- Our common shares began trading on the Colombian Stock Exchange ("BVC") under the symbol "PMGC" on August 3, 2011. Our liquidity, or average daily number of shares traded, has increased 55 percent since this listing, and on average, 12 percent of our shares have been traded on the BVC.

OPERATIONAL REVIEW

Production averaged 37,124 bopd in the third quarter of 2011, a decrease of eight percent from the second quarter. The quarter-over-quarter production decrease is primarily due a temporary production halt of our Corcel and Guatiquia fields for seven days in September along with natural production declines. The temporary production halt was caused by public road blockades and a lack of public order in the area from September 7th to 14th. Offsetting the production decrease was one significant discovery, Cobra-1 on our Corcel Block that was brought on production at over 4,000 bopd in August.

Production averaged 35,857 bopd in the month of October, seven percent higher than September. October production was impacted by approximately 2,300 bopd related to three wells shut-in awaiting expansion of low cost water disposal capacity and other production offline awaiting workovers. We expect to add at least two water disposal wells during the fourth quarter which will allow us to bring shut-in wells back on production by early December.

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

During the quarter we drilled two exploration wells (Cobra-1 and Babaco-1), a Candelilla-3 sidetrack well in August and a Corcel water disposal well. In October, two more wells reached their targeted drilling depth (Socaco-1 and Caspio-1).

Our Cobra-1 exploration well was drilled to a total measured depth of 12,000 feet and well logs indicate 121 feet of potential net oil pay, 51 feet in the Guadalupe formation and 70 feet in the Lower Sand 1 formation. We placed the well on production in the Lower Sand 1 formation with an electric submersible pump ("ESP") at the beginning of August at over 4,000 bopd of 16 degree API oil at less than one percent water-cut. Currently, the well is producing at over 3,500 bopd. Based on the Cobra-1 result, we decided to drill a second well into the structure, Cobra-2, and we expect results from this well by the end of November. The Cobra-2 well is targeting by-passed pay in the Guadalupe formation encountered in the original discovery well.

On Block 31, we completed drilling our second exploration well, Socaco-1, to a total measured depth of 15,767 feet on October 5th. Based on well logs indicating 18 feet of potential net oil pay in the Lower Sand and Guadalupe formations, we cased the well as a potential oil producer. We identified three test intervals in the well however due to poor cement we are only able to test two intervals. The first interval we tested produced water, and we expect to have results on the second interval by mid-November.

As previously reported on September 22nd, we drilled and tested the Babaco-1 exploration well on Block 31. Well logs indicate 89 feet of potential net oil pay in the Lower Sand 1 formation where we tested four separate intervals. In two of the test intervals we encountered heavy, seven degree API oil that cannot be produced at commercial rates. The remaining two test intervals recovered water. We are currently evaluating the well for water disposal purposes.

Following the Babaco-1 well, we began drilling operations on the Caspio-1 exploration well on Block 31. The well was drilled to a total measured depth of 15,100 feet. Based on well logs indicating 15 feet of potential net oil pay in the Lower Sand 1 formation, we cased the well as a potential oil producer and expect to have test results near the end of November.

We currently have three drilling rigs operating in the area. On Block 31, Jamuco-1 began drilling operations on October 16th and our second rig is currently mobilizing to the Iboga-1 location. Once Cobra-2 is drilled, we plan to mobilize our third rig to the Guatiquia Block at our Yatay discovery to drill a well targeting by-passed pay in the Guadalupe formation.

Foothills Blocks (Block 25, 31, 59 and 15), Deep Llanos Basin, Colombia

On October 24th we recommenced drilling our Bromelia prospect, our first Block 25 foothills location. We expect to have drilling results from this well near the end of the year. The second exploration prospect on Block 25, Canatua-1, is expected to commence drilling in the first quarter of 2012.

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

On our Mapache Block, the Disa-1 well (drilled in the first quarter) was brought on production July 9th.

On our Casimena Block, we began drilling the Zacay-1 prospect on August 26th and reached total measured depth of 7,934 feet on September 8th. The well was cased for testing based on potential net pay on logs. We did not recover oil from any of the zones tested and we are evaluating the well for water disposal purposes.

Following Zacay-1, we began drilling the Pisingo-1 exploration prospect on September 21st and reached total measured depth on October 6th. Well logs indicate 13 feet of potential net pay in the Mirador formation and we cased the well as a potential oil producer. We tested the well at 3,300 bopd of 24 degree API oil. While testing the well, we encountered increasing water cut and sand production. We have shut-in the well to install a gravel pack and expect the well to be on production next week. Following Pisingo-1, we began drilling operations on Gaita-1, a well designed to test a potential southern extension of our Yenac discovery.

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

We have two drilling rigs, a conventional drilling rig and a stratigraphic drilling rig operating on our heavy oil acreage where we have been executing a multi-well exploration drilling program primarily focused on our Rio Ariari Block. During the quarter we drilled two exploration wells, Calandria-1 and one stratigraphic well, ES-17.

As previously announced, the Calandria-1 well was drilled to a total measured depth of 6,602 feet in July. Well logs indicate 40 feet of net oil pay in the Mirador formation. We tested three intervals in the well and did not produce commercial amounts of hydrocarbons. Based on our analysis of the test results, we believe that during the well test we preferentially produced water due to the relative mobility of water compared the viscosity of the seven degree API oil we observed that had coated the tools used in the wellbore.

Following Calandria-1, we drilled Borugo-T1, a vertical well that twinned our previously drilled Borugo-1 well. The purpose of Borugo-T1 was to open-hole test the upper five feet of the reservoir in order to minimize potential water influx. When we tested the well, we recovered trace amounts of oil, however the down-hole tools were covered in heavy oil after reverse circulating out of the well bore.

On September 3rd, we began a multi-well stratigraphic drilling program on our Rio Ariari Block that initially consists of 34 targets, 22 exploration targets and 12 step-out locations to existing discoveries. The step-out locations will help delineate some of our existing discoveries while providing stratigraphic control for our first two horizontal wells.

On October 20th, we began drilling Cadillo-1A, a well vertical well designed to set the control point for the toe of our first horizontal well, Tatama-1. The horizontal well will be drilled near our Mochelo discovery and will provide important production data to assist in planning a commercial heavy oil development.

In August, we completed the acquisition of 369 square kilometres of 3D seismic data on the western half of our Rio Ariari Block that covers the area of our recent drilling activity. The acquired seismic data is currently being interpreted. This seismic data, along with the stratigraphic drilling program, will delineate the arial extent of our existing exploration successes and help define our next phase of exploration drilling on the Rio Ariari Block.

Antorcha, Middle Magdalena Basin, Colombia

As part of our stratigraphic drilling program, we plan to drill two wells on this Block in the first quarter of 2012 to test two separate exploration concepts.

Orito, Putumayo Basin Colombia

On May 1, 2011, we mobilized a drilling rig to our Orito Block and commenced a seven well drilling program. To date, we have drilled three wells, Orito-194, Orito-195, and Orito-136, while a fourth well, Orito-193, is currently drilling.

We have completed the acquisition of 50 square kilometres of 3D seismic over the south part of the Orito field and have initiated a 80 square kilometre 3D seismic program on our adjoining Las Aguilas Block.

Neiva, Upper Magdalena Basin, Colombia

On our Neiva Block we drilled three wells in the quarter. Since September 21, the rig has been on standby as we await regulatory approvals to continue our development drilling program.

Block 126, Peru

In Peru, the construction of our main logistics bases at Nueva Italia and Sheshea continue, and they are now operational to support our current mobilization operations. Our first well site, La Colpa 2X is over 80 percent complete and the site is ready to start receiving the drilling rig. The mobilization of the heli-transportable drilling rig continues from Nueva Italia and Sheshea, and we expect to begin drilling operations on our first location, La Colpa 2X, later in November. Our start date for drilling has been delayed due to low river levels and weather.

Blocks 114 and 131, Peru

Petrominerales holds a 30 percent working interest in blocks 114 and 131. On Block 131, the operator has initiated a 300 kilometre 2D seismic program. The next exploration phase requirement is to drill one exploration well on the Block by September 2013. To date, we have identified two drillable prospects on Block 131. On Block 114, the next exploration phase includes the acquisition of 260 kilometres of 2D seismic by May 2013. To date four drillable prospects and six leads have been identified on this Block. The operator is responsible for our share of the costs under the current seismic exploration phase, as well as our share of costs for the first exploration well on each block.

Block 161 and 141, Peru

Block 161, situated in east central Peru, is 1.2 million acres in size and is 80 percent owned by Petrominerales. Current commitments, to be completed by June 2012, include the acquisition of 350 kilometres of new 2D seismic data and an updated geological and geophysical report incorporating existing geological data and reprocessed seismic. Block 141, situated in southern Peru, is 1.3 million acres in size and is 80 percent owned by Petrominerales. In September, the Block went into a force majeure status due to new government regulations requiring additional community consultations. As a result, our current commitment to complete a 300 kilometre 2D seismic program by July 2012, has been suspended pending further clarification from the Peruvian government.

OUTLOOK

The last quarter of our 2011 capital program will include drilling two large prospects in the Llanos Basin Foothills and the Ucayali Basin in Peru, along with our first heavy oil horizontal well on our Rio Ariari Block. These prospects have the potential to significantly increase the Company's reserves and are in addition to our existing, 2011 exploration program of up to 33 exploration wells, up to an additional seven stratigraphic wells on our heavy oil acreage and a further 12 development wells on our Orito and Neiva Blocks. We continue to invest in high quality 3D seismic to grow our multi-year prospect inventory, which currently sits at over 100 drilling locations.

THIRD QUARTER RESULTS CONFERENCE CALL

Management of Petrominerales will be holding a conference call for investors, financial analysts, media and any interested persons on Thursday, November 3, 2011 at 8:00 a.m. (Mountain Time) (10:00 a.m. Eastern Time) to discuss Petrominerales' third quarter financial and operating results.

The investor conference call details are as follows:

Live call dial-in number(s):	416-695-6617 / 800-952-4972
Live audio webcast link:	http://events.digitalmedia.telus.com/petrominerales/110311/index.php
Replay dial-in numbers:	905-694-9451 / 800-408-3053
Replay Pass code:	5666437

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") is dated November 2, 2011 and should be read in conjunction with the unaudited condensed interim consolidated financial statements and accompanying notes of Petrominerales Ltd. ("Petrominerales" or the "Company") as at and for the three and nine months ended September 30, 2011, MD&A for the year ended December 31, 2010, and the audited consolidated financial statements as at and for the year ended December 31, 2010. Additional information for the Company, including the Annual Information Form ("AIF") can be found on SEDAR at www.sedar.com, on SIMEV at www.superfinanciera.gov.co or at www.petrominerales.com. All amounts are in United States dollars, unless otherwise stated and all tabular amounts are in millions of United States dollars, except per share amounts or as otherwise noted.

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

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

IFRS

The 2011 reporting period is our first under International Financial Reporting Standards (IFRS). As such, our accounting policies have been adjusted to comply with IFRS beginning with the balance sheet as at January 1, 2010. A comprehensive summary of all of the significant changes, including reconciliations of Canadian GAAP financial statements to those prepared under IFRS, is presented in Note 23 "First Time Adoption of IFRS" of our unaudited September 30, 2011 condensed interim financial statements.

Adopting IFRS did not impact the cash we generated. However, the adoption of IFRS had an impact on our previously reported 2010 statement of financial position (or balance sheet) and statement of operations and comprehensive income (or income statement). Previously reported net income for the third quarter of 2010 is $8.2 million lower and for the nine months ended September 30, 2010 was $26.3 million higher under IFRS due to:

	Three months ended September 30, 2010	Nine months ended September 30, 2010
2010 Net income under Canadian GAAP	**35.4**	**190.0**
Depletion and depreciation	16.2	52.3
Deferred taxes	5.2	1.5
Foreign exchange loss	3.4	5.7
Stock-based compensation	(1.1)	(1.3)
Loss on derivative liability	(31.9)	(31.9)
2010 Net income under IFRS	**27.2**	**216.3**
Net increase (decrease)	**(8.2)**	**26.3**

Net income for the three and nine months ended September 30, 2011 was $133.7 million and $386.2 million, respectively, under IFRS. The significant accounting adjustments impacting net income due to the IFRS conversion were lower depletion due to the use of proved plus probable reserves and the gains on the financial derivative liability of $74.9 million for the quarter and $137.7 million for the nine months ended September 30, 2011. Under IFRS, the conversion feature embedded in our 2016 convertible debentures is accounted for as a financial derivative liability. As a result, decreases in our stock price generate a derivative gain while increases result in a derivative loss.

FINANCIAL REVIEW

(comparisons are third quarter 2011 compared to the third quarter of 2010, and the nine months ended September 30, 2011 to the nine months ended September 30, 2010, unless otherwise noted)

Average Daily Crude Oil Production and Sales Volumes (bopd)

	Three months ended September 30,			Nine months ended September 30,		
	2011	2010	Change	**2011**	2010	Change
Guatiquia	**16,844**	16,516	2%	**19,116**	21,739	(12%)
Corcel	**9,732**	8,155	19%	**9,763**	9,198	6%
Neiva	**4,017**	3,790	6%	**4,025**	3,280	23%
Orito	**1,919**	2,762	(31%)	**1,966**	2,924	(33%)
Casimena	**2,785**	1,141	144%	**3,235**	677	378%
Other	**1,827**	303	502%	**1,293**	480	169%
Total production	**37,124**	32,667	14%	**39,398**	38,298	3%
Inventory changes	**2,799**	29	-	**208**	(177)	-%
Sales volumes of produced oil	**39,923**	32,696	22%	**39,606**	38,121	4%
Purchased oil	**-**	2,134	(100%)	**-**	2,785	(100%)
Sales volumes	**39,923**	34,830	15%	**39,606**	40,906	(3%)

Production increased 14 and three percent for the three and nine months ended September 30. The increase in production is primarily due to additions from our Corcel, Neiva and our Central Llanos Blocks which more than offset natural declines.

Guatiquia production increased two percent in the quarter and decreased 12 percent year-to-date mainly due to production additions from our Yatay discovery in January 2011 and from our Azalea discovery in July 2011 offset by natural declines at our Candelilla field.

Corcel production increased 19 in the quarter and six percent for the nine months ended September 30 mainly due to our Caruto-1 discovery in December 2010, our Macapay-1 discovery that came on production in June 2011 and our Cobra-1 discovery that came on production in August 2011 that more than offset natural declines. Both Corcel and Guatiquia production was negatively impacted by a seven day road blockade in September that required us to shut-in production from both fields.

Neiva production increased six percent in the quarter and 23 percent for the nine months ended September 30 due to additions from our development drilling program. In May 2011, we mobilized a new rig to the field to recommence our development drilling program and allow for deeper wells. Since then, we have added four producing wells.

Orito production decreased 31 and 33 percent for the three and nine months ended September 30 due to natural declines and certain wells that have been shut-in awaiting repairs to the gas-lift system. We re-

commenced development drilling on the Orito block in May 2011 and to date we have added two wells on production.

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

Other relates to production from our Mapache and Castor Blocks. On our Mapache Block, the Disa-1 well came on production in July 2011. On our Castor Block, the Capybara-2 well came on production in April 2011.

Average Benchmark and Realized Prices	Three months ended September 30,			Nine months ended September 30,		
	2011	2010	Change	**2011**	2010	Change
Brent ($/bbl)	**113.38**	76.93	47%	**111.88**	77.15	45%
Vasconia ($/bbl)	**109.12**	74.11	47%	**107.32**	74.92	43%
WTI ($/bbl)	**89.54**	76.15	18%	**95.47**	77.67	23%
Premium (discount) to WTI, net of pipeline and marketing fees	**9.30**	(3.93)	-%	**5.40**	(6.17)	-%
Sales price ($/bbl)	**98.84**	72.22	37%	**100.87**	71.50	41%
Sales price discount as a percentage of Brent	**13%**	6%	117%	**10%**	7%	43%
Sales price discount (premium) as a percentage of WTI	**(10%)**	5%	-%	**(6%)**	8%	-%

The majority of our production is priced in relation to the Colombian Vasconia Blend which has become highly correlated with Brent crude prices since the beginning of 2011. Our sales prices increased 37 and 41 percent for the three and nine months ended September 30, 2011 compared to the same periods of 2010, consistent with benchmark Brent price increases of 47 percent and 45 percent respectively.

Compared to the second quarter of 2011, our sales price decreased seven percent to $98.84 per barrel from $105.97 per barrel, primarily due to the Brent price decrease of four percent, or $4.94 per barrel, and impacts from selling our crude at lifting prices lower than the third quarter average price.

Transportation Costs	Three months ended September 30,			Nine months ended September 30,		
	2011	2010	Change	**2011**	2010	Change
Transportation costs	**40.7**	23.1	76%	**112.7**	69.4	62%
$ per bbl	**11.08**	7.68	44%	**10.42**	6.67	56%
Realized oil price, net of transportation ($/bbl)	**87.76**	64.54	36%	**90.45**	64.83	40%
Realized price discount as a percentage of Brent	**23%**	16%	44%	**19%**	16%	19%
Realized price discount as a percentage of WTI	**2%**	15%	(87%)	**5%**	17%	(70%)

The majority of our oil production is trucked to various offloading stations for sale except for the Orito and Neiva fields that are connected to pipelines. Transportation costs increased to $11.08 per barrel for the quarter and to $10.42 year-to-date, representing 44 and 56 percent increases compared to the same periods of 2010. The 2011 per barrel trucking cost increased mainly due to having to deliver oil to more distant offloading stations, which costs more on a per barrel basis, higher trucking tariffs paid in 2011, and exceptional wet weather resulting in deteriorating road conditions causing inefficiencies in the trucking fleet. The higher trucking tariffs are the result

of increased demand for trucks caused by limited excess pipeline capacity due to growing Colombian production.

Compared to the second quarter of 2011, transportation costs increased two percent from $10.82 per barrel, mainly due to the delivery of oil to more distant locations and standby fees for trucking while production was temporarily halted for seven days at our Corcel and Guatiquia fields in September from the road blockades.

Starting September 1, 2011, we began delivering oil to the Ocensa pipeline under our five percent ownership interest. For barrels shipped in the pipeline, we are saving up to ten dollars per barrel through a combination of lower transportation costs and higher sales prices given direct access to export markets made available through the pipeline.

Oil Revenue

Third quarter oil revenue increased 57 percent due to a 37 percent increase in sales price and a 22 percent (4,457 bopd) increase in sales of produced oil, offset by a 100 percent (2,134 bopd) decrease in sales of purchased oil. Year-to-date oil revenue increased 37 percent due to a 41 percent increase in sales price offset by a four percent (1,485 bopd) increase in sales of produced oil and a 100 percent (2,785 bopd) decrease in sales of purchased oil. We did not purchase and market third party oil in 2011 due to restricted transportation infrastructure in Colombia. The following table reconciles the difference in revenue between the three and nine month periods ended September 30, 2010 and 2011.

	Three months ended September 30,	Nine months ended September 30,
Oil revenue, September 30, 2010	231.5	798.1
Sales volume variance	47.6	29.0
Sales price variance	98.2	317.5
Oil revenue from third party oil purchases	(14.3)	(53.9)
Oil revenue, September 30, 2011	**363.0**	**1,090.7**
$ change in revenue	131.5	292.6
% change in revenue	57%	37%

Royalties	Three months ended September 30,			Nine months ended September 30,		
	2011	2010	Change	**2011**	2010	Change
Royalties	**39.4**	27.3	44%	**126.2**	77.7	62%
$ per bbl	**10.73**	9.08	18%	**11.67**	7.47	56%
Royalties as a percent of realized oil price	**12%**	14%	(14%)	**13%**	12%	8%

Royalty Framework

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

In addition, a high price participation payment is applied under certain Colombian exploration contracts when the cumulative production, in an exploitation area under older contracts or cumulatively produced in the entire contract area under newer contracts, exceeds five million barrels. Prior to the third quarter, only the Candelilla exploitation area within the Guatiquia Block had reached the five million barrel threshold. In the third quarter of 2011, cumulative production from the Corcel A field exceeded five million barrels and is now subject to this

additional payment. The high price participation payment is payable to the Agencia Nacional de Hidrocarburos (National Hydrocarbon Agency) ("ANH") and is calculated as a percentage of the difference between the realized oil price and a threshold oil price set by the ANH, multiplied by a contractual rate. The contractual rate is generally 30 percent for Petrominerales' contracts.

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

Comparative Analysis

Royalties increased 44 percent for the third quarter and 62 percent year-to-date due to higher realized oil prices, the high price participation payments on Candelilla production effective August 2010 and higher sales volumes of produced oil. As a result of the high price participation payments, royalties as a percentage of realized oil prices increased from 12 percent to 13 percent in on a year-to-date basis. However, royalties as a percentage of realized oil prices decreased from 14 percent in the third quarter of 2010 to 12 percent in the third quarter of 2011 as a lower proportion of our third quarter sales were subject to high price participation payments.

High Price Participation Dispute

Petrominerales currently has a dispute with the ANH related to the interpretation of the Corcel Block exploration contract ("Corcel Contract") entered into between Petrominerales and the ANH on June 2, 2005.

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

The ANH has indicated their view that exploitation areas under the Corcel Contract should be combined for the purposes of determining when the high price participation payment is payable. As combined production from all of the Corcel exploitation areas has exceeded five million barrels of oil, the ANH asserts that Petrominerales is required to pay the high price participation payment with respect to production from the Corcel Block from April 2009 onwards. Based on their view, the ANH has requested additional payments aggregating to $69.1 million to September 30, 2011. As at September 30, 2011, although total production from the Block was 16.4 million barrels, only the Corcel A exploitation area on the Corcel Block has cumulatively produced more than 5 million barrels of oil.

Petrominerales disagrees with the ANH interpretation and views the Corcel Contract as providing that payment of the high price participation payment is required for each individual exploitation area, once it has cumulatively produced five million or more barrels of oil.

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

Production Expenses	Three months ended September 30,			Nine months ended September 30,		
	2011	2010	Change	**2011**	2010	Change
Production expenses	**58.5**	22.9	155%	**131.4**	70.7	86%
$ per bbl	**15.92**	7.61	109%	**12.15**	6.79	79%

Production expenses increased in the third quarter and the first nine months of 2011 on a total dollar and per barrel basis due to higher water handling costs, equipment rental and costs associated with the September production shut-in caused by the road blockades near our Corcel and Guatiquia Blocks.

Overall water handling costs have increased each quarter of 2011 due to growing water production volumes, price inflation related to trucking in Colombia and limited cost effective water disposal capacity. Also, the water cost per barrel has increased since we are producing more water in areas where we have to truck to further disposal sites from fields, specifically in the Central Llanos and Corcel Northeast. In September and October we initiated steps to reduce the water handling costs by adding low cost water disposal capacity and, on a short-term basis, shutting-in certain wells until this capacity is available. By the end of November, we expect to add up to two water disposal wells that will reduce the amount of water trucked for disposal and reduce our operating costs.

Depletion and Depreciation (“D&D”) Expenses	Three months ended September 30,			Nine months ended September 30,		
	2011	2010	Change	**2011**	2010	Change
DD&A expenses	**89.4**	50.4	77%	**220.8**	153.8	44%
$ per bbl of sales volumes of produced oil	**24.34**	16.76	45%	**20.42**	14.83	38%

DD&A expense increased 77 percent in the third quarter and 44 percent for the nine months ended September 30 mainly due to the increase in the per barrel depletion rate and higher sales volumes of produced oil. The third quarter per barrel depletion rate increased 45 percent due to higher finding and development costs related to proved plus probable reserves.

General and Administrative Expenses	Three months ended September 30,			Nine months ended September 30,		
	2011	2010	Change	**2011**	2010	Change
General and administrative expenses	**7.8**	6.7	16%	**26.3**	16.8	57%
$ per bbl	**2.15**	2.21	(2%)	**2.44**	1.60	53%

General and administrative (“G&A”) expenses increased in 2011 primarily due to higher staff levels and their related salary and office costs and inflation in Colombia. On a per barrel basis, year-to-date G&A increased was consistent with the dollar increase and quarter-to-quarter decreased since production volumes were low in the third quarter of 2010.

Stock-Based Compensation Expenses	Three months ended September 30,			Nine months ended September 30,		
	2011	2010	Change	**2011**	2010	Change
Stock-based compensation expenses	**4.1**	4.4	(7%)	**15.1**	9.5	59%

Stock-based compensation expense is a non-cash expense that is based on the fair value of stock options, incentive shares, deferred common shares and stock appreciation rights (“SAR”) granted. The fair value is calculated on grant date and amortized over the vesting period of each option, incentive share or SAR tranche,

or immediately upon grant of the deferred common shares ("DCS"). The 2011 expense increased as a result of higher staff levels.

Net Finance Income (Expense)	Three months ended September 30,			Nine months ended September 30,		
	2011	2010	Change	**2011**	2010	Change
Interest	**(3.6)**	(2.3)	57%	**(10.8)**	(3.7)	192%
Standby and other bank charges	**(1.8)**	(0.9)	100%	**(5.4)**	(3.5)	54%
Accretion on convertible debentures	**(4.3)**	(2.9)	48%	**(12.5)**	(5.4)	131
Accretion on Colombia equity tax	**(0.5)**	-	100%	**(1.8)**	-	100%
Accretion on decommissioning liabilities	**(0.3)**	(0.3)	-%	**(1.0)**	(0.6)	67%
Amortization of deferred financing costs	**(0.6)**	(0.4)	50%	**(1.3)**	(1.0)	30%
Interest and accretion expense	**(11.1)**	(6.8)	63%	**(32.8)**	(14.2)	131%
Gain (loss) on derivative financial liability	**74.9**	(31.9)	-%	**137.7**	(31.9)	-%
Foreign exchange gain (loss)	**11.1**	(6.5)	-%	**(2.4)**	(9.7)	(75%)
Interest income	**0.6**	0.4	100%	**1.8**	0.5	260%
Net finance income (expense)	**75.5**	(44.8)	-%	**104.3**	(55.3)	-%

Interest and Accretion Expense

Interest and accretion expense was $11.1 million for the third quarter and $32.8 million year-to-date, representing 63 and 131 percent increases over 2010. The 2011 increases were primarily due to costs associated with the $550 million convertible debentures issued on August 25, 2010.

Gain (Loss) on Derivative Financial Liability

Under IFRS, the conversion feature of the 2016 convertible debentures issued on August 25, 2010 is classified as a derivative since, if converted, the Company has the option to deliver either the fixed number of contractually agreed common shares or cash equal to the market value of the fixed number of common shares. Derivatives are carried at fair value on the balance sheet, with any changes in fair value being recorded to the statement of operations. A non-cash derivative gain of $74.9 million was recorded in the third quarter and 137.7 million for the first nine months since the Company's stock price decreased 26 percent in the quarter and 37 percent for the first nine months.

Foreign Exchange Gain (Loss)

Movements in the Colombian peso exchange rate impact the Company's Colombian peso denominated expenses and expenditures as approximately 65 percent of the Company's expenditures are incurred in Colombian Pesos. The Colombian peso depreciated eight percent relative to the U.S. dollar in the third quarter, from 1,780:1 at June 30, 2011 to 1,915:1 at September 30, 2011. This movement in exchange rates resulted in an $11.1 million foreign exchange gain during the quarter primarily on Colombian peso denominated accounts payable.

The spot Colombian peso per US dollar at December 31, 2011 of 1,914:1 was consistent with the September 30, 2011 rate of 1,915:1. However, the Colombian peso averaged 1,823:1 during the nine month period resulting in an appreciation of five percent compared to the September 30, 2011 spot rate. This movement in exchange rates resulted in a $2.4 million foreign exchange loss year-to-date primarily on Colombian peso denominated accounts payable.

Income Tax Expense

	Three months ended September 30,			Nine months ended September 30,		
	2011	2010	Change	**2011**	2010	Change
Current income tax	**19.5**	(0.7)	-%	**95.8**	50.7	89%
Deferred income tax	**43.7**	10.3	324%	**50.6**	22.8	122%
Income taxes	**63.2**	9.6	558%	**146.4**	73.5	99%
Effective tax rate, calculated using adjusted income before taxes and equity tax	**52%**	14%	271%	**35%**	23%	52%

The Company's pre-tax income is subject to the Colombian statutory income tax rate of 33 percent. Tax expense increased in both the quarter and the first nine months primarily due to increased taxable income as a result of tax law changes effective January 1, 2011 that eliminated certain enhanced tax deductions for fixed asset purchases.

The Company's effective tax rate in any year is a function of the relationship between total tax expense and the amount of earnings before income taxes for the year and it differs from the statutory tax rate as it takes into consideration non-deductible items, adjustments for changes in tax rates and other tax legislation, variation in the estimate of reserves and the differences between the provision and the actual amounts subsequently reported on the tax returns. The Company's 2011 year-to-date effective tax rate was 35 percent, calculated using income before taxes, equity tax and derivative gains of $422.6 million and is higher than 2010 primarily due to the removal of enhanced tax allowances. Compared to the statutory rate, the effective tax rate is higher primarily due to non-deductible stock-based compensation and non-deductible interest and accretion on the convertible debentures.

The Company's effective tax rate for the three months ending September 30, 2011 was 52 percent, calculated using income before taxes, equity taxes, and derivative gains of $122.0 million. In addition to the removal of enhanced tax allowances in 2011, the third quarter effective tax rate is higher than 2010 due to a decrease in tax pools caused by the depreciating Colombian peso in the quarter.

Colombia Equity Tax Expense

	Three months ended September 30,			Nine months ended September 30,		
	2011	2010	Change	**2011**	2010	Change
Colombia equity tax	**-**	0.6	(100%)	**27.7**	1.6	1631%

An equity tax is charged on equity capitalization levels in Colombia. The Colombian government approved new legislation in December 2010 that obligates Colombian corporations and branches of foreign corporations to pay an equity tax based on net equity as of January 1, 2011. The rate of tax applicable to Petrominerales is six percent of net equity and the Company's liability was estimated at Colombia Peso ("COP") 63.5 billion (approximately $33.2 million) at January 1, 2011. The liability is payable in eight equal installments over four years starting in 2011, of which COP7.9 billion (approximately $4.5 million) was paid in May 2011 and COP7.9 billion (approximately $4.4 million) was paid in September 2011. The net present value of the entire liability, estimated at $27.7 million, was recorded as a liability and expensed in the statement of operations in the first quarter of 2011. Under IFRS, this cost is classified as an operating expense since the tax is not based on income and is not deductible for tax purposes. The $5.5 million difference between the $33.2 million obligation and its present value of $27.7 million is being accreted over four years, whereby $0.6 million was recorded as accretion in net finance expenses on the statement of operations in the quarter (nine months September 30, 2011 - $1.8 million).

Net Income

Third quarter net income increased 392 percent to $133.7 million primarily due to higher world oil prices and the gain on our convertible debenture derivative liability offset by higher depletion and income taxes. Year-to-date net income increased 79 percent to $386.2 million due to higher world oil prices and the gain on our convertible debenture derivative liability offset by higher depletion, income taxes and equity taxes. The following table summarizes the changes in adjusted net income and net income per share.

Reconciliation of Changes in Adjusted Net Income [2]

	Three months ended September 30,		Nine months ended September 30,	
		Per share, basic ($)		Per share, Basic ($)
Adjusted net income [2], 2010 period	58.8	0.58	248.5	2.41
Increase (decrease) due to:				
Sales volumes	47.6	0.47	29.0	0.28
Sales prices	98.2	0.96	317.5	3.08
Third party oil sales, net of purchases	0.1	-	(1.7)	(0.02)
Royalties	(12.1)	(0.12)	(48.5)	(0.47)
Production expenses	(35.6)	(0.35)	(60.7)	(0.59)
Transportation	(17.6)	(0.17)	(43.3)	(0.42)
Operating netback increase	80.6	0.79	192.3	1.86
General and administrative expenses	(1.1)	(0.01)	(9.5)	(0.09)
Depletion and depreciation	(39.0)	(0.38)	(67.0)	(0.66)
Interest and accretion expense	(4.3)	(0.04)	(18.6)	(0.18)
Other [1]	17.1	0.17	1.5	0.02
Equity taxes	0.6	-	(26.1)	(0.25)
Income taxes	(53.6)	(0.53)	(72.9)	(0.71)
Change in basic shares outstanding	-	0.01	-	0.10
Adjusted net income [2], 2011 period	**59.1**	**0.59**	**248.2**	**2.50**

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

(2) Non-IFRS measure. See "Non-IFRS Measures" section within MD&A. Net income has been adjusted for the IFRS accounting effects of changes in the derivative financial liability. For the three and nine months ended September 30, 2011 adjusted net income includes a $74.9 million and $137.7 million reduction, respectively (2010 – $31.9 million increase for both the three and nine month period). Management considers adjusted net income a better measure of the Company's economic performance.

Funds Flow from Operations

Funds flow from operations increased 53 percent in the third quarter and 29 percent year-to-date primarily due to higher operating netbacks as a result increased commodity prices, offset by higher current income taxes. The following table summarizes the changes in funds flow from operations.

Reconciliation of Changes in Funds Flow from Operations	Three months ended September 30,		Nine months ended September 30,	
		Per share, Basic ($)		Per share, Basic ($)
Funds flow from operations, 2010 period	128.5	1.29	444.5	4.48
Increase (decrease) due to:				
Sales volumes	47.6	0.47	29.0	0.28
Sales prices	98.2	0.96	317.5	3.08
Third party oil sales, net of purchases	0.1	-	(1.7)	(0.02)
Royalties	(12.1)	(0.12)	(48.5)	(0.47)
Production expenses	(35.6)	(0.35)	(60.7)	(0.59)
Transportation	(17.6)	(0.17)	(43.3)	(0.42)
Operating netback increase	80.6	0.79	192.3	1.86
General and administrative expenses	(1.1)	(0.01)	(9.5)	(0.09)
Foreign exchange	17.6	0.17	7.3	0.07
Interest expense net of interest income	(2.0)	(0.02)	(7.7)	(0.07)
Other [1]	(7.0)	(0.07)	(8.9)	(0.09)
Current taxes	(20.2)	(0.20)	(45.1)	(0.44)
Change in basic shares outstanding	-	(0.02)	-	(0.16)
Funds flow from operations, 2011 period	**196.4**	**1.93**	**572.9**	**5.56**

[1] Other includes interest income, acquisition expense and Colombia equity taxes paid.

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

	Three months ended September 30,			Nine months ended September 30,		
	2011	2010	Change	**2011**	2010	Change
Funds flow from operations: Non-IFRS	**196.4**	128.5	53%	**572.9**	444.5	29%
Changes in non-cash working capital including interest payable and taxes payable	**1.7**	(1.1)	-%	**(32.5)**	(20.9)	56%
Cash flow from operating activities: IFRS	**198.1**	127.4	55%	**540.4**	423.6	28%

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

	Three months ended September 30,	
	2011	2010
Funds flow from operations adjustments		
Funds flow from operations, basic	**196.4**	128.5
Cash interest on convertible debentures	**3.6**	2.3
Funds flow from operations, diluted	**200.0**	130.8
Weighted average common share adjustments		
Weighted average common shares outstanding, basic	**101,850,232**	99,540,449
Effect of stock options, deferred common shares and incentive shares	**2,700,578**	2,620,643
Effect of convertible debentures	**16,028,116**	9,696,782
Weighted average common shares outstanding, diluted	**120,578,926**	111,857,874

	Nine months ended September 30,	
	2011	2010
Funds flow from operations adjustments		
Funds flow from operations, basic	**572.9**	444.5
Cash interest on convertible debentures	**10.8**	3.5
Funds flow from operations, diluted	**583.7**	448.0
Weighted average common share adjustments		
Weighted average common shares outstanding, basic	**103,052,623**	99,154,871
Effect of stock options, deferred common shares and incentive shares	**3,204,979**	3,088,861
Effect of convertible debentures	**16,028,116**	5,248,415
Weighted average common shares outstanding, diluted	**122,285,718**	107,492,147

Capital Expenditures

	Three months ended September 30, 2011						**Nine months ended September 30,**
	Civil	**Drilling and completions**	**Facilities and infrastructure**	**Seismic and other**	**HSEC**	**Total**	**Total**
Deep Llanos	20.3	55.0	14.1	5.8	1.8	97.0	282.2
Central Llanos	5.5	12.2	6.5	3.1	1.0	28.3	77.8
Heavy Oil	2.4	14.2	1.0	11.5	1.0	30.1	81.3
Orito	3.0	14.0	0.9	3.9	0.3	20.3	28.2
Neiva	0.1	12.2	1.6	0.1	0.5	14.5	35.6
Peru	2.8	6.5	1.7	0.4	0.1	11.5	18.1
Foothills	3.6	4.2	-	0.4	0.5	8.7	11.5
Total	**37.7**	**118.3**	**24.4**	**25.2**	**5.2**	**210.4**	**534.7**
Recorded as:							
Exploration and						107.7	260.0
Property, plant and equipment						102.7	274.7

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

- Drilling and completion costs relate to drilling oil wells, water disposals wells and workovers, including Azalea-1 (workover), Macapay-1 (workover), Cobra-1 (on production July 30th), Candelilla-3 side-track (on production in August), Camoruco-1 (drilled July 4), Babaco-1 (drilled July 29), and costs for Caspio-1, Socaco-1 and Cobra-2 that were in progress at September 30th.
- Facilities costs relate to constructing a central production facility in the northeast part of the Corcel Block, costs for modifying the Corcel central processing facility ("CPF") to increase fluid handling and installation of flow-lines to connect Guatiquia production to the Corcel CPF; and
- Seismic costs include the 180 square kilometre 3D seismic program at Block 31.
- Infrastructure costs include civil construction costs related to the wells drilled in the quarter and upcoming drilling locations including Jamuco-1, Iboga-1 and Yatay-2;

Central Llanos capital expenditures relate to:

- Drilling and completion costs relate to drilling oil wells, water disposal wells and workovers/re-completions. At our Casimena Block, we incurred drilling costs for Zacay-1 and Pisingo-1, and for initial civil works of the upcoming Gaita-1 well. At our Castor Block, we had workover costs related to the Capybara-2 well. At our Mapache block, we had completion and facilities costs for the Disa-1 exploration well (on production in July);
- Seismic costs include the 154 square kilometre 2D seismic program on our Castor Block.
- Infrastructure costs include civil construction costs for the Casimena block related to the Yenac field, civil construction costs related to the wells drilled in the quarter, and temporary production facilities for the Capybara-2 well.

Heavy oil capital expenditures primarily relate to our Rio Ariari and Chiguiro Este Blocks:

- Drilling, completion and infrastructure costs relate to the Azulejo, Calandria and Borugo Twin wells.
- Seismic costs include the 372 square kilometre 3D seismic program on the Rio Ariari Block.

Orito capital expenditures relate to drilling two wells in the third quarter. Neiva expenditures relate to drilling three wells in the quarter.

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

Foothills costs relate to civil construction costs associated with preparing well sites for our Bromelia and Canatua wells and initial drilling costs to set surface casing for the Bromelia well.

SUMMARY OF QUARTERLY RESULTS

	IFRS							CDN GAAP
	2011			2010				2009
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Financial								
($millions except where noted)								
Crude oil revenue	**363.0**	378.0	349.7	250.6	231.5	318.8	247.8	160.6
Funds flow from operations	**196.4**	194.7	181.8	153.3	128.5	176.0	140.1	106.2
Per share – basic ($)	**1.93**	1.88	1.76	1.52	1.29	1.77	1.42	1.08
– diluted ($)	**1.66**	1.62	1.49	1.29	1.17	1.68	1.33	1.03
Adjusted net income [1] [3]	**58.8**	113.9	75.8	34.6	59.1	95.7	93.4	51.2
Per share – basic ($)	**0.58**	1.10	0.73	0.34	0.59	0.96	0.95	0.52
– diluted ($)	**0.55**	0.99	0.60	0.33	0.58	0.93	0.90	0.51
Net income (loss)	**133.7**	215.7	36.8	(72.5)	27.2	95.7	93.4	51.2
Per share – basic ($)	**1.31**	2.08	0.35	(0.72)	0.27	0.96	0.95	0.52
– diluted ($)	**0.55**	0.99	0.34	(0.72)	0.27	0.93	0.90	0.51
General and administrative	**7.8**	8.9	9.6	7.8	6.5	5.1	5.0	3.9
PP&E and E&E additions	**210.4**	174.8	149.5	162.8	119.1	112.8	111.7	82.0
Operations								
Operating netback ($/bbl) [1]								
Brent benchmark price	**113.38**	118.32	104.89	87.49	77.02	79.59	76.75	74.51
WTI benchmark price	**89.54**	102.34	94.61	85.34	76.15	78.06	79.08	76.19
Quality adjustment, pipeline and marketing fees	**9.30**	3.63	3.29	(4.94)	(3.93)	(7.01)	(7.48)	(9.87)
Crude oil sales price	**98.84**	105.97	97.90	80.40	72.22	71.05	71.60	66.32
Trucking	**11.08**	10.82	9.36	6.51	7.68	7.52	6.95	4.57
Realized crude oil price [2]	**87.76**	95.15	88.54	73.89	64.54	63.53	64.65	61.75
Royalties	**10.73**	12.82	11.50	12.06	9.09	6.35	7.12	6.76
Production expenses	**15.92**	12.74	7.70	13.06	7.63	6.25	6.48	7.62
Operating netback	**61.11**	69.59	69.34	48.77	47.82	50.93	51.05	47.37
Crude oil production (bopd)	**37,124**	40,308	40,802	33,142	32,667	44,203	38,199	24,555
Sales of produced oil (bopd)	**39,923**	39,202	39,688	32,138	32,696	49,466	38,462	25,607

[1] Non-IFRS measure. See "Non-IFRS Measures" section.
[2] Net of transportation and excludes revenue from purchased oil.
[3] Net income has been adjusted for the effects of the loss on the derivative financial liability and the one-time four year equity tax recorded in Q1 2011.

Significant factors influencing quarterly results were:

- Production increased in 2011 mainly due to the Yatay discovery that came on production at the beginning of 2011. Third quarter 2011 production was negatively impacted by approximately 2,200 bopd due to a seven day production shut-in of our Corcel and Guatiquia Blocks caused by road blockades;
- Production in 2010 was higher than 2009 mainly due to the Candelilla discovery that came on production at the beginning of 2010. Second quarter 2010 production averaged 44,203 bopd, higher than other quarters, due to having all three of the Lower Sand formation producing Candelilla wells on production;
- Trucking costs per barrel increased in 2011 primarily due to higher trucking tariffs, wet weather and deliveries to further destinations;
- Starting in the third quarter of 2010, our royalty rate as a percentage of revenue increased due to the start of high price participation payments on our Candelilla field production;
- Fourth quarter 2010 operating costs were higher primarily due to a historical cost adjustment at Orito, excluding this adjustment operating costs would have been $8.15 per barrel;
- Second and third quarter 2011 operating expenses increased due to a number of work-overs performed and higher water trucking and handling costs; and
- Capital expenditures have been increasing, consistent with our growing operations and drilling programs.

LIQUIDITY AND CAPITAL RESOURCES

Based on the Company's financial position at September 30, 2011 and projected future cash flows, management expects the Company to be able to fund its capital program and meet its financial obligations including debt repayments. The Company believes it is well positioned financially with significant available credit capacity, assets that are providing strong operating netbacks, along with an extensive inventory of exploration prospects. The Company has a history of generating positive funds flow from operations and recorded cash provided by operations of $198.1 million in the third quarter of 2011.

SOURCES OF LIQUIDITY

Type of Assets	September 30, 2011	December 31, 2011
Working Capital Surplus [1]	**134.0**	580.2
Undrawn reserves-based credit facility	**150.0**	150.0
Total	**284.0**	730.2

1) At September 30, 2011, the cash equivalents of $275.4 million were invested in high credit quality banks with maturities ranging up to 90 days. The investments have been made primarily between two different international banks.

The Company's cash inflows for the third quarter and the first nine months are summarized in the following table as derived from Petrominerales consolidated statement of cash flow.

	Three months ended September 30,			Nine months ended September 30,		
Sources of Cash	**2011**	2010	Change	**2011**	2010	Change
Cash provided by operating activities	**198.1**	127.4	55%	**540.4**	423.6	28%
Issuance of common shares	**1.1**	1.8	(44%)	**4.0**	6.0	(33%)
Other, including convertible debenture	**(0.1)**	533.2	(100%)	**(0.9)**	533.2	(100%)
Total	**199.1**	639.1	(69%)	**543.5**	974.5	(44%)

CASH REQUIREMENTS

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

Type of Obligation	Total	< 1 Year	1-3 Years	Thereafter
Trade and other payables	**289.1**	289.1	-	-
Income taxes payable	**64.1**	64.1	-	-
Long-term portion of equity tax payable	**12.8**	-	12.8	-
Convertible debenture [1]	**620.8**	14.5	28.8	577.5
Decommissioning liabilities	**106.2**	-	-	106.2
Exploration contracts [2]	**190.3**	147.0	43.3	-
Storage and transportation contract	**10.8**	5.8	5.0	-
Pipeline investments [3]	**39.6**	39.6	-	-
Office lease	**6.6**	2.0	4.1	0.5
Total	**1,340.3**	562.1	94.0	684.2

(1) Includes the cash interest due on the $550 million convertible debenture due in 2016 that bears an annual coupon rate of 2.625% payable semi-annually. The debentures are convertible into common shares of Petrominerales at a conversion price of US$34.3147 per share, subject to adjustment for dividends. If converted, the Company has the option to deliver a total of 16,028,116 common shares or cash equal to the market value of the 16,028,116 common shares based on the weighted average share price for the 20 trading day period following the conversion notice. In addition, the debenture holders have a one-time put option right of prepayment of the debentures for 100 per cent of

the par value plus accrued interest on August 25, 2013. The debenture holders must exercise their put option within a 30 day period between June 10 and July 10, 2013.

(2) Pursuant to exploration contracts, the Company has work commitments totaling $190.3 million to be completed during the next three years. The work commitments are normal course of business activities that include acquisition and processing of seismic data and drilling exploration wells. The Company has issued letters of credit totaling $45.9 million to guarantee the obligations under these exploration contracts.

(3) The Company owns 9.65 percent of the Oleducto Bicentenario de Colombia pipeline project ("OBC"). The pipeline will be built in multiple phases, of which the Company has committed up to the first phase. Phase one of the project will connect Llanos Basin production from Araguaney to Banadia. This phase is expected to cost approximately $1.0 billion ($96.5 million net) and add approximately 120,000 bopd (11,580 bopd net) of offloading capacity by the third quarter of 2012. Ultimately, future phases of the project are expected be completed in 2014 and will add a further 330,000 bopd of gross takeaway capacity at a total incremental gross cost of approximately $4.4 billion ($425 million net). Petrominerales has an option to participate in future phases.

	Three months ended September 30,			Nine months ended September 30,		
Uses of Cash	**2011**	2010	Change	**2011**	2010	Change
Cash used by investing and financing activities						
Expenditures on PP&E and E&E [1]	**(210.4)**	(119.1)	77%	**(534.7)**	(343.6)	56%
Pipeline investment [2] [3]	**(264.2)**	-	100%	**(340.8)**	-	100%
Dividends paid [4]	**(13.4)**	(12.0)	12%	**(40.6)**	(12.2)	233%
Repurchase of shares [5]	**(84.3)**	-	100%	**(96.3)**	-	100%
Other	**8.1**	(23.9)	-%	**20.8**	(0.4)	-%
	(564.2)	(155.5)	263%	**(991.6)**	(368.2)	169%

(1) See earlier Capital Expenditures section for explanation on cash used for expenditures on PP&E and E&E.

(2) The Company acquired five percent interest in the Oleoducto Central S.A. ("Ocensa") crude oil pipeline from Total E&P Holdings ("Total"), for a purchase price of US$281 million. At June 30 we paid an advance of US$28.1 million and the remaining $252.9 million was paid on July 20, 2011.

(3) See note 3 to table above.

(4) Petrominerales initiated a quarterly dividend payment of Cdn.$0.125 per share starting in the second quarter of 2010. Petrominerales' strategy is to execute a diversified exploration focused business plan that provides opportunity for growth while offering a dividend yield to shareholders.

(5) The Toronto Stock Exchange ("TSX") approved the Company's NCIB program to purchase outstanding shares on the open market, in accordance with the rules of the TSX. Petrominerales is authorized to purchase up to 8,212,601 shares, representing approximately 10% percent of the public float of Petrominerales shares as defined by the policies of the TSX. During the first nine months of 2011, the Company repurchased 3,353,489 shares at an average price of $28.72.

Petrominerales maintains local operating lines of credit in Colombia that are primarily used to issue letters of credit to support exploration commitments. At September 30, 2011, letters of credit issued against the Colombian operating lines of credit totaled $41.6 million. The Company also has a $4.3 million letter of credit issued in Peru for Block 126.

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

COMMON SHARES

The aggregate number of Petrominerales common shares, stock options, deferred common shares and incentive shares outstanding at November 2, 2011 was 107,128,622 (common shares – 99,626,484, stock options – 6,272,585, deferred common shares – 176,094, incentive shares – 1,053,459).

TRANSACTIONS WITH RELATED PARTIES

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

RISKS AND UNCERTAINTIES

There have been no significant changes in the three and nine months ended September 30, 2011 to the risks and uncertainties identified in the MD&A for the year ended December 31, 2010.

Sensitivities

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

Change of:		(millions)
Brent	$1.00/bbl Brent reference price (assuming 40,000 bopd)	**$12.7**
Crude oil	1,000 bopd of production @ $85/bbl Brent	**$20.0**

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

Exploration and Evaluation Assets

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

Opening Balance Sheet – Full Cost Pool

On transition to IFRS, our full cost pool under Canadian GAAP was allocated to our IFRS areas based on estimated proved reserve values. The estimate of proved reserve values required a number of assumptions and estimates, including quantities of reserves, expected production volumes, future commodity prices, discount rates as well as

future development and operating costs. The resulting fair value estimates may not necessarily be indicative of the amounts that may be realized or settled in a current market transaction, nor do they represent costs historically spent.

Reserve Estimates

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

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

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

Asset Impairments

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

Derivative Liabilities

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

Deferred Income Taxes

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

Contingencies

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

CHANGES IN ACCOUNTING POLICIES

In November 2009, the IASB issued IFRS 9, "Financial Instruments", which is the result of the first phase of the IASB's project to replace IAS 39, "Financial Instruments: Recognition and Measurement". In October 2010, the standard was revised. The new and revised standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. The adoption of this standard should not have a material impact on the Company's consolidated financial statements.

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

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

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

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

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

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

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

REGULATORY POLICIES

Certification of Disclosures in Interim Filings

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

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

During the three and nine months ended September 30, 2011, there has been no change in the Company's ICFR that has materially affected, or is reasonably likely to materially affect, the Company's ICFR. The Company has continually had in place systems relating to DC&P and ICFR and will continue to monitor such procedures as the Company's business evolves.

OUTLOOK

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

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

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

In addition to the plans discussed in this MD&A, please see the Company's third quarter 2011 operational update.

Forward-Looking Statements. *Certain information provided in this report constitutes forward-looking statements. The words "anticipate", "expect", "project", "estimate", "forecast" and similar expressions are intended to identify such forward-looking statements. Specifically, this report contains forward-looking statements relating to the timing of capital projects, financial results, results of operations and participation in and timing of costs of the OBC. The forward looking information is based on key expectations and assumptions made by Petrominerales, including assumptions concerning the success of future drilling activities, the performance of existing wells, prevailing commodity prices, availability of labour and services, receipt of required permits and regulatory approvals and performance of expected activities by industry partners. The reader is cautioned that assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be incorrect. Actual results achieved during the forecast period will vary from the information provided herein as a result of numerous known and unknown risks and uncertainties and other factors. A discussion of those risks and uncertainties can be found in the Company's Canadian securities filings. Such factors include, but are not limited to: general economic, market and business conditions; fluctuations in oil prices; the results of exploration and development drilling, recompletions and related activities; timing and rig availability, outcome of exploration contract negotiations; fluctuation in foreign currency exchange rates; the uncertainty of reserve estimates; changes in environmental and other regulations; risks associated with oil and gas operations; reliance on partners in respect of the construction of the OBC and other factors, many of which are beyond the control of the Company. There is no representation by Petrominerales that actual results achieved during the forecast period will be the same in whole or in part as those forecast. Except as may be required by applicable securities laws, Petrominerales assumes no obligation to publicly update or revise any forward-looking statements made herein or otherwise, whether as a result of new information, future events or otherwise.*

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

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)

(Millions of United States dollars)

As at,	Note	**September 30, 2011**	December 31, 2010 (Note 23)	January 1, 2010 (Note 23)
ASSETS				
Current assets				
Cash and cash equivalents		**$ 275.4**	$ 723.3	$ 63.0
Trade and other receivables	20	**211.0**	155.6	47.5
Income tax receivable		**-**	4.3	8.5
Crude oil inventory		**0.8**	6.1	1.4
		487.2	889.3	120.4
Non-current assets				
Other assets	7	**22.8**	25.3	26.5
Exploration and evaluation assets	8	**396.2**	264.9	84.2
Property, plant and equipment	9	**859.9**	648.1	489.0
Pipeline investments	11	**340.8**	-	-
Goodwill	10	**5.0**	5.0	-
		1,624.7	943.3	599.7
Total assets		**$ 2,111.9**	$ 1,832.6	$ 720.1
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Trade and other payables		**$ 289.1**	$ 309.1	$ 106.9
Income taxes payable		**64.1**	-	-
Convertible debentures	15	**-**	-	76.8
		353.2	309.1	183.7
Non-current liabilities				
Deferred tax liabilities	17	**154.6**	104.0	25.2
Long-term portion of equity tax	17	**12.8**	-	-
Convertible debentures	15	**450.3**	437.8	-
Derivative financial liability	12,15	**103.0**	240.2	-
Decommissioning liabilities	16	**62.2**	34.9	16.3
Total liabilities		**1,136.1**	1,126.0	225.2
Shareholders' equity				
Equity component of convertible debentures	15	**-**	-	10.4
Common shares	12	**297.7**	301.9	197.7
Share-based payment reserve	12	**34.2**	21.3	9.9
Retained earnings		**643.9**	383.4	276.9
		975.8	706.6	494.9
Total liabilities and shareholders' equity		**$ 2,111.9**	$ 1,832.6	$ 720.1

Commitments and contingencies (Note 22)

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

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

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

		Three months ended September 30,		Nine months ended September 30,	
	Note	**2011**	2010	**2011**	2010
			(Note 23)		(Note 23)
Revenues					
Oil		**$ 363.0**	$ 231.5	**$ 1,090.7**	$ 798.1
Royalties		**(39.4)**	(27.3)	**(126.2)**	(77.7)
		323.6	204.2	**964.5**	720.4
Operating Expenses					
Production		**58.5**	22.9	**131.4**	70.7
Transportation		**40.7**	23.1	**112.7**	69.4
Purchased oil		**-**	14.4	**0.1**	52.3
Depletion and depreciation	9	**89.4**	50.4	**220.8**	153.8
General and administrative		**7.8**	6.7	**26.3**	16.8
Acquisition costs	10,11	**1.7**	0.1	**2.1**	1.2
Colombia equity tax	17	**-**	0.6	**27.7**	1.6
Stock-based compensation	12	**4.1**	4.4	**15.1**	9.5
		202.2	122.6	**536.2**	375.3
Net finance income (expense)	6	**75.5**	(44.8)	**104.3**	(55.3)
Income before taxes		**196.9**	36.8	**532.6**	289.8
Income taxes	17	**63.2**	9.6	**146.4**	73.5
Net income and comprehensive income		**$ 133.7**	$ 27.2	**$ 386.2**	$ 216.3
Net income per share					
Basic	13	**$ 1.31**	$ 0.27	**$ 3.75**	$ 2.18
Diluted	13	**$ 0.55**	$ 0.27	**$ 2.22**	$ 2.12

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

CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

(Millions of United States dollars)

	Note	Three months ended September 30,		Nine months ended September 30,	
		2011	2010 (Note 23)	**2011**	2010 (Note 23)
Common shares:					
Balance beginning of period		$ 304.8	$ 202.8	$ 301.9	$ 197.7
Shares repurchased and cancelled	12	(8.7)	-	(9.9)	-
Exercise of stock options, deferred common shares and incentive shares	12	1.6	2.6	5.7	7.7
Balance end of period		**$ 297.7**	$ 205.4	**$ 297.7**	$ 205.4
Equity Component of Convertible Debentures:					
Balance beginning of period	15	$ -	$ 10.4	$ -	$ 10.4
Conversion of convertible debentures	15	-	-	-	-
Balance end of period		**$ -**	$ 10.4	**$ -**	$ 10.4
Share Based Payment Reserve:					
Balance beginning of period		$ 30.8	$ 14.1	$ 21.3	$ 9.9
Exercise of stock options, deferred common shares and incentive shares	12	(0.5)	(0.7)	(1.7)	(1.6)
Stock-based compensation	12	3.9	4.4	14.6	9.5
Balance end of period		**$ 34.2**	$ 17.8	**$ 34.2**	$ 17.8
Retained Earnings:					
Balance beginning of period		$ 598.0	$ 454.3	$ 383.4	$ 276.9
Net income and comprehensive income		133.7	27.2	386.2	216.3
Dividends	12	(12.2)	(12.5)	(39.3)	(24.2)
Shares repurchased and cancelled	12	(75.6)	-	(86.4)	-
Balance end of period		**$ 643.9**	$ 469.0	**$ 643.9**	$ 469.0
Total Equity:					
Balance beginning of period		$ 933.6	$ 681.6	$ 706.6	$ 494.9
Net income and comprehensive income		133.7	27.2	386.2	216.3
Dividends	12	(12.2)	(12.5)	(39.3)	(24.2)
Shares repurchased and cancelled	12	(84.3)	-	(96.3)	-
Exercise of stock options, deferred common shares and incentive shares	12	1.1	1.9	4.0	6.1
Stock-based compensation	12	3.9	4.4	14.6	9.5
Balance end of period		**$ 975.8**	$ 702.6	**$ 975.8**	$ 702.6

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

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOW (UNAUDITED)

(Millions of United States dollars)

		Three months ended September 30,		Nine months ended September 30,	
	Note	**2011**	2010	**2011**	2010
			(Note 23)		(Note 23)
Operating Activities					
Net income for the period		**$ 133.7**	$ 27.2	**$ 386.2**	$ 216.3
Adjustments for non-cash items:					
Depletion and depreciation	9	**89.4**	50.4	**220.8**	153.8
Deferred taxes	17	**43.7**	10.3	**50.6**	22.8
Accretion of convertible debentures	15	**4.3**	2.9	**12.5**	5.4
Unwinding of discounts	16,17	**0.8**	0.3	**2.8**	0.6
Stock-based compensation	12	**4.1**	4.4	**15.1**	9.5
Unrealized (gain) loss on derivative financial liability	6,15	**(74.9)**	31.9	**(137.7)**	31.9
Amortization of other assets	7	**1.3**	1.1	**3.7**	4.2
Colombian equity tax – expense	17	**-**	0.6	**27.7**	1.6
Colombian equity tax – foreign currency change	17	**(1.6)**	-	**0.1**	-
Colombian equity tax paid	17	**(4.4)**	(0.6)	**(8.9)**	(1.6)
		196.4	128.5	**572.9**	444.5
Changes in non-cash working capital	21	**-**	(1.5)	**(97.3)**	(56.2)
Current income tax expense	17	**19.5**	(0.7)	**95.8**	50.7
Cash income taxes paid		**(14.2)**	(1.2)	**(27.4)**	(17.7)
Interest expense	6	**3.6**	2.3	**10.8**	3.7
Cash interest paid		**(7.2)**	-	**(14.4)**	(1.4)
		198.1	127.4	**540.4**	423.6
Financing Activities					
Dividends paid	12	**(13.4)**	(12.0)	**(40.6)**	(12.2)
Issuance of common shares – net of costs	12	**1.1**	1.8	**4.0**	6.0
Financing costs	7	**(0.1)**	(0.1)	**(0.9)**	(0.1)
Repurchase of shares	12	**(84.3)**	-	**(96.3)**	-
Issuance of convertible debenture	15	**-**	533.3	**-**	533.3
		(96.7)	523.0	**(133.8)**	527.2
Investing Activities					
Expenditures on property, plant and equipment	9	**(102.7)**	(75.9)	**(274.7)**	(193.3)
Expenditures on exploration and evaluation assets	8	**(107.7)**	(43.2)	**(260.0)**	(150.3)
Expenditures on other assets	7	**-**	(1.2)	**(0.3)**	(3.7)
Corporate acquisition	10	**-**	-	**-**	(28.8)
Pipeline investments	11	**(264.2)**	-	**(340.8)**	-
Changes in non-cash working capital	21	**8.3**	(22.7)	**21.3**	32.1
		(466.3)	(143.0)	**(854.5)**	(344.0)
Increase (decrease) in cash and cash equivalents		**(364.9)**	507.4	**(447.9)**	606.8
Cash and cash equivalents, beginning of period		**640.3**	162.4	**723.3**	63.0
Cash and cash equivalents, end of period		**$ 275.4**	$ 669.8	**$ 275.4**	$ 669.8
Cash and cash equivalents consist of:					
Cash		**$ 62.7**	$ 13.4	**$ 62.7**	$ 13.4
Cash equivalents		**$ 212.7**	$ 656.4	**$ 212.7**	$ 656.4

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

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at September 30, 2011, December 31, 2010 and January 1, 2010, and for the three and nine months ended September 30, 2011 and 2010 (Unaudited, all tabular amounts are expressed in millions of United States dollars, except per share amounts or as otherwise noted)

NOTE 1 – REPORTING ENTITY

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

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

NOTE 2 – BASIS OF PRESENTATION

Statement of Compliance

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

These condensed interim consolidated financial statements include the accounts of the Company as at September 30, 2011, December 31, 2010 and January 1, 2010, and for the three and nine month periods ended September 30, 2011 and 2010. These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 'Interim Financial Reporting' ("IAS 34") using accounting policies consistent with IFRS as issued by the International Accounting Standards Board and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") and do not contain all the disclosures required for full annual financial statements.

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

These condensed interim consolidated financial statements were authorized for issue by the Company's Board of Directors on November 2, 2011.

Basis of Measurement

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

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

Functional and Presentation Currency

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

Significant Accounting Estimates and Judgements

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

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

NOTE 3 –SIGNIFICANT ACCOUNTING POLICIES

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

NOTE 4 – CHANGES IN ACCOUNTING POLICIES

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

In November 2009, the IASB issued IFRS 9, "Financial Instruments", which is the result of the first phase of the IASB's project to replace IAS 39, "Financial Instruments: Recognition and Measurement". In October 2010, the standard was revised. The new and revised standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. The adoption of this standard should not have a material impact on the Company's consolidated financial statements.

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

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

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

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

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

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

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

NOTE 5 – SEGMENTED INFORMATION

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

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

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

	Three months ended September 30, 2011				Nine months ended September 30, 2011			
	Colombia	**Peru**	**Other**	**Total**	**Colombia**	**Peru**	**Other**	**Total**
Revenue	363.0	-	-	363.0	1,090.7	-	-	1,090.7
Depletion and depreciation	89.4	-	-	89.4	220.8	-	-	220.8
Income before finance expense	153.0	-	(31.6)	121.4	449.1	-	(20.8)	428.3
Net finance expense	8.5	-	67.0	75.5	(11.6)	-	115.9	104.3
Income tax expense	63.2	-	-	63.2	146.4	-	-	146.4
Net income	98.3	-	35.4	133.7	291.1	-	95.1	386.2
E&E and PP&E expenditures	199.6	10.8	-	210.4	517.3	17.4	-	534.7

	Three months ended September 30, 2010				Nine months ended September 30, 2010			
	Colombia	**Peru**	**Other**	**Total**	**Colombia**	**Peru**	**Other**	**Total**
Revenue	231.5	-	-	231.5	798.1	-	-	798.1
Depletion and depreciation	50.4	-	-	50.4	153.8	-	-	153.8
Income before finance expense	82.8	-	(1.2)	81.6	344.9	-	0.2	345.1
Net finance expense	(7.7)	-	(37.1)	44.8	(14.3)	-	(41.0)	55.3
Income tax expense	9.6	-	-	9.6	73.5	-	-	73.5
Net income	65.9	-	(38.7)	27.2	257.5	-	(41.2)	216.3
E&E and PP&E expenditures	116.3	2.8	-	119.1	335.3	8.3	-	343.6

	As at September 30, 2011				As at December 31, 2010			
	Colombia	**Peru**	**Other**	**Total**	**Colombia**	**Peru**	**Other**	**Total**
Total assets	1,795.8	72.1	244.0	2,111.9	1,047.9	51.8	732.9	1,832.6
Total liabilities	552.0	55.0	568.2	1,136.1	508.2	32.3	585.5	1,126.0

NOTE 6 – NET FINANCE INCOME (EXPENSE)

	Three months ended September 30,		Nine months ended September 30	
	2011	2010	**2011**	2010
Interest expense on convertible debenture	**(3.6)**	(2.3)	**(10.8)**	(3.7)
Standby and other bank charges	**(1.8)**	(0.9)	**(5.4)**	(3.5)
Accretion on convertible debentures	**(4.3)**	(2.9)	**(12.5)**	(5.4)
Accretion on Colombia equity tax	**(0.5)**	-	**(1.8)**	-
Unwinding of discount of decommissioning liability	**(0.3)**	(0.3)	**(1.0)**	(0.6)
Amortization of deferred financing costs	**(0.6)**	(0.4)	**(1.3)**	(1.0)
Total interest expense and accretion	**(11.1)**	(6.8)	**(32.8)**	(14.2)
Derivative financial liability gain (loss)	**74.9**	(31.9)	**137.7**	(31.9)
Foreign exchange gain (loss)	**11.1**	(6.5)	**(2.4)**	(9.7)
Interest income	**0.6**	0.4	**1.8**	0.5
Total net finance income (expense)	**75.5**	(44.8)	**104.3**	(55.3)

NOTE 7 – OTHER ASSETS

	Prepaid Pipeline Tariffs	**Deferred Charges**	**Total Other Assets**
Balance at January 1, 2010	21.2	5.3	26.5
Additions	3.8	0.1	3.9
Less: amortization	(3.8)	(1.3)	(5.1)
Balance at December 31, 2010	21.2	4.1	25.3
Additions	0.3	0.9	1.2
Less: amortization	(2.4)	(1.3)	(3.7)
Balance at September 30, 2011	**19.1**	**3.7**	**22.8**

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

NOTE 8 – EXPLORATION AND EVALUATION ASSETS

Balance at January 1, 2010	84.2
Additions	167.3
Decommissioning liability additions, net of transfers to PP&E	4.9
PanAndean acquisition (Note 9)	32.0
Transfer to property, plant and equipment	(23.5)
Balance at December 31, 2010	264.9
Additions	260.0
Decommissioning liability additions, net of transfers to PP&E	7.1
Transfer to property, plant and equipment	(135.8)
Balance at September 30, 2011	**396.2**

Exploration and evaluation assets are made up of the Company's exploration and evaluation projects currently in progress. For the three and nine months ended September 30, 2011, $42.7 million and $135.8 million, respectively, was transferred to property plant and equipment (see Note 9) in respect of successful wells. The Company does not hold any tangible exploration assets.

NOTE 9 – PROPERTY, PLANT AND EQUIPMENT

	Inventory	Crude oil assets	Corporate and other	Total
Costs at January 1, 2010	21.2	784.6	7.0	812.8
Additions	8.4	322.1	8.6	339.1
Decommissioning liability additions, including transfers from E&E	-	13.3	-	13.3
Transfers from E&E	-	23.5	-	23.5
Costs at December 31, 2010	29.6	1,143.5	15.6	1,188.7
Accumulated depreciation and depletion	-	(320.2)	(3.5)	(323.7)
Depreciation and depletion for the period	-	(214.0)	(2.9)	(216.9)
Carrying value, December 31, 2010	**29.6**	**609.3**	**9.2**	**648.1**

	Inventory	Crude oil assets	Corporate and other	Total
Cost at December 31, 2010	29.6	1,143.5	15.6	1,188.7
Additions	18.5	251.7	4.5	274.7
Decommissioning liability movement, including transfers from E&E	-	19.2	-	19.2
Transfers from E&E	-	135.8	-	135.8
Cost at September 30, 2011	48.1	1,550.2	20.1	1,618.4
Accumulated depreciation and depletion	-	(534.2)	(6.4)	(540.6)
Depreciation and depletion for the period[1]	-	(214.9)	(3.0)	(217.9)
Carrying value, September 30, 2011	**48.1**	**801.1**	**10.7**	**859.9**

[1] Depreciation and depletion expense for the nine months ended September 30, 2011 was $220.8 million, of which $217.9 million was recognized in property, plant and equipment. The additional $2.9 million expense was recognized in crude oil inventory at December 31, 2010.

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

NOTE 10 – CORPORATE ACQUISITION

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

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

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

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

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

NOTE 11 – PIPELINE INVESTMENTS

	OBC(1)	**OCENSA(2)**	**Total**
Balance at January 1 and December 31, 2010	-	-	-
Additions	59.8	281.0	340.8
Balance at September 30, 2011	**59.8**	**281.0**	**340.8**

(1) The Company owns 9.65 percent of the common shares of the Oleoducto Bicentenario de Colombia pipeline project ("OBC"). The pipeline will be built in multiple phases, of which the Company has committed up to the first phase. Phase one of the project is expected to cost approximately $1.0 billion ($96.5 million net) and add approximately 120,000 bopd (11,580 bopd net) of offloading capacity during the third quarter of 2012. The Company has paid $59.8 million to date. Ultimately, future phases of the project are expected be completed by 2014 and will add a further 330,000 bopd of gross takeaway capacity at a total incremental gross cost of approximately $4.4 billion. Petrominerales has an option to participate in future phases.

(2) On July 20th, 2011, the Company acquired a five percent interest in the Oleoducto Central S.A. ("Ocensa") crude oil pipeline for a purchase price of $281 million. At June 30, an advance of $28.1 million was paid and the remaining $252.9 million was paid on closing. The Company incurred $2.1 million of costs related to the acquisition that have been expensed in the statement of operations.

NOTE 12 – SHARE CAPITAL

Authorized

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

Common Shares

Issued, outstanding and fully paid	Number	Amount
Balance at January 1, 2010	98,610,917	$ 197.7
Exercise of stock options	1,764,899	9.6
Exercise of deferred common shares	25,625	-
Exercise of incentive shares	2,947	-
Share issuance for dividends attributable to exercised deferred common shares	123	-
Conversion of convertible debentures	2,987,367	92.1
Transfer from share-based payments reserve related to stock options, incentive shares and deferred common shares exercised	-	2.5
Balance at December 31, 2010	103,391,878	301.9
Cancelled due to reorganization (Note 1)	(3,859)	-
Exercise of stock options	585,804	4.0
Exercise of incentive shares	29,035	-
Exercise of deferred common shares	257	-
Repurchased under normal course issuer bid	(3,353,489)	(9.9)
Transfer from share-based payments reserve related to stock options, incentive shares and deferred common shares exercised	-	1.7
Balance at September 30, 2011	**100,649,626**	**$297.7**

Dividends

Petrominerales initiated a quarterly dividend payment of Cdn.$0.125 per share starting with the second quarter of 2010. The total amount of dividends declared in the first nine months of 2011 was $39.3 million (2010 – $24.2 million). The third quarter of 2011 dividend declared was $12.2 million (2010 – $12.5 million) that was paid on October 12, 2011.

Normal Course Issuer Bid (“NCIB”)

During the first nine months of 2011, the Company repurchased 3,353,489 common shares under a normal course issuer bid (“NCIB”) at an average cost of $28.72 (Cdn.$27.99) per share for a total repurchase cost of $96.3 million. The book value of the common shares repurchased was $2.95 per share for a total book value of $9.9 million that was recorded to share capital. The residual amount of $86.4 million was recorded directly to retained earnings. All of the common shares acquired under the NCIB were cancelled.

Share-based Payment Reserves

Changes in Share-based Payment Reserves	Amount
Balance at January 1, 2010	9.9
Stock-based compensation	13.9
Transfer to common shares related to stock options, incentive shares and deferred common shares exercised	(2.5)
Balance at December 31, 2010	21.3
Stock-based compensation, excluding share appreciation rights	14.6
Transfer to common shares related to stock options, incentive shares and deferred common shares exercised	(1.7)
Balance at September 30, 2011	**34.2**

Stock Options

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

Continuity of stock options outstanding	Stock Options	Weighted-Average Exercise Price (Cdn.$)
Balance at January 1, 2010	6,046,182	7.98
Granted	2,823,300	27.27
Exercised	(1,764,899)	5.51
Forfeited and cancelled	(339,431)	11.92
Balance at December 31, 2010	6,765,152	16.47
Granted	570,530	31.74
Exercised	(585,804)	6.79
Forfeited	(505,884)	15.79
Expired	(5,000)	3.75
Balance at September 30, 2011	**6,238,994**	**18.85**

The following summarizes information about stock options outstanding as at September 30, 2011:

Stock Options Outstanding				Stock Options Exercisable	
Range of Exercise Prices (Cdn.$)	Number	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price (Cdn.$)	Number	Weighted-Average Exercise Price (Cdn.$)
3.11 – 7.56	1,592,570	3.29	5.76	834,008	4.45
7.57 – 16.98	1,146,379	3.97	12.00	243,045	11.92
16.99 – 25.70	1,128,350	4.47	21.92	117,612	22.49
25.71 – 28.10	1,120,425	5.60	27.77	163,800	27.90
28.11 – 37.42	1,251,270	4.19	31.06	155,250	30.04
	6,238,994	**4.23**	**18.85**	**1,513,715**	**12.22**

Deferred Common Share Compensation Plan

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

Deferred Common Share Continuity	Number
Balance at January 1, 2010	97,844
Granted	59,171
Exercised	(25,625)
Balance at December 31, 2010	131,390
Granted	49,461
Exercised	(257)
Cancelled	(4,500)
Balance at September 30, 2011	**176,094**

At September 30, 2011, there were 18,138 deferred common shares exercisable (December 31, 2010 – 7,000) with a remaining contractual life of 8.3 years (December 31, 2010 – 8.6 years).

Incentive Share Plan

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

Incentive Share Continuity	Number
Balance at January 1, 2010	34,130
Granted	838,036
Exercised	(2,947)
Forfeitures and cancellations	(16,600)
Balance at December 31, 2010	852,619
Granted	253,920
Exercised	(29,035)
Forfeitures and cancellations	(28,135)
Balance at September 30, 2011	**1,049,369**

At September 30, 2011, there were 183,694 incentive shares exercisable (December 31, 2010 – 142,150) with a remaining contractual life of 4.8 years (December 31, 2010 – 4.9 years).

Share Appreciation Rights Plan

The Company established a Share Appreciation Rights ("SAR") plan for the officers and employees during the second quarter of 2011. The plan allows the holder to receive a cash payment equivalent to the fair value of one common share based upon the share price on the exercise date of the right less the exercise price of $0.05 per SAR. The terms of the SAR's granted are determined by the Company's Board of Directors but typically, SAR's issued to new hires vest evenly over a period of four years, SAR's issued annually vest four years from the date of grant and expire five after the date of grant. The Company has granted 186,300 SAR's in 2011. A derivative liability of $0.5 million was

recorded as at September 30, 2011 related to the SAR's, and an equivalent amount was recorded as stock-based compensation in the condensed interim consolidated statement of operations and comprehensive income.

Stock-Based Compensation

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

Nine months ended September 30,	**2011**	2010
Risk free interest rate	**1.5% - 2.25%**	2.25%
Market Price	**34.78**	26.88
Dividend rate	**1.5%**	2%
Expected life – options and incentive shares (years)	**3.0 – 4.0**	3.0 – 4.0
Expected life – deferred common shares (years)	**8.0**	8.0
Expected life – SAR's (years)	**4.0**	-
Forfeiture rate – options	**1% - 5%**	1% - 5%
Expected volatility	**41%**	32.5%
Fair value of stock options granted per option	**Cdn.$ 10.60**	Cdn.$ 7.04
Fair value of deferred common shares granted per share	**Cdn.$ 34.62**	Cdn.$ 27.63
Fair value of incentive shares granted per share	**Cdn.$ 32.40**	Cdn.$ 24.74
Fair value of SAR granted per right	**Cdn.$ 28.58**	Cdn.$ -

Expected volatility was determined based on options market transactions for the period within which the grant date of the relevant plan falls. The fair value is adjusted for the expected rates of early cancellation.

Share-based compensation expense for the three and nine months ended September 30, 2011 totalled $4.1 and $15.1 million respectively (2010 – $4.4 million and $9.5 million respectively).

NOTE 13 – EARNINGS PER SHARE

The following table summarizes the weighted average number of common shares used in calculating basic and diluted earnings per share. Net income after tax is used to determine earnings per share. The anti-dilutive stock options excluded for the three and nine months ended September 30, 2011 were 410,770 and 89,880, respectively (2010 - 499,000 and 1,646,225 respectively)

Three months ended September 30,

	2011	2010
Net income adjustments		
Net income, basic	**133.7**	27.2
Interest and accretion expense on convertible debentures	**7.9**	-
Gain on derivative liability relating to convertible debentures	**(74.9)**	-
Net income, diluted	**66.7**	27.2
Weighted average common share adjustments		
Weighted average common shares outstanding, basic	**101,850,232**	99,540,449
Effect of stock options, deferred common shares and incentive shares	**2,700,578**	2,620,643
Effect of convertible debentures	**16,028,116**	-
Weighted average common shares outstanding, diluted	**120,578,926**	102,161,092

Nine months ended September 30,

	2011	2010
Net income adjustments		
Net income, basic	**386.2**	216.3
Interest and accretion expense on convertible debentures	**23.3**	-
Gain on derivative liability relating to convertible debentures	**(137.7)**	-
Net income, diluted	**271.8**	216.3
Weighted average common share adjustments		
Weighted average common shares outstanding, basic	**103,052,623**	99,154,871
Effect of stock options, deferred common shares and incentive shares	**3,204,979**	3,088,861
Effect of convertible debentures	**16,028,116**	-
Weighted average common shares outstanding, diluted	**122,285,718**	102,243,732

NOTE 14 – BANK DEBT

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

The Company also has lines of credit available in Colombia. Advances under the facility are collateralized by a promissory note provided by the Company. At September 30, 2011, the Company had letters of credit totalling $45.9 million outstanding to guarantee work commitments under exploration blocks. Letters of credit issued against the Colombian operating line of credit ($41.6 million) reduce the amounts available under the facility.

NOTE 15 – CONVERTIBLE DEBENTURES

2010 Convertible Debentures

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

2016 Convertible Debentures

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

On issuance, the 2016 debenture was split between the liability and the conversion feature (which has been classified as a derivative liability under IFRS). The amount of the liability portion was determined by subtracting transaction costs and the fair value of the conversion feature from the principal amount of the bonds. The US$550 million issuance proceeds resulted in $432.2 million being classified as a liability and $101.1 million being classified as a derivative financial liability. The fair value of the conversion feature is estimated every balance sheet date with changes in the fair value estimate recognized in the statement of operations as finance expense. The following table summarizes the accounting of the 2016 convertible debentures:

	Liability	Derivative Liability[1]	Total
Issuance of convertible debenture on August 25, 2010 (net of $17.0 million of issuance costs)	$ 432.2	$ 101.1	$ 533.3
2010 accretion	5.6	-	5.6
2010 derivative loss	-	139.1	139.1
Balance at December 31, 2010	437.8	240.2	678.0
2011 accretion	12.5	-	12.5
2011 derivative gain	-	(137.7)	(137.7)
Balance September 30, 2011	**$ 450.3**	**$ 102.5**	**$ 552.8**

(1) The total derivative liability in the condensed interim consolidation statement of operations includes the derivative liability of the convertible debentures of $102.5 million plus the SAR's derivative liability of $0.5 milion.

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

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

	September 30, 2011	December 31, 2010	August 25, 2010
Risk free interest rate	**0.94%**	2.61%	2.14%
Expected life (years)	**4.9**	5.6	6.0
Expected volatility	**52.0%**	46.5%	37.5%
Market price	**$20.55**	$33.34	$23.48
Conversion price	**$34.31**	$34.75	$34.75

NOTE 16 – DECOMMISIONING LIABILITIES

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

As at,	**September 30, 2011**	December 31, 2010
Decommissioning liabilities, beginning of period	**34.9**	16.3
Obligations incurred	**18.9**	18.5
Unwinding of discount	**1.0**	0.1
Change in estimates	**7.4**	-
Decommissioning liabilities, end of period	**62.2**	34.9

The obligations have been calculated using an inflation rate of three percent and discount risk-free rate of 2.375 percent per annum. The majority of these obligations are expected to be paid before the end of the related incremental production contract (IPC), approximately 11 years in the future, or are required to be abandoned under the terms of the exploration contract. The obligations are expected to be funded from the Company's internal resources available at the time of settlement. The total undiscounted amount of estimated cash flows required to settle the obligations at September 30, 2011 is $106.2 million (2010 – $86.8 million).

NOTE 17 – TAXES

Income Taxes

The provision for income taxes differs from the amount that would have been expected by applying statutory corporate income tax rates to income before taxes. The principal reasons for this difference are as follows:

	Three months ended September 30,		Nine months ended September 30,	
Period ended,	**2011**	2010	**2011**	2010
Income before taxes	**196.9**	36.8	**532.6**	289.8
Statutory income tax rate in Colombia	**33%**	33%	**33%**	33%
Expected tax expense	**65.0**	12.3	**175.8**	96.2
Increase (decrease) in income tax provision resulting from:				
Non-taxable derivative loss (gain)	**(24.7)**	10.5	**(45.4)**	10.5
Non-deductible convertible debenture costs	**2.6**	1.7	**7.7**	3.0
Non-deductible expenses	**0.9**	0.2	**2.1**	0.5
Enhanced tax allowances	**-**	(9.9)	**-**	(25.1)
Stock-based compensation	**1.2**	1.4	**4.7**	3.1
Change in estimates and others	**18.2**	(6.6)	**1.4**	(14.7)
Income tax expense	**63.2**	9.6	**146.4**	73.5
Consisting of:				
Current income tax expense (recovery)	**19.5**	(0.7)	**95.8**	50.7
Deferred tax expense	**43.7**	10.3	**50.6**	22.8
Tax Expense	**63.2**	9.6	**146.4**	73.5

Equity Taxes

	Three months ended September 30,		Nine months ended September 30,	
Period ended,	**2011**	2010	**2011**	2010
Equity tax expense	**-**	0.6	**27.7**	1.6

An equity tax is charged on equity capitalization levels in Colombia. The Colombian government approved new legislation in December 2010 that obligates Colombian corporations and branches of foreign corporations to pay an equity tax based on net equity as of January 1, 2011. The rate of tax applicable to Petrominerales is six percent of net equity and the Company's liability was estimated at Colombian peso ("COP") 63.5 billion (approximately $33.2 million). The liability is payable in eight equal installments over four years starting in 2011, of which COP7.9 billion (approximately $4.5 million) was paid in May 2011 and COP7.9 billion (approximately $4.4 million) was paid in September 2011. The net present value of the entire liability, estimated at $27.7 million, was recorded as a liability and expensed in the statement of operations in the first quarter of 2011. Under IFRS, this cost is classified as an operating expense since the tax is not based on income and is not deductible for tax purposes. The $5.5 million difference between the $33.2 million obligation and its present value of $27.7 million is being accreted over four years, whereby $0.6 million was recorded as accretion in net finance expenses on the statement of operations in the quarter (nine months September 30, 2011 - $1.8 million).

As at September 30, 2011, the remaining net present value of equity tax liability was COP40.5 million (approximately $20.7 million), that was classified as $7.9 million as a current liability in accounts payable and as $12.8 million as a long-term equity tax payable.

NOTE 18 – RELATED PARTY TRANSACTIONS

Until December 31, 2010, Petrobank was the controlling shareholder of Petrominerales. As a result of the Petrobank Reorganization described in Note 1, the companies are no longer related.

During 2010, the Company was party to a Management Services Agreement whereby Petrobank provided certain services including executive, legal, administration, financial, treasury, accounting, information technology, human resources, and office space for Petrominerales employees located in Calgary, Alberta. Amounts paid to Petrobank under this agreement totalled $0.4 million in the third quarter of 2010 ($1.2 million for the nine month period ended September 30, 2010) and were recorded as general and administrative expense.

NOTE 19 – CAPITAL MANAGEMENT

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

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

	September 30, 2011	December 31, 2010	January 1, 2010
Bank debt [(1)]	**-**	-	-
Working capital surplus	**134.0**	580.2	13.5
Convertible debentures – principal amount [(2)]	**550.0**	550.0	81.7
Common share capital	**297.7**	301.9	197.7

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

(2) The debentures mature August 25, 2016, are convertible into common shares at $34.31 per share and have an annual coupon of 2.625 percent, payable semi-annually in cash or common shares. In addition, the debenture holders have a one-time put option right of prepayment of the debentures for 100 per cent of the par value plus accrued interest on August 25, 2013. The debenture holders must exercise their put option within a 30 day period between June 10 and July 10, 2013.

The Company monitors leverage and adjusts its capital structure based on the ratio of net debt to cash flow from operations before non-cash working capital. This ratio is calculated as net debt, a non-IFRS measure the Company defines as outstanding bank debt plus the principal amount of convertible debentures, unless the debentures are in-the-money, and working capital deficiency, divided by cash flow from operations before changes in non-cash working capital for the most recent calendar quarter, annualized. At September 30, 2011, this ratio was 0.5 times, an acceptable level. Petrominerales uses the ratio of net debt to cash flow as a key indicator of the Company's leverage and to monitor the strength of the balance sheet. In order to facilitate the management of this ratio, the Company prepares annual budgets, which are updated as necessary depending on varying factors including current and forecast crude oil prices, changes in capital structure, execution of the Company's business plan and general industry conditions. The annual budget is approved by the Board of Directors and updates are prepared and reviewed as required.

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

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

NOTE 20 – FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

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

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

Credit Risk

Crude oil production is sold, as determined by market based prices adjusted for quality differentials, to six main counterparties. The majority of crude oil production is sold to Gunvor and Ecopetrol, the Colombian state oil company, and the remainder to four international oil companies. Typically, the Company's maximum credit exposure to customers is up to two months' sales revenue. The Company does not anticipate non-performance by any of the counterparties. In addition, the Company reduces its credit risk to certain counterparties through credit insurance.

The following is the Company's accounts receivables breakdown:

	September 30, 2011	December 31, 2010	January 1, 2010
Crude oil customers	**199.5**	144.6	37.7
Other receivables	**10.1**	7.0	5.4
Prepaid expenses	**1.4**	4.0	4.4
Total	**211.0**	155.6	47.5

Receivables from crude oil customers are normally collected approximately 45 days after the month of production. The Company's policy to mitigate credit risk associated with these balances is to establish marketing relationships with large purchasers, negotiate early payment, obtain credit guarantees and/or credit insurance. The Company historically has not experienced any collection issues with its crude oil customers. None of the receivables aged over 90 days are impaired as at September 30, 2011. In determining the recoverability of trade and other receivables, Petrominerales performs a risk analysis considering the type and age of the outstanding receivable and the credit worthiness of the counterparties.

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

The carrying amount of accounts receivable and cash and cash equivalents represent the maximum credit exposure. The Company does not have an allowance for doubtful accounts as at September 30, 2011, and did not provide for any doubtful accounts nor was it required to write-off any receivables during the three months ended September 30, 2011 or 2010.

Liquidity Risk

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

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

The following are the contractual maturities of financial liabilities as at September 30, 2011:

Financial Liability	Total	< 1 Year	1-2 Years	Thereafter
Accounts payable and accrued liabilities	**289.1**	289.1	-	-
Letters of credit	**45.9**	13.3	31.7	0.9
Convertible debentures – principal (1)	**550.0**	-	-	550.0
Total	**885.0**	**302.8**	**31.7**	**550.9**

(1) The debentures are convertible into common shares of Petrominerales at a conversion price of US$34.3147 per share, subject to adjustment for dividends. If converted, the Company has the option to deliver a total of 16,028,116 common shares or cash equal to the market value of the 16,028,116 common shares based on the weighted average share price for the 20 trading day period following the conversion notice. The debenture holders have a one-time put option right of prepayment of the debentures for 100 per cent of the par value plus accrued interest on August 25, 2013. The debenture holders must exercise their put option within a 30 day period between June 10 and July 10, 2013.

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 September 30, 2011, if the U.S. dollar had appreciated five percent against the Colombian peso with all other variables held constant, net income for the year would have been $5.2 million higher (2010 – $8.6 million higher), due primarily to peso denominated accounts payable.

The Company had no forward exchange rate contracts in place as at or during the three and nine months ended September 30, 2011.

Commodity Price Risk

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

Interest Rate Risk

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

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

Fair Value of Financial Instruments

The Company's financial instruments are classified as cash and cash equivalents, trade and other receivables, trade and other liabilities, bank debt and convertible debentures on the statement of financial position. The carrying value and fair value of these financial instruments at September 30, 2011 is disclosed below by financial instrument category, as well as any related gain and interest expense for the three months ended September 30, 2011:

Financial Instrument	Carrying Value	Fair Value	Finance Expense
Assets Held For Trading			
Cash and cash equivalents [1]	275.4	275.4	
Loans and Receivables			
Accounts receivable	211.0	211.0	
Other Liabilities			
Accounts payable and accrued liabilities	289.1	289.1	
Long term portion of equity tax	12.8	12.8	
Bank debt	-	-	5.4[2]
Convertible debentures	450.3	496.4[3]	10.8[4]
Derivative liability of convertible debenture	102.5		
Derivative liability of SAR's	0.5	0.5	

[1] The effective yield on cash equivalents at September 30, 2011 was 1.12% (December 31, 2010 – 0.31%).

[2] Included in net finance expense on the statement of operations. Amount includes interest, commitment and other fees associated with credit facilities and amortization of deferred financing costs of $0.8 million in relation to the Company's bank debt.

[3] The fair value of the convertible debentures debt and derivative liability components are difficult to measure reliably due to lack of active trading information. The Company estimated the fair value of the

convertible debentures based on recent market transactions. The principal amount of the convertible debentures at September 30, 2011 was $550 million.

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

NOTE 21 – NOTES TO THE STATEMENTS OF CASH FLOW

Changes in Non-Cash Working Capital

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	**2011**	2010
Change in:				
Accounts receivable	**12.7**	34.3	**(55.4)**	(82.8)
Accounts payable and accrued liabilities	**(17.3)**	(55.7)	**(20.0)**	74.4
Crude oil inventory	**12.2**	(0.2)	**5.3**	(2.5)
Depletion related to crude oil inventory and other assets	**(4.8)**	0.4	**(2.9)**	1.3
	2.8	(21.2)	**(73.0)**	(9.6)
Exclusion of interest payable change	**3.6**	(2.3)	**3.6**	(2.3)
Exclusion of current portion of equity tax change	**0.5**	-	**(8.0)**	-
Exclusion of dividends payables change	**1.4**	(0.7)	**1.4**	(12.2)
	8.3	(24.2)	**(76.0)**	(24.1)
Changes relating to:				
Attributable to operating activities	**-**	(1.5)	**(97.3)**	(56.2)
Attributable to investing activities	**8.3**	(22.7)	**21.3**	32.1

NOTE 22 – COMMITMENTS AND CONTINGENCIES

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

Type of Obligation	**Total**	**< 1 Year**	**1-3 Years**	**Thereafter**
Exploration contracts [1]	**190.3**	147.0	43.3	-
Storage and transportation contract	**10.8**	5.8	5.0	-
Pipeline investments	**39.6**	39.6	-	-
Office lease	**6.6**	2.0	4.1	0.5
Convertible debenture [2]	**550.0**	-	-	550.0
Total	**797.3**	**194.4**	**52.4**	**550.5**

(1) Pursuant to exploration contracts, the Company has work commitments totaling $190.3 million to be completed during the next three years. The work commitments are normal course of business exploration activities that include property costs, acquisition and processing of seismic data and drilling exploration wells. The Company has issued letters of credit totaling $45.9 million to guarantee the obligations under these exploration contracts.

(2) The debentures are convertible into common shares of Petrominerales at a conversion price of US$34.3147 per share, subject to adjustment for dividends. If converted, the Company has the option to deliver a total of 16,028,116 common shares or cash equal to the market value of the 16,028,116 common shares based on the weighted average share price for the 20 trading day period following the conversion notice. The debenture holders have a one-time put option right of prepayment of the debentures for 100 per cent of the par value plus accrued interest on August 25, 2013. The debenture holders must exercise their put option within a 30 day period between June 10 and July 10, 2013.

Contingencies

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

High Price Participation Dispute

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

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

The ANH has indicated their view that exploitation areas under the Corcel Contract should be combined for the purposes of determining when the high price participation payment is payable. As combined production from all of the Corcel exploitation areas has exceeded five million barrels of oil, the ANH asserts that Petrominerales is required to pay the high price participation payment with respect to production from the Corcel Block from April 2009 onwards. Based on their view, the ANH has requested additional payments aggregating to $69.1 million to September 30, 2011. As at September 30, 2011, although total production from the Block was 16.4 million barrels, only the Corcel A exploitation area on the Corcel Block has cumulatively produced more than 5 million barrels of oil.

Petrominerales disagrees with the ANH interpretation and views the Corcel Contract as providing that payment of the high price participation payment is required for each individual exploitation area, once it has cumulatively produced five million or more barrels of oil.

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

NOTE 23 - FIRST TIME ADOPTION OF IFRS

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

The accounting policies set out in Note 3 have been applied in preparing the financial statements for the period ended September 30, 2011, the comparative information presented in these financial statements for the periods ended September 30, 2010 and December 31, 2010, and in the preparation of an opening IFRS Statement of Financial Position at January 1, 2010 (the "Transition Date").

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

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

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

The following tables reconcile the consolidated statements of financial position of the Company from the amounts previously reported under Canadian GAAP to IFRS as at the Transition Date of January 1, 2010, September 30, 2010 and December 31, 2010.

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

As at September 30, 2010	Canadian GAAP	Notes						IFRS
		a	b	c	d	e	f	
ASSETS								
Current assets								
Cash and cash equivalents	$ 669.8	$ -	$ -	$ -	$ -	$ -	$ -	$ 669.8
Accounts receivable	130.3	-	-	-	-	-	-	130.3
Income taxes receivable	-	-	-	-	-	-	-	-
Crude oil inventory	3.9	-	-	-	-	-	-	3.9
	804.0	-	-	-	-	-	-	804.0
Non-current assets								
Other assets	26.1	-	-	-	-	-	-	26.1
Exploration and evaluation assets	-	230.8	3.7	-	-	-	-	234.5
Property, plant and equipment	745.1	(230.8)	4.9	-	-	52.0	-	571.2
Goodwill	5.0	-	-	-	-	-	-	5.0
	776.2	-	8.6	-	-	52.0	-	836.8
Total Assets	$1,580.2	$ -	$ 8.6	$ -	$ -	$ 52.0	$ -	$1,640.8
LIABILITIES AND SHAREHOLDERS' EQUITY								
Current liabilities								
Trade and other payables	$ 181.3	$ -	$ -	$ -	$ -	$ -	$ -	$ 181.3
Income taxes payable	24.5	-	-	-	-	-	-	24.5
Convertible debentures	80.7	-	-	-	-	-	-	80.7
	286.5	-	-	-	-	-	-	286.5
Non-current liabilities								
Deferred tax liabilities	73.1	-	-	-	(16.8)	-	-	56.3
Decommissioning liabilities	10.8	-	17.9	-	-	-	-	28.7
Convertible debentures	437.6	-	-	-	-	-	(3.9)	433.7
Derivative liability	-	-	-	-	-	-	133	133.0
Total liabilities	808.0	-	17.9	-	(16.8)	-	129.1	938.2
Shareholders' Equity								
Convertible debentures – equity component	107.6	-	-	-	-	-	(97.2)	10.4
Common shares	205.4	-	-	-	-	-	-	205.4
Contributed surplus	13.9	-	-	3.9	-	-	-	17.8
Accumulated other comprehensive Income	16.0	(16.0)	-	-	-	-	-	-
Retained earnings	429.3	16.0	(9.3)	(3.9)	16.8	52.0	(31.9)	469.0
	772.2	-	(9.3)	-	16.8	52.0	129.1	702.6
Total Liabilities and shareholders' equity	$ 1,580.2	$ -	$ 8.6	$ -	$ -	$ 52.0	$ -	$ 1,640.8

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

Condensed Consolidated Statements of Operations and Comprehensive Income

The following tables reconcile the net income and comprehensive income of the Company from the amounts previously reported under Canadian GAAP to IFRS for the three months ended September 30, 2010, the nine months ended September 30, 2010 and the twelve months ended December 31, 2010:

Three months ended September 30, 2010	**Canadian GAAP**	**Notes**						**IFRS**
		a	**b**	**c**	**d**	**e**	**f**	
Revenues								
Oil	$ 231.5	$ -	$ -	$ -	$ -	$ -	$ -	$ 231.5
Royalties	(27.3)	-	-	-	-	-	-	(27.3)
	204.2	-	-	-	-	-	-	204.2
Operating Expenses								
Production	22.9	-	-	-	-	-	-	22.9
Transportation	23.1	-	-	-	-	-	-	23.1
Purchased oil	14.4	-	-	-	-	-	-	14.4
Depletion and depreciation	66.9	(0.3)	-	-	-	(16.2)	-	50.4
General and administrative	6.7	-	-	-	-	-	-	6.7
Acquisition Costs	0.1	-	-	-	-	-	-	0.1
Stock-based compensation	3.3	-	-	1.1	-	-	-	4.4
Colombian equity tax expense	0.6	-	-	-	-	-	-	0.6
	138.0	(0.3)	-	1.1	-	(16.2)	-	122.6
Finance Expenses								
(Gain)/loss on derivative liability	-	-	-	-	-	-	31.9	31.9
Interest Income	-	-	-	-	-	-	-	-
Interest and accretion	6.1	0.3	-	-	-	-	-	6.4
Foreign exchange loss	9.9	-	-	-	(3.4)	-	-	6.5
	16.0	0.3	-	-	(3.4)	-	31.9	44.8
Income before taxes	50.2	-	-	(1.1)	3.4	16.2	(31.9)	36.8
Current taxes	(0.7)	-	-	-	-	-	-	(0.7)
Deferred taxes	15.5	-	-	-	(5.2)	-	-	10.3
Net income and comprehensive income	$ 35.4	$ -	$ -	$ (1.1)	$ 8.6	$ 16.2	$ (31.9)	$ 27.2

Nine months ended September 30, 2010	Canadian GAAP	Notes						IFRS
		a	b	c	d	e	f	
Revenues								
Oil	$ 798.1	$ -	$ -	$ -	$ -	$ -	$ -	$ 798.1
Royalties	(77.7)	-	-	-	-	-	-	(77.7)
	720.4	-	-	-	-	-	-	720.4
Operating Expenses								
Production	70.7	-	-	-	-	-	-	70.7
Transportation	69.4	-	-	-	-	-	-	69.4
Purchased oil	52.3	-	-	-	-	-	-	52.3
Depletion and depreciation	206.7	(0.6)	-	-	-	(52.3)	-	153.8
General and administrative	16.8	-	-	-	-	-	-	16.8
Acquisition Costs	1.2	-	-	-	-	-	-	1.2
Stock-based compensation	8.2	-	-	1.3	-	-	-	9.5
Colombian equity tax expense	1.6	-	-	-	-	-	-	1.6
	426.9	(0.6)	-	1.3	-	(52.3)	-	375.3
Finance Expenses								
(Gain)/loss on derivative liability	-	-	-	-	-	-	31.9	31.9
Interest Income	-	-	-	-	-	-	-	-
Interest and accretion	13.1	0.6	-	-	-	-	-	13.7
Foreign exchange loss	15.4	-	-	-	(5.7)	-	-	9.7
	28.5	0.6	-	-	(5.7)	-	31.9	55.3
Income before taxes	265.0	-	-	(1.3)	5.7	52.3	(31.9)	289.8
Current taxes	50.7	-	-	-	-	-	-	50.7
Deferred taxes	24.3	-	-	-	(1.5)	-	-	22.8
Net income and comprehensive income	$ 190.0	$ -	$ -	$ (1.3)	$ 7.2	$ 52.3	$ (31.9)	$ 216.3

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

Statement of Cash Flows

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

Notes to the IFRS Reconciliations

a. Reclassifications

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

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

(ii) Accumulated Other Comprehensive Income

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

(iii) Accretion on Decommissioning Liability

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

b. Decommissioning Liability

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

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

c. Share-Based Payments

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

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

d. Deferred Tax Liability

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

e. Depletion

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

f. Convertible Debentures

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

CORPORATE INFORMATION

DIRECTORS

John D. Wright [3]
Calgary, Alberta, Canada
Chairman & Strategic Advisor

Alastair Macdonald [1][2] [4]
Pembroke, Bermuda

Enrique Umaña Valenzuela [1] [4]
Bogotá D.C., Colombia

Ernesto Sarpi [3]
Naples, Italy

Geir Ytreland [2] [3]
Droebak, Norway

Jerald L. Oaks[4]
Denver, Colorado, U.S.A.

Kenneth R. McKinnon [1] [2]
Calgary, Alberta, Canada

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

OFFICERS

Corey C. Ruttan
President and Chief Executive Officer

Allen Knight
Vice President New Ventures

Andrea Hatzinikolas
Corporate Secretary and General Counsel

Erik Lyngberg
Senior Vice President Exploration

Jaime Valenzuela
Vice President Planning and Director of Operations

Jeff Chant
Vice President Organizational Performance

John (Jack) F. Scott
Chief Operating Officer

Kelly D. Sledz
Chief Financial Officer

Ruben Cano
Vice President Services and Logistics

Tannya E. Morales-Kozy
Vice President Finance

OFFICES

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

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

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

WEBSITE: www.petrominerales.com
E-MAIL: ir@petrominerales.com

REGISTRAR AND TRANSFER AGENTS

Computershare Trust
Company of Canada
Calgary, Alberta, Canada

EXCHANGE LISTINGS

The Toronto Stock Exchange
SYMBOL: PMG

The Colombian Stock Exchange
SYMBOL: PMGC

SECURITIES FILINGS

www.sedar.com
www.superfinanciera.gov.co

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